

GOLDMAN SACHS GROUP INC
Form 10-Q
November 08, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
200 West Street, New York, N.Y.
(Address of principal executive offices)

13-4019460
(I.R.S. Employer
Identification No.)
10282
(Zip Code)

(212) 902-1000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of October 26, 2012, there were 469,943,620 shares of the registrant's common stock outstanding.

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THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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Exhibit 31.1 - Rule 13a-14(a) Certifications.

Exhibit 32.1 - Section 1350 Certifications.

Exhibit 101 - Interactive data.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings**(Unaudited)**

<i>in millions, except per share amounts</i>	Three Months		Nine Months	
	Ended September 2012	2011	Ended September 2012	2011
Revenues				
Investment banking	\$1,168	\$ 781	\$ 3,534	\$ 3,498
Investment management	1,147	1,133	3,518	3,495
Commissions and fees	748	1,056	2,407	2,969
Market making	2,650	1,800	8,652	7,998
Other principal transactions	1,802	(2,539)	3,909	675
Total non-interest revenues	7,515	2,231	22,020	18,635
Interest income	2,629	3,354	8,517	10,142
Interest expense	1,793	1,998	5,610	6,015
Net interest income	836	1,356	2,907	4,127
Net revenues, including net interest income	8,351	3,587	24,927	22,762
Operating expenses				
Compensation and benefits	3,675	1,578	10,968	10,015
Brokerage, clearing, exchange and distribution fees	547	668	1,658	1,903
Market development	123	140	369	502
Communications and technology	190	209	588	617
Depreciation and amortization	396	389	1,238	1,351
Occupancy	217	262	643	781
Professional fees	205	253	652	749
Insurance reserves	153	197	431	402
Other expenses	547	621	1,486	1,520
Total non-compensation expenses	2,378	2,739	7,065	7,825
Total operating expenses	6,053	4,317	18,033	17,840
Pre-tax earnings/(loss)	2,298	(730)	6,894	4,922
Provision/(benefit) for taxes	786	(337)	2,311	1,493
Net earnings/(loss)	1,512	(393)	4,583	3,429
Preferred stock dividends	54	35	124	1,897
Net earnings/(loss) applicable to common shareholders	\$1,458	\$ (428)	\$ 4,459	\$ 1,532
Earnings/(loss) per common share				
Basic	\$ 2.95	\$ (0.84)	\$ 8.85	\$ 2.84
Diluted	2.85	(0.84)	8.57	2.70
Dividends declared per common share	\$ 0.46	\$ 0.35	\$ 1.27	\$ 1.05
Average common shares outstanding				
Basic	491.2	518.2	501.1	530.1
Diluted	510.9	518.2	520.1	566.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income**(Unaudited)**

<i>in millions</i>	Three Months		Nine Months	
	Ended September 2012	2011	Ended September 2012	2011
Net earnings/(loss)	\$1,512	\$(393)	\$4,583	\$3,429
Other comprehensive income/(loss), net of tax:				
Currency translation adjustment, net of tax	(11)	(5)	(63)	(40)
Pension and postretirement liability adjustments, net of tax	6	1	13	4
Net unrealized gains on available-for-sale securities, net of tax	129	37	184	8
Other comprehensive income/(loss)	124	33	134	(28)
Comprehensive income/(loss)	\$1,636	\$(360)	\$4,717	\$3,401

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition**(Unaudited)**

	As of	
	September	December
	2012	2011
<i>in millions, except share and per share amounts</i>		
Assets		
Cash and cash equivalents	\$ 63,639	\$ 56,008
Cash and securities segregated for regulatory and other purposes (includes \$34,087 and \$42,014 at fair value as of September 2012 and December 2011, respectively)	53,597	64,264
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$147,361 and \$187,789 at fair value as of September 2012 and December 2011, respectively)	147,361	187,789
Securities borrowed (includes \$47,986 and \$47,621 at fair value as of September 2012 and December 2011, respectively)	165,250	153,341
Receivables from brokers, dealers and clearing organizations	15,556	14,204
Receivables from customers and counterparties (includes \$6,920 and \$9,682 at fair value as of September 2012 and December 2011, respectively)	64,787	60,261
Financial instruments owned, at fair value (includes \$66,753 and \$53,989 pledged as collateral as of September 2012 and December 2011, respectively)	415,293	364,206
Other assets	23,724	23,152
Total assets	\$949,207	\$923,225
Liabilities and shareholders equity		
Deposits (includes \$5,674 and \$4,526 at fair value as of September 2012 and December 2011, respectively)	\$ 61,526	\$ 46,109
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	166,186	164,502
Securities loaned (includes \$243 and \$107 at fair value as of September 2012 and December 2011, respectively)	13,640	7,182
Other secured financings (includes \$25,179 and \$30,019 at fair value as of September 2012 and December 2011, respectively)	29,393	37,364
Payables to brokers, dealers and clearing organizations	6,635	3,667
Payables to customers and counterparties	198,816	194,625
Financial instruments sold, but not yet purchased, at fair value	144,179	145,013
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$17,620 and \$17,854 at fair value as of September 2012 and December 2011, respectively)	47,271	49,038
Unsecured long-term borrowings (includes \$12,878 and \$17,162 at fair value as of September 2012 and December 2011, respectively)	167,878	173,545
Other liabilities and accrued expenses (includes \$9,975 and \$9,486 at fair value as of September 2012 and December 2011, respectively)	39,996	31,801
Total liabilities	875,520	852,846
Commitments, contingencies and guarantees		
Shareholders equity		
Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$5,350 and \$3,100 as of September 2012 and December 2011, respectively	5,350	3,100
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 810,459,443 and 795,555,310 shares issued as of September 2012 and December 2011, respectively, and 471,430,795 and 485,467,565 shares outstanding as of September 2012 and December 2011, respectively	8	8
Restricted stock units and employee stock options	4,109	5,681
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	47,298	45,553
Additional paid-in capital	62,638	58,834
Retained earnings	(382)	(516)
Accumulated other comprehensive loss	(45,334)	(42,281)
Stock held in treasury, at cost, par value \$0.01 per share; 339,028,650 and 310,087,747 shares as of September 2012 and December 2011, respectively	73,687	70,379
Total shareholders equity	\$949,207	\$923,225
Total liabilities and shareholders equity	\$949,207	\$923,225

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders' Equity**(Unaudited)**

	Nine Months Ended September	Year Ended December
<i>in millions</i>	2012	2011
Preferred stock		
Balance, beginning of year	\$ 3,100	\$ 6,957
Issued	2,250	
Repurchased		(3,857)
Balance, end of period	5,350	3,100
Common stock		
Balance, beginning of year	8	8
Issued		
Balance, end of period	8	8
Restricted stock units and employee stock options		
Balance, beginning of year	5,681	7,706
Issuance and amortization of restricted stock units and employee stock options	1,134	2,863
Delivery of common stock underlying restricted stock units	(2,624)	(4,791)
Forfeiture of restricted stock units and employee stock options	(81)	(93)
Exercise of employee stock options	(1)	(4)
Balance, end of period	4,109	5,681
Additional paid-in capital		
Balance, beginning of year	45,553	42,103
Issuance of common stock		103
Delivery of common stock underlying share-based awards	2,741	5,160
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(947)	(1,911)
Excess net tax benefit/(provision) related to share-based awards	(48)	138
Cash settlement of share-based compensation	(1)	(40)
Balance, end of period	47,298	45,553
Retained earnings		
Balance, beginning of year	58,834	57,163
Net earnings	4,583	4,442
Dividends and dividend equivalents declared on common stock and restricted stock units	(655)	(769)
Dividends on preferred stock	(124)	(2,002)
Balance, end of period	62,638	58,834
Accumulated other comprehensive income/(loss)		
Balance, beginning of year	(516)	(286)
Other comprehensive income/(loss)	134	(230)
Balance, end of period	(382)	(516)
Stock held in treasury, at cost		
Balance, beginning of year	(42,281)	(36,295)
Repurchased	(3,119)	(6,051)
Reissued	66	65
Balance, end of period	(45,334)	(42,281)
Total shareholders' equity	\$ 73,687	\$ 70,379

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows**(Unaudited)**

	Nine Months	
	Ended September	
<i>in millions</i>	2012	2011
Cash flows from operating activities		
Net earnings	\$ 4,583	\$ 3,429
Non-cash items included in net earnings		
Depreciation and amortization	1,238	1,355
Share-based compensation	1,088	2,431
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	10,616	(23,691)
Net receivables from brokers, dealers and clearing organizations	1,617	(9,839)
Net payables to customers and counterparties	(244)	26,241
Securities borrowed, net of securities loaned	(5,451)	6,859
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	42,112	(18,948)
Financial instruments owned, at fair value	(47,787)	(2,961)
Financial instruments sold, but not yet purchased, at fair value	(831)	21,367
Other, net	2,977	(3,813)
Net cash provided by operating activities	9,918	2,430
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(707)	(979)
Proceeds from sales of property, leasehold improvements and equipment	38	53
Business acquisitions, net of cash acquired	(439)	(265)
Proceeds from sales of investments	424	1,985
Purchase of available-for-sale securities	(3,671)	(2,352)
Proceeds from sales of available-for-sale securities	2,838	2,546
Net cash provided by/(used for) investing activities	(1,517)	988
Cash flows from financing activities		
Unsecured short-term borrowings, net	(1,691)	(190)
Other secured financings (short-term), net	(2,045)	2,657
Proceeds from issuance of other secured financings (long-term)	4,004	9,505
Repayment of other secured financings (long-term), including the current portion	(10,333)	(8,285)
Proceeds from issuance of unsecured long-term borrowings	22,020	23,908
Repayment of unsecured long-term borrowings, including the current portion	(27,873)	(19,438)
Derivative contracts with a financing element, net	1,145	661
Deposits, net	15,417	3,230
Preferred stock repurchased		(3,857)
Common stock repurchased	(3,116)	(5,140)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(779)	(2,549)
Proceeds from issuance of preferred stock, net of issuance costs	2,250	
Proceeds from issuance of common stock, including stock option exercises	148	182
Excess tax benefit related to share-based compensation	84	353
Cash settlement of share-based compensation	(1)	(40)
Net cash provided by/(used for) financing activities	(770)	997
Net increase in cash and cash equivalents	7,631	4,415
Cash and cash equivalents, beginning of year	56,008	39,788
Cash and cash equivalents, end of period	\$ 63,639	\$ 44,203
SUPPLEMENTAL DISCLOSURES:		

Cash payments for interest, net of capitalized interest, were \$7.87 billion and \$6.11 billion during the nine months ended September 2012 and September 2011, respectively.

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Cash payments for income taxes, net of refunds, were \$1.09 billion and \$1.64 billion during the nine months ended September 2012 and September 2011, respectively.

Non-cash activities:

During the nine months ended September 2012, the firm assumed \$77 million of debt in connection with business acquisitions. During the nine months ended September 2011, the firm assumed \$2.09 billion of debt and issued \$103 million of common stock in connection with the acquisition of Goldman Sachs Australia Pty Ltd, formerly Goldman Sachs & Partners Australia Group Holdings Pty Ltd.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Description of Business

Note 1.

Description of Business

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

The firm reports its activities in the following four business segments:

Investment Banking

The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds and governments. Services include advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings and spin-offs, and debt and equity underwriting of public offerings and private placements, as well as derivative transactions directly related to these activities.

Institutional Client Services

The firm facilitates client transactions and makes markets in fixed income, equity, currency and commodity products, primarily with institutional clients such as corporations, financial institutions, investment funds and governments. The firm also makes markets and clears client transactions on major stock, options and futures exchanges worldwide and provides financing, securities lending and prime brokerage services to institutional clients.

Investing & Lending

The firm invests in and originates loans to provide financing to clients. These investments and loans are typically longer-term in nature. The firm makes investments, directly and indirectly through funds that the firm manages, in debt securities, loans, public and private equity securities, real estate, consolidated investment entities and power generation facilities.

Investment Management

The firm provides investment management services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse set of institutional and individual clients. The firm also offers wealth advisory services, including portfolio management and financial counseling, and brokerage and other transaction services to high-net-worth individuals and families.

Basis of Presentation

Note 2.

Basis of Presentation

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These condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of Group Inc. and all other entities in which the firm has a controlling financial interest. Intercompany transactions and balances have been eliminated.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm's Annual Report on Form 10-K for the year ended December 31, 2011. References to the firm's Annual Report on Form 10-K are to the firm's Annual Report on Form 10-K for the year ended December 31, 2011. The condensed consolidated financial information as of December 31, 2011 has been derived from audited consolidated financial statements not included herein.

These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

All references to September 2012 and September 2011 refer to the firm's periods ended, or the dates, as the context requires, September 30, 2012 and September 30, 2011, respectively. All references to June 2012 and December 2011 refer to the dates June 30, 2012 and December 31, 2011, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Significant Accounting Policies****Note 3.****Significant Accounting Policies**

The firm's significant accounting policies include when and how to measure the fair value of assets and liabilities, accounting for goodwill and identifiable intangible assets, and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements, Note 13 for policies on goodwill and identifiable intangible assets, and below and Note 11 for policies on consolidation accounting. All other significant accounting policies are either discussed below or included in the following footnotes:

Financial Instruments Owned, at Fair Value	
and Financial Instruments Sold, But Not Yet	
Purchased, at Fair Value	Note 4
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Derivatives and Hedging Activities	Note 7
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Interest Income and Interest Expense	Note 23
Income Taxes	Note 24
Business Segments	Note 25
Credit Concentrations	Note 26
Legal Proceedings	Note 27
Subsequent Event	Note 28
Consolidation	

The firm consolidates entities in which the firm has a controlling financial interest. The firm determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE).

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the firm has a majority voting interest in a voting interest entity, the entity is consolidated.

Variable Interest Entities. A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The firm has a controlling financial interest in a VIE when the firm has a variable interest or interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 11 for further information about VIEs.

Equity-Method Investments. When the firm does not have a controlling financial interest in an entity but can exert significant influence over the entity's operating and financial policies, the investment is accounted for either (i) under the equity method of accounting or (ii) at fair value by electing the fair value option available under U.S. GAAP. Significant influence generally exists when the firm owns 20% to 50% of the entity's common stock or in-substance common stock.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

In general, the firm accounts for investments acquired subsequent to November 24, 2006, when the fair value option became available, at fair value. In certain cases, the firm applies the equity method of accounting to new investments that are strategic in nature or closely related to the firm's principal business activities, when the firm has a significant degree of involvement in the cash flows or operations of the investee or when cost-benefit considerations are less significant. See Note 12 for further information about equity-method investments.

Investment Funds. The firm has formed numerous investment funds with third-party investors. These funds are typically organized as limited partnerships or limited liability companies for which the firm acts as general partner or manager. Generally, the firm does not hold a majority of the economic interests in these funds. These funds are usually voting interest entities and generally are not consolidated because third-party investors typically have rights to terminate the funds or to remove the firm as general partner or manager. Investments in these funds are included in Financial instruments owned, at fair value. See Notes 6, 18 and 22 for further information about investments in funds.

Use of Estimates

Preparation of these condensed consolidated financial statements requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, accounting for goodwill and identifiable intangible assets, discretionary compensation accruals and the provision for losses that may arise from litigation, regulatory proceedings and tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to

transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are generally included in Market making for positions in Institutional Client Services and Other principal transactions for positions in Investing & Lending. See Notes 5 through 8 for further information about fair value measurements.

Investment Banking. Fees from financial advisory assignments and underwriting revenues are recognized in earnings when the services related to the underlying transaction are completed under the terms of the assignment. Expenses associated with such transactions are deferred until the related revenue is recognized or the assignment is otherwise concluded. Expenses associated with financial advisory assignments are recorded as non-compensation expenses, net of client reimbursements. Underwriting revenues are presented net of related expenses.

Investment Management. The firm earns management fees and incentive fees for investment management services. Management fees are calculated as a percentage of net asset value, invested capital or commitments, and are recognized over the period that the related service is provided. Incentive fees are calculated as a percentage of a fund's or separately managed account's return, or excess return above a specified benchmark or other performance target. Incentive fees are generally based on investment performance over a 12-month period or over the life of a fund. Fees that are based on performance over a 12-month period are subject to adjustment prior to the end of the measurement period. For fees that are based on investment performance over the life of the fund, future investment underperformance may require fees previously distributed to the firm to be returned to the fund. Incentive fees are recognized only when all material contingencies have been resolved. Management and incentive fee revenues are included in Investment management revenues.

Commissions and Fees. The firm earns Commissions and fees from executing and clearing client transactions on stock, options and futures markets. Commissions and fees are recognized on the day the trade is executed.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Transfers of Assets

Transfers of assets are accounted for as sales when the firm has relinquished control over the assets transferred. For transfers of assets accounted for as sales, any related gains or losses are recognized in net revenues. Assets or liabilities that arise from the firm's continuing involvement with transferred assets are measured at fair value. For transfers of assets that are not accounted for as sales, the assets remain in Financial instruments owned, at fair value and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Note 9 for further information about transfers of assets accounted for as collateralized financings and Note 10 for further information about transfers of assets accounted for as sales.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans, transfers of assets accounted for as secured loans rather than purchases and collateral posted in connection with certain derivative transactions. Certain of the firm's receivables from customers and counterparties are accounted for at fair value under the fair value option, with changes in fair value generally included in Market making revenues. See Note 8 for further information about the fair values of these receivables. Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts. Interest on receivables from customers and counterparties is recognized over the life of the transaction and included in Interest income.

Insurance Activities

Certain of the firm's insurance and reinsurance contracts are accounted for at fair value under the fair value option, with changes in fair value included in Market making revenues. See Note 8 for further information about the fair values of these insurance and reinsurance contracts.

Revenues from variable annuity and life insurance and reinsurance contracts not accounted for at fair value generally consist of fees assessed on contract holder account balances for mortality charges, policy administration fees and surrender charges. These revenues are recognized in earnings over the period that services are provided and are included in Market making revenues. Changes in reserves, including interest credited to policyholder account balances, are recognized in Insurance reserves.

Premiums earned for underwriting property catastrophe reinsurance are recognized in earnings over the coverage period, net of premiums ceded for the cost of reinsurance, and are included in Market making revenues. Expenses for liabilities related to property catastrophe reinsurance claims, including estimates of losses that have been incurred but not reported, are included in Insurance reserves.

Share-based Compensation

The cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement-eligible employees) are expensed immediately. Share-based awards that require future service are amortized over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense.

The firm pays cash dividend equivalents on outstanding restricted stock units (RSUs). Dividend equivalents paid on RSUs are generally charged to retained earnings. Dividend equivalents paid on RSUs expected to be forfeited are included in compensation expense. The firm accounts for the tax benefit related to dividend equivalents paid on RSUs as an increase to additional paid-in capital.

In certain cases, primarily related to conflicted employment (as outlined in the applicable award agreements), the firm may cash settle share-based compensation awards. For awards accounted for as equity instruments, additional paid-in capital is adjusted to the extent of the difference between the current value of the award and the grant-date value of the award.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statements of financial condition and revenues and expenses are translated at average rates of exchange for the period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of hedges and taxes, in the condensed consolidated statements of comprehensive income.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of September 2012 and December 2011, Cash and cash equivalents included \$7.11 billion and \$7.95 billion, respectively, of cash and due from banks, and \$56.53 billion and \$48.05 billion, respectively, of interest-bearing deposits with banks.

Recent Accounting Developments

Reconsideration of Effective Control for Repurchase Agreements (ASC 860). In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860) Reconsideration of Effective Control for Repurchase Agreements. ASU No. 2011-03 changes the assessment of effective control by removing (i) the criterion that requires the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for periods beginning after December 15, 2011. The firm adopted the standard on January 1, 2012. Adoption of ASU No. 2011-03 did not affect the firm's financial condition, results of operations or cash flows.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASC 820). In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurements and Disclosures (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after December 15, 2011. The firm adopted the standard on January 1, 2012. Adoption of ASU No. 2011-04 did not materially affect the firm's financial condition, results of operations or cash flows.

Derecognition of in Substance Real Estate (ASC 360). In December 2011, the FASB issued ASU No. 2011-10, Property, Plant, and Equipment (Topic 360) Derecognition of in Substance Real Estate a Scope Clarification. ASU No. 2011-10 clarifies that in order to deconsolidate a subsidiary (that is in substance real estate) as a result of a parent no longer controlling the subsidiary due to a default on the subsidiary's nonrecourse debt, the parent also must satisfy the sale criteria in ASC 360-20, Property, Plant, and Equipment Real Estate Sales. The ASU is effective for fiscal years beginning on or after June 15, 2012. The firm will apply the provisions of the ASU to such events occurring on or after January 1, 2013. Adoption is not expected to materially affect the firm's financial condition, results of operations or cash flows.

Disclosures about Offsetting Assets and Liabilities (ASC 210). In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. ASU No. 2011-11 requires disclosure of the effect or potential effect of offsetting arrangements on the firm's financial position as well as enhanced disclosure of the rights of setoff associated with the firm's recognized assets and recognized liabilities. ASU No. 2011-11 is effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the firm's financial condition, results of operations or cash flows.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value****Note 4.****Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value**

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about the fair value option. The table below presents the firm's financial instruments owned, at fair value, including those pledged as collateral, and

financial instruments sold, but not yet purchased, at fair value. Financial instruments owned, at fair value included \$9.08 billion and \$4.86 billion as of September 2012 and December 2011, respectively, of securities accounted for as available-for-sale, substantially all of which are held in the firm's insurance subsidiaries.

	As of September 2012		As of December 2011	
	Financial Instruments	Sold, But Not Yet Purchased	Financial Instruments	Sold, But Not Yet Purchased
<i>in millions</i>	Owned	Purchased	Owned	Purchased
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 10,708	\$	\$ 13,440	\$
U.S. government and federal agency obligations	95,529	22,945	87,040	21,006
Non-U.S. government and agency obligations	62,952	36,630	49,205	34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	7,536		6,699	27
Loans and securities backed by residential real estate	9,602	8	7,592	3
Bank loans and bridge loans	21,011	2,143 ²	19,745	2,756 ²
Corporate debt securities	25,345	6,902	22,131	6,553
State and municipal obligations	3,296	2	3,089	3
Other debt obligations	4,489		4,362	
Equities and convertible debentures	91,225	23,778	65,113	21,326
Commodities	10,771		5,762	
Derivatives ¹	72,829	51,771	80,028	58,453
Total	\$415,293	\$144,179	\$364,206	\$145,013

1. Net of cash collateral received or posted under credit support agreements and reported on a net-by-counterparty basis when a legal right of setoff exists under an enforceable netting agreement.

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2. Primarily relates to the fair value of unfunded lending commitments for which the fair value option was elected.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Gains and Losses from Market Making and Other Principal Transactions**

The table below presents, by major product type, the firm's Market making and Other principal transactions revenues. These gains/(losses) are primarily related to the firm's financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, including both derivative and non-derivative financial instruments. These gains/(losses) exclude related interest income and interest expense. See Note 23 for further information about interest income and interest expense.

The gains/(losses) in the table are not representative of the manner in which the firm manages its business activities because many of the firm's market-making, client facilitation, and investing and lending strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm's longer-term derivatives are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm's cash instruments and derivatives has exposure to foreign currencies and may be economically hedged with foreign currency contracts.

<i>in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2012	2011	2012	2011
Interest rates	\$1,833	\$(1,674)	\$ 3,157	\$1,766
Credit	1,190	213	4,365	3,193
Currencies	(698)	2,271	(646)	(319)
Equities	1,910	(1,998)	4,097	1,876
Commodities	(12)	218	564	1,104
Other	229	231	1,024	1,053
Total	\$4,452	\$ (739)	\$12,561	\$8,673

Fair Value Measurements**Note 5.****Fair Value Measurements**

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The firm measures certain financial assets and financial liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks).

The best evidence of fair value is a quoted price in an active market. If quoted prices in active markets are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use market-based or independently sourced parameters as inputs including, but not limited to, interest rates, volatilities, equity or debt prices, foreign exchange rates, commodity prices, credit spreads and funding spreads (i.e., the spread, or difference, between the interest rate at which a borrower could finance a given financial instrument relative to a benchmark interest rate).

U.S. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement.

The fair value hierarchy is as follows:

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Level 1. Inputs are unadjusted quoted prices in active markets to which the firm had access at the measurement date for identical, unrestricted assets or liabilities.

Level 2. Inputs to valuation techniques are observable, either directly or indirectly.

Level 3. One or more inputs to valuation techniques are significant and unobservable.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The fair values for substantially all of the firm's financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and the firm's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

See Notes 6 and 7 for further information about fair value measurements of cash instruments and derivatives, respectively, included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, and Note 8 for further information about fair value measurements of other financial assets and financial liabilities accounted for at fair value under the fair value option.

Financial assets and financial liabilities accounted for at fair value under the fair value option or in accordance with other U.S. GAAP are summarized below.

	September	As of June	December
<i>\$ in millions</i>	2012	2012	2011
Total level 1 financial assets	\$ 183,205	\$ 163,712	\$ 136,780
Total level 2 financial assets	526,914	552,082	587,416
Total level 3 financial assets	47,810	46,505	47,937
Cash collateral and counterparty netting ¹	(106,282)	(111,139)	(120,821)
Total financial assets at fair value	\$ 651,647	\$ 651,160	\$ 651,312
Total assets	\$ 949,207	\$ 948,638	\$ 923,225
Total level 3 financial assets as a percentage of Total assets	5.0%	4.9%	5.2%
Total level 3 financial assets as a percentage of Total financial assets at fair value	7.3%	7.1%	7.4%
Total level 1 financial liabilities	\$ 80,843	\$ 86,453	\$ 75,557
Total level 2 financial liabilities	309,289	303,084	319,160
Total level 3 financial liabilities	24,002	23,127	25,498
Cash collateral and counterparty netting ¹	(32,200)	(32,577)	(31,546)
Total financial liabilities at fair value	\$ 381,934	\$ 380,087	\$ 388,669
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	6.3%	6.1%	6.6%

1. Represents the impact on derivatives of cash collateral netting, and counterparty netting across levels of the fair value hierarchy. Netting among positions classified in the same level is included in that level.

Level 3 financial assets as of September 2012 increased compared with June 2012, primarily reflecting an increase in private equity investments and derivative assets. The increase in private equity investments primarily reflected transfers from level 2, unrealized gains and purchases, partially offset by transfers to level 2. The increase in derivative assets primarily reflected an increase in credit derivatives, principally due to transfers from level 2, partially offset by unrealized losses and settlements.

Level 3 financial assets as of September 2012 were essentially unchanged compared with December 2011.

See Notes 6, 7 and 8 for further information about level 3 cash instruments, derivatives and other financial assets and financial liabilities accounted for at fair value under the fair value option, respectively, including information about significant unrealized gains and losses, and

transfers in and out of level 3.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Cash Instruments

Note 6.

Cash Instruments

Cash instruments include U.S. government and federal agency obligations, non-U.S. government and agency obligations, bank loans and bridge loans, corporate debt securities, equities and convertible debentures, and other non-derivative financial instruments owned and financial instruments sold, but not yet purchased. See below for the types of cash instruments included in each level of the fair value hierarchy and the valuation techniques and significant inputs used to determine their fair values. See Note 5 for an overview of the firm's fair value measurement policies.

Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and most non-U.S. government obligations, actively traded listed equities, certain government agency obligations and money market instruments. These instruments are valued using quoted prices for identical unrestricted instruments in active markets.

The firm defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The firm defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

Level 2 cash instruments include commercial paper, certificates of deposit, time deposits, most government agency obligations, certain non-U.S. government obligations, most corporate debt securities, commodities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, restricted or less liquid listed equities, most state and municipal obligations and certain lending commitments.

Valuations of level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions and/or (ii) for other premiums and liquidity discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Level 3 Cash Instruments

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the firm uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realized on sales of financial assets.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The table below presents the valuation techniques and the nature of significant inputs generally used to determine the fair values of each type of level 3 cash instrument.

Level 3 Cash Instrument	Valuation Techniques and Significant Inputs
Loans and securities backed by commercial real estate	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.
Collateralized by a single commercial real estate property or a portfolio of properties	<p>Significant inputs are generally determined based on relative value analyses and include:</p> <p>Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral</p>
May include tranches of varying levels of subordination	<p>Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds)</p> <p>Recovery rates implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples</p> <p>Timing of expected future cash flows (duration)</p>
Loans and securities backed by residential real estate	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.
Collateralized by portfolios of residential real estate	<p>Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles, including relevant indices such as the ABX (an index that tracks the performance of subprime residential mortgage bonds). Significant inputs include:</p> <p>Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral</p>
May include tranches of varying levels of subordination	Market yields implied by transactions of similar or related assets

Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs

Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines

Bank loans and bridge loans

Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.

Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:

Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively)

Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation

Duration

Non-U.S. government and agency obligations

Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.

Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:

Corporate debt securities

Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX, LCDX and MCDX (an index that tracks the performance of municipal obligations)

State and municipal obligations

Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation

Other debt obligations

Duration

Equities and convertible debentures (including private equity investments and investments in real estate entities)

Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate:

Industry multiples and public comparables

Transactions in similar instruments

Discounted cash flow techniques

Third-party appraisals

The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include:

Market and transaction multiples

Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates

For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Significant Unobservable Inputs**

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. The ranges of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest multiple presented in the table for

private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 cash instruments.

Level 3 Cash Instrument	Level 3 Assets as of		
	September 2012 <i>(in millions)</i>	Significant Unobservable Inputs by Valuation Technique	Range of Significant Unobservable Inputs as of September 2012
Loans and securities backed by commercial real estate	\$3,318	Discounted cash flows:	
		Yield	3.9% to 30.1%
Collateralized by a single commercial real estate property or a portfolio of properties		Recovery rate [§]	39.0% to 100.0%
		Duration (years) [§]	0.7 to 8.5
May include tranches of varying levels of subordination			
Loans and securities backed by residential real estate	\$1,288	Discounted cash flows:	
		Yield	4.3% to 19.4%
Collateralized by portfolios of residential real estate		Cumulative loss rate	0.0% to 61.7%
		Duration (years) [§]	1.3 to 4.1
May include tranches of varying levels of subordination			

Bank loans and bridge loans	\$10,833	Discounted cash flows:	
		Yield	0.4% to 32.7%
		Recovery rate ⁴	19.5% to 100.0%
		Duration (years) ³	0.4 to 4.7

Non-U.S. government and agency obligations	\$5,325	Discounted cash flows:	
		Yield	1.4% to 34.5%
Corporate debt securities		Recovery rate ⁴	0.0% to 100.0%
State and municipal obligations		Duration (years) ³	0.3 to 16.5

Other debt obligations

Equities and convertible debentures (including private equity investments and investments in real estate entities)	\$15,126 ³	Comparable multiples:	
		Multiples	0.7x to 23.4x
		Discounted cash flows:	
		Yield/discount rate	10.0% to 25.0%
		Long-term growth rate/ compound annual growth rate	(3.2)% to 26.0%
		Capitalization rate	5.4% to 11.0%
		Recovery rate ⁴	42.1% to 100.0%
		Duration (years) ³	0.7 to 8.3

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1. Recovery rate is a measure of expected future cash flows, expressed as a percentage of notional or face value of the instrument.
2. Duration is an estimate of the timing of future cash flows and, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).
3. The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Increases in yield, discount rate, capitalization rate, duration or cumulative loss rate used in the valuation of the firm's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, multiples, long-term growth rate or compound annual

growth rate would result in a higher fair value measurement. Due to the distinctive nature of each of the firm's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Fair Value of Cash Instruments by Level**

The tables below present, by level within the fair value hierarchy, cash instrument assets and liabilities, at fair value. Cash instrument assets and liabilities are included in

Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, respectively.

<i>in millions</i>	Cash Instrument Assets at Fair Value as of September 2012			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 1,942	\$ 8,766	\$	\$ 10,708
U.S. government and federal agency obligations	42,178	53,351		95,529
Non-U.S. government and agency obligations	46,864	16,075	13	62,952
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		4,218	3,318	7,536
Loans and securities backed by residential real estate		8,314	1,288	9,602
Bank loans and bridge loans		10,178	10,833	21,011
Corporate debt securities ²	145	22,479	2,721	25,345
State and municipal obligations		2,713	583	3,296
Other debt obligations ²		2,481	2,008	4,489
Equities and convertible debentures	66,653 ³	9,446 ⁴	15,126 ⁵	91,225
Commodities		10,771		10,771
Total	\$157,782	\$148,792	\$35,890	\$342,464

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of September 2012			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 22,733	\$ 212	\$	\$ 22,945
Non-U.S. government and agency obligations	35,337	1,293		36,630
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by residential real estate		6	2	8
Bank loans and bridge loans		1,526	617	2,143
Corporate debt securities ⁶	26	6,829	47	6,902
State and municipal obligations		2		2
Equities and convertible debentures	22,608 ³	1,163 ⁴	7	23,778
Total	\$ 80,704	\$ 11,031	\$ 673	\$ 92,408

1. Includes \$645 million and \$518 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.

2. Includes \$1.09 billion and \$1.63 billion of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations in level 2 and level 3, respectively.

3. Consists of listed equity securities.

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4. Principally consists of restricted or less liquid listed securities.

5. Includes \$13.03 billion of private equity investments, \$1.45 billion of investments in real estate entities and \$645 million of convertible debentures.

6. Includes \$3 million of CDOs and CLOs backed by corporate obligations in level 3.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

<i>in millions</i>	Cash Instrument Assets at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 3,255	\$ 10,185	\$	\$ 13,440
U.S. government and federal agency obligations	29,263	57,777		87,040
Non-U.S. government and agency obligations	42,854	6,203	148	49,205
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		3,353	3,346	6,699
Loans and securities backed by residential real estate		5,883	1,709	7,592
Bank loans and bridge loans		8,460	11,285	19,745
Corporate debt securities ²	133	19,518	2,480	22,131
State and municipal obligations		2,490	599	3,089
Other debt obligations ²		2,911	1,451	4,362
Equities and convertible debentures	39,955 ³	11,491 ⁴	13,667 ⁵	65,113
Commodities		5,762		5,762
Total	\$115,460	\$134,033	\$34,685	\$284,178

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 20,940	\$ 66	\$	\$ 21,006
Non-U.S. government and agency obligations	34,339	547		34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate		27		27
Loans and securities backed by residential real estate		3		3
Bank loans and bridge loans		1,891	865	2,756
Corporate debt securities ⁶		6,522	31	6,553
State and municipal obligations		3		3
Equities and convertible debentures	20,069 ³	1,248 ⁴	9	21,326
Total	\$ 75,348	\$ 10,307	\$ 905	\$ 86,560

1. Includes \$213 million and \$595 million of CDOs backed by real estate in level 2 and level 3, respectively.

2. Includes \$403 million and \$1.19 billion of CDOs and CLOs backed by corporate obligations in level 2 and level 3, respectively.

3. Consists of listed equity securities.

4. Principally consists of restricted or less liquid listed securities.

5. Includes \$12.07 billion of private equity investments, \$1.10 billion of investments in real estate entities and \$497 million of convertible debentures.

6. Includes \$27 million of CDOs and CLOs backed by corporate obligations in level 3.

Transfers Between Levels of the Fair Value Hierarchy

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Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. During the three months ended September 2012, transfers into level 2 from level 1 of cash instruments were \$205 million, including transfers of non-U.S. government obligations and equity securities of \$118 million and \$87 million, respectively, reflecting the level of market activity in these instruments. Transfers into level 1 from level 2 of cash instruments were \$261 million, reflecting transfers of equity securities due to the level of market activity in these instruments.

During the nine months ended September 2012, transfers into level 2 from level 1 of cash instruments were \$2.02 billion, including transfers of non-U.S. government obligations of \$1.19 billion, reflecting the level of market activity in these instruments, and transfers of equity securities of \$832 million, primarily reflecting the impact of transfer restrictions. Transfers into level 1 from level 2 of cash instruments were \$427 million, including transfers of non-U.S. government obligations of \$225 million, reflecting the level of market activity in these instruments, and transfers of equity securities of \$182 million, where the firm was able to obtain quoted prices for certain instruments and due to the level of market activity for other instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Level 3 Rollforward**

If a cash instrument asset or liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3.

Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash

instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

The tables below present changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the period.

Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended September 2012

<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end				Purchases ¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 7	\$	\$	\$	\$	\$	\$	\$ (7)	\$	\$	\$	
Non-U.S. government and agency obligations	8		3	2							13	
Mortgage and other asset-backed loans and securities:												
Loans and securities backed by commercial real estate	3,166	57	78	355	(362)	(44)	214	(146)	3,318			
Loans and securities backed by residential real estate	1,632	65	44	81	(266)	(351)	98	(15)	1,288			
Bank loans and bridge loans	10,461	151	150	1,535	(906)	(805)	691	(444)	10,833			
Corporate debt securities	2,367	106	140	462	(274)	(120)	240	(200)	2,721			
State and municipal obligations	547	4	5	36	(27)	(2)	20		583			
Other debt obligations	1,757	5	51	197	(88)	(25)	118	(7)	2,008			
Equities and convertible debentures	14,420	31	632	513	(320)	(108)	798	(840)	15,126			
Total	\$34,365	\$419²	\$1,103²	\$3,181	\$(2,243)	\$(1,462)	\$2,179	\$(1,652)	\$35,890			

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended September 2012

	Net unrealized								
	(gains)/losses								
	Net			relating to			Transfers	Transfers	Balance,
	Balance,	realized	instruments				into	out of	end of
	beginning	(gains)/	still held at						period
<i>in millions</i>	of period	losses	period-end	Purchases ¹	Sales	Settlements	level 3	level 3	period
Total	\$ 739	\$ (2)	\$ 3	\$ (105)	\$ 65	\$ 16	\$ 46	\$ (89)	\$ 673

1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately \$340 million, \$843 million and \$339 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain/(loss) on level 3 cash instruments of \$1.10 billion (reflecting \$1.10 billion on cash instrument assets and \$(3) million on cash instrument liabilities) for the three months ended September 2012 primarily consisted of gains on private equity investments, bank loans and bridge loans, and corporate debt securities. Unrealized gains during the quarter primarily reflected the impact of an increase in global equity prices and tighter credit spreads.

Transfers into level 3 during the three months ended September 2012 primarily reflected transfers from level 2 of certain private equity investments and bank loans and bridge loans, principally due to less market activity in these instruments.

Transfers out of level 3 during the three months ended September 2012 primarily reflected transfers to level 2 of certain private equity investments and bank loans and bridge loans, principally due to improved transparency of market prices as a result of market transactions in these financial instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Level 3 Cash Instrument Assets at Fair Value for the Nine Months Ended September 2012									
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at	Purchases ¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of
			period-end						period
Non-U.S. government and agency obligations	\$ 148	\$ (55)	\$ 4	\$ 2	\$ (8)	\$ (71)	\$ 6	\$ (13)	\$ 13
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,346	143	227	1,337	(956)	(859)	218	(138)	3,318
Loans and securities backed by residential real estate	1,709	128	239	345	(729)	(471)	77	(10)	1,288
Bank loans and bridge loans	11,285	431	318	3,393	(2,754)	(2,122)	1,237	(955)	10,833
Corporate debt securities	2,480	266	229	865	(851)	(352)	344	(260)	2,721
State and municipal obligations	599	16	8	53	(80)	(12)		(1)	583
Other debt obligations	1,451	52	50	645	(365)	(41)	222	(6)	2,008
Equities and convertible debentures	13,667	60	1,158	2,166	(497)	(640)	866	(1,654)	15,126
Total	\$34,685	\$1,041 ²	\$2,233 ²	\$8,806	\$(6,240)	\$(4,568)	\$2,970	\$(3,037)	\$35,890

Level 3 Cash Instrument Liabilities at Fair Value for the Nine Months Ended September 2012									
<i>in millions</i>	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at	Purchases ¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of
			period-end						period
Total	\$ 905	\$ (35)	\$ 9	\$ (427)	\$ 244	\$ 81	\$ 90	\$ (194)	\$ 673

1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately \$560 million, \$1.77 billion and \$945 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain/(loss) on level 3 cash instruments of \$2.22 billion (reflecting \$2.23 billion on cash instrument assets and \$(9) million on cash instrument liabilities) for the nine months ended September 2012 primarily consisted of gains on private equity investments, mortgage and other asset-backed loans and securities, bank loans and bridge loans, and corporate debt securities. Unrealized gains during the nine months ended September 2012 primarily reflected the impact of an increase in global equity prices and generally tighter credit spreads.

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Transfers into level 3 during the nine months ended September 2012 primarily reflected transfers from level 2 of certain bank loans and bridge loans, and private equity investments, principally due to less market activity in these instruments.

Transfers out of level 3 during the nine months ended September 2012 primarily reflected transfers to level 2 of certain private equity investments and bank loans and bridge loans. Transfers of private equity investments to level 2 were principally due to improved transparency of market prices as a result of market transactions in these financial instruments. Transfers of bank loans and bridge loans to level 2 were principally due to market transactions in these instruments and unobservable inputs no longer being significant to the valuation of certain loans.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended September 2011

	Net unrealized							
				gains/(losses)			Net	
	Net	relating to					transfers	
	Balance,	realized	instruments				in and/or	Balance,
	beginning	gains/	still held at				(out) of	end of
<i>in millions</i>	of period	(losses)	period-end	Purchases ¹	Sales	Settlements	level 3	period
Mortgage and other asset-backed loans and securities:								
Loans and securities backed by commercial real estate	\$ 3,539	\$ 77	\$ (149)	\$ 226	\$ (220)	\$ (367)	\$ 441	\$ 3,547
Loans and securities backed by residential real estate	2,829	38	(25)	234	(226)	(178)	(989)	1,683
Bank loans and bridge loans	10,183	162	(595)	2,655	(413)	(571)	(410)	11,011
Corporate debt securities	2,747	61	(221)	316	(392)	(80)	149	2,580
State and municipal obligations	643	2	(6)	17	(18)	(2)	52	688
Other debt obligations	1,472	(2)	(27)	153	(167)	(68)	260	1,621
Equities and convertible debentures	13,452	14	(191)	294	(224)	(166)	394	13,573
Total	\$34,865	\$352 ²	\$(1,214) ²	\$3,895	\$(1,660)	\$(1,432)	\$(103)	\$34,703

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended September 2011

	Net unrealized							
				(gains)/losses			Net	
	Net	relating to					transfers	
	Balance,	realized	instruments				in and/or	Balance,
	beginning	(gains)/	still held at				(out) of	end of
<i>in millions</i>	of period	losses	period-end	Purchases ¹	Sales	Settlements	level 3	period
Total	\$ 612	\$ (12)	\$ 328	\$ (265)	\$ 144	\$ 122	\$ 5	\$ 934

1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately \$(551) million, \$(701) million and \$390 million reported in Market making, Other principal transactions and Interest income, respectively.

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The net unrealized loss on level 3 cash instruments of \$1.54 billion (reflecting losses of \$1.21 billion on cash instrument assets and \$328 million on cash instrument liabilities) for the three months ended September 2011 primarily consisted of losses on bank loans and bridge loans, corporate debt securities and private equity investments. Losses during the third quarter of 2011 reflected unfavorable credit markets and a significant decline in global equity markets.

Significant transfers in or out of level 3 during the three months ended September 2011 included:

Loans and securities backed by residential real estate: net transfer out of level 3 of \$989 million, principally due to transfers to level 2 of certain loans due to improved transparency of market prices used to value these financial instruments, as well as unobservable inputs no longer being significant to the valuation of these instruments.

Bank loans and bridge loans: net transfer out of level 3 of \$410 million, principally due to transfers to level 2 of certain loans due to improved transparency of market prices as a result of market activity in these financial instruments, partially offset by transfers to level 3 of other loans due to reduced transparency of market prices as a result of less market activity in these financial instruments.

Equities and convertible debentures: net transfer into level 3 of \$394 million, principally due to transfers to level 3 of certain private equity investments due to reduced transparency of market prices as a result of less market activity in these financial instruments, partially offset by transfers to level 2 of other private equity investments due to improved transparency of market prices as a result of market activity and partial sales.

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The net unrealized gain/(loss) on level 3 cash instruments of \$88 million (reflecting \$417 million on cash instrument assets and \$(329) million on cash instrument liabilities) for the nine months ended September 2011 primarily consisted of a net gain on private equity investments, where prices were generally corroborated through market transactions for similar assets during the period, partially offset by losses on bank loans and bridge loans, primarily reflecting the impact of unfavorable credit markets principally in the third quarter of 2011.

Significant transfers in or out of level 3 during the nine months ended September 2011 included:

Bank loans and bridge loans: net transfer out of level 3 of \$1.30 billion, principally due to transfers to level 2 of certain loans due to improved transparency of market prices as a result of market transactions in these financial instruments, partially offset by transfers to level 3 of other loans due to reduced transparency of market prices as a result of less market activity in these financial instruments.

Equities and convertible debentures: net transfer into level 3 of \$783 million, principally due to transfers to level 3 of certain private equity investments due to reduced transparency of market prices as a result of less market activity in these financial instruments, partially offset by transfers to level 2 of other private equity investments due to improved transparency of market prices as a result of market transactions in these financial instruments.

Loans and securities backed by residential real estate: net transfer out of level 3 of \$684 million, principally due to transfers to level 2 of certain loans due to improved transparency of market prices used to value these financial instruments, as well as unobservable inputs no longer being significant to the valuation of these instruments.

Corporate debt securities: net transfer out of level 3 of \$495 million, principally due to transfers to level 2 of certain corporate debt securities due to increased transparency of market prices as a result of market transactions in these financial instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Investments in Funds That Calculate Net Asset Value Per Share**

Cash instruments at fair value include investments in funds that are valued based on the net asset value per share (NAV) of the investment fund. The firm uses NAV as its measure of fair value for fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value.

The firm's investments in funds that calculate NAV primarily consist of investments in firm-sponsored funds where the firm co-invests with third-party investors. The private equity, private debt and real estate funds are primarily closed-end funds in which the firm's investments are not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated and it is estimated that substantially all of the underlying assets of existing funds will be liquidated over

the next seven years. The firm continues to manage its existing funds taking into account the transition periods under the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), although the rules have not yet been finalized.

The firm's investments in hedge funds are generally redeemable on a quarterly basis with 91 days' notice, subject to a maximum redemption level of 25% of the firm's initial investments at any quarter-end. The firm currently plans to comply with the Volcker Rule by redeeming certain of its interests in hedge funds. The firm redeemed approximately \$300 million and \$800 million of these interests in hedge funds during the three and nine months ended September 2012, respectively.

The table below presents the fair value of the firm's investments in, and unfunded commitments to, funds that calculate NAV.

<i>in millions</i>	As of September 2012		As of December 2011	
	Fair Value of Investments	Unfunded Commitments	Fair Value of Investments	Unfunded Commitments
Private equity funds ¹	\$ 8,251	\$2,829	\$ 8,074	\$3,514
Private debt funds ²	3,700	3,023	3,596	3,568
Hedge funds ³	2,450		3,165	
Real estate funds ⁴	1,799	1,004	1,531	1,613
Total	\$16,200	\$6,856	\$16,366	\$8,695

1. These funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations and growth investments.

2. These funds generally invest in loans and other fixed income instruments and are focused on providing private high-yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.

3. These funds are primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage.

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4. These funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and direct property.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Derivatives and Hedging Activities

Note 7.

Derivatives and Hedging Activities

Derivative Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives, or they may be listed and traded on an exchange (exchange-traded).

Market-Making. As a market maker, the firm enters into derivative transactions to provide liquidity and to facilitate the transfer and hedging of risk. In this capacity, the firm typically acts as principal and is consequently required to commit capital to provide execution. As a market maker, it is essential to maintain an inventory of financial instruments sufficient to meet expected client and market demands.

Risk Management. The firm also enters into derivatives to actively manage risk exposures that arise from market-making and investing and lending activities in derivative and cash instruments. The firm's holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. The offsetting impact of this economic hedging is reflected in the same business segment as the related revenues. In addition, the firm may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage foreign currency exposure on the net investment in certain non-U.S. operations and to manage interest rate exposure in certain fixed-rate unsecured long-term and short-term borrowings, and deposits.

The firm enters into various types of derivatives, including:

Futures and Forwards. Contracts that commit counterparties to purchase or sell financial instruments, commodities or currencies in the future.

Swaps. Contracts that require counterparties to exchange cash flows such as currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, commodities, currencies or indices.

Options. Contracts in which the option purchaser has the right, but not the obligation, to purchase from or sell to the option writer financial instruments, commodities or currencies within a defined time period for a specified price.

Derivatives are accounted for at fair value, net of cash collateral received or posted under credit support agreements. Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement. Derivative assets and liabilities are included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, respectively.

Substantially all gains and losses on derivatives not designated as hedges under ASC 815 are included in Market making and Other principal transactions.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The table below presents the fair value of derivatives on a net-by-counterparty basis.

<i>in millions</i>	As of September 2012		As of December 2011	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 4,628	\$ 3,921	\$ 5,880	\$ 3,172
Over-the-counter	68,201	47,850	74,148	55,281
Total	\$72,829	\$51,771	\$80,028	\$58,453

The table below presents the fair value and the number of derivative contracts by major product type on a gross basis. Gross fair values in the table below exclude the effects of both netting of receivable balances with payable balances

under enforceable netting agreements, and netting of cash collateral received or posted under credit support agreements, and therefore are not representative of the firm's exposure.

<i>in millions, except number of contracts</i>	As of September 2012			As of December 2011		
	Derivative Assets	Derivative Liabilities	Number of Contracts	Derivative Assets	Derivative Liabilities	Number of Contracts
Derivatives not accounted for as hedges						
Interest rates	\$ 614,949	\$ 573,931	300,118	\$ 624,189	\$ 582,608	287,351
Credit	94,970	81,829	355,728	150,816	130,659	362,407
Currencies	73,246	62,854	218,241	88,654	71,736	203,205
Commodities	28,320	29,125	89,291	35,966	38,050	93,755
Equities	58,886	51,097	346,551	64,135	51,928	332,273
Subtotal	870,371	798,836	1,309,929	963,760	874,981	1,278,991
Derivatives accounted for as hedges						
Interest rates	23,721	65	1,605	21,981	13	1,125
Currencies	9	60	73	124	21	71
Subtotal	23,730	125	1,678	22,105	34	1,196
Gross fair value of derivatives	\$ 894,101	\$ 798,961	1,311,607	\$ 985,865	\$ 875,015	1,280,187
Counterparty netting ¹	(717,563)	(717,563)		(787,733)	(787,733)	
Cash collateral netting ²	(103,709)	(29,627)		(118,104)	(28,829)	
Fair value included in financial instruments owned	\$ 72,829			\$ 80,028		
Fair value included in financial instruments sold, but not yet purchased		\$ 51,771			\$ 58,453	

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Valuation Techniques for Derivatives

The firm's level 2 and level 3 derivatives are valued using derivative pricing models (e.g., models that incorporate option pricing methodologies, Monte Carlo simulations and discounted cash flows). Price transparency of derivatives can generally be characterized by product type.

Interest Rate. In general, the prices and other inputs used to value interest rate derivatives are transparent, even for long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialized nations are characterized by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the prices and other inputs are generally observable.

Credit. Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.

Currency. Prices for currency derivatives based on the exchange rates of leading industrialized nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

Commodity. Commodity derivatives include transactions referenced to energy (e.g., oil and natural gas), metals (e.g., precious and base) and soft commodities (e.g., agricultural). Price transparency varies based on the underlying commodity, delivery location, tenor and product quality (e.g., diesel fuel compared to unleaded gasoline). In general, price transparency for commodity derivatives is greater for contracts with shorter tenors and contracts that are more closely aligned with major and/or benchmark commodity indices.

Equity. Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

Liquidity is essential to observability of all product types. If transaction volumes decline, previously transparent prices and other inputs may become unobservable. Conversely, even highly structured products may at times have trading volumes large enough to provide observability of prices and other inputs. See Note 5 for an overview of the firm's fair value measurement policies.

Level 1 Derivatives

Level 1 derivatives include short-term contracts for future delivery of securities when the underlying security is a level 1 instrument, and exchange-traded derivatives if they are actively traded and are valued at their quoted market price.

Level 2 Derivatives

Level 2 derivatives include exchange-traded derivatives that are not actively traded and OTC derivatives for which all significant valuation inputs are corroborated by market evidence. Level 2 exchange-traded derivatives are valued using models that calibrate to market-clearing levels of OTC derivatives.

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The selection of a particular model to value a derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. For derivatives that trade in liquid markets, model selection does not involve significant management judgment because outputs of models can be calibrated to market-clearing levels.

Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. Inputs to the valuations of level 2 derivatives can be verified to market transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Level 3 Derivatives

Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs.

For the majority of the firm's interest rate and currency derivatives classified within level 3, significant unobservable inputs include correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates), specific interest rate volatilities and the basis, or difference, between benchmark interest rates and related indices.

For level 3 credit derivatives, significant level 3 inputs include illiquid credit spreads, which are unique to specific reference obligations and reference entities, recovery rates, certain correlations required to value credit and mortgage derivatives (e.g., the likelihood of default of the underlying reference obligation relative to one another) and the basis, or price difference, between certain reference obligations and benchmark indices.

For level 3 equity derivatives, significant level 3 inputs generally include equity volatility inputs for options that are very long-dated and/or have strike prices that differ significantly from current market prices. In addition, the valuation of certain structured trades requires the use of level 3 inputs for the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class such as commodities.

For level 3 commodity derivatives, significant level 3 inputs include volatilities for options with strike prices that differ significantly from current market prices and prices or spreads for certain products for which the product quality or physical location of the commodity is not aligned with benchmark indices.

Subsequent to the initial valuation of a level 3 derivative, the firm updates the level 1 and level 2 inputs to reflect observable market changes and any resulting gains and losses are recorded in level 3. Level 3 inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations or other empirical market data. In circumstances where the firm cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. See below for further information about unobservable inputs used in the valuation of level 3 derivatives.

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivatives and are used to adjust the mid-market valuations, produced by derivative pricing models, to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments (CVA) and funding valuation adjustments, which account for the credit and funding risk inherent in derivative portfolios. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

In addition, for derivatives that include significant unobservable inputs, the firm makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Significant Unobservable Inputs**

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 derivatives. These ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. The ranges of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For

example, the highest correlation presented in the table for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 derivatives.

Net Level 3 Assets/(Liabilities)			
Level 3 Derivative Product Type	as of September 2012 <i>(in millions)</i>	Significant Unobservable Inputs of Derivative Pricing Models	Range of Significant Unobservable Inputs as of September 2012
Interest rates	\$ (483)	Correlation ¹	49% to 87%
		Volatility	32% to 88%
		Basis	1 basis point to 39 basis points (bps)
Credit	\$ 6,979	Correlation ¹	5% to 94%
		Credit spreads	68 bps to 1,781 bps
		Recovery rates	0% to 95%

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Basis

1 point to 8 points

Currencies	\$351	Correlation ¹	65% to 87%
Commodities	\$(651)	Volatility	5% to 66%
		Spread per million British Thermal units (MMBTU) of natural gas	\$(0.86) to \$4.50
		Price per megawatt hour of power	\$13.37 to \$71.65
		Price per barrel of oil	\$87.00 to \$101.00
Equities	\$(577)	Correlation ¹	46% to 99%
		Volatility	11% to 65%

1. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (51)% to 66% as of September 2012.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

**Sensitivity of Fair Value Measurement to Changes
in Significant Unobservable Inputs**

The following provides a description of the directional sensitivity of the firm's level 3 fair value measurements to changes in significant unobservable inputs, in isolation. Due to the distinctive nature of each of the firm's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

Correlation: For contracts where the holder benefits from the convergence of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation generally results in a higher fair value measurement.

Volatility: In general, for purchased options an increase in volatility results in a higher fair value measurement.

Interest rate basis: For contracts where the holder is receiving the interest rate basis, a wider basis generally results in a higher fair value measurement.

Credit spreads, recovery rates and basis: In general, the fair value of purchased credit protection increases as credit spreads increase, recovery rates decrease or basis widens. Credit spreads, recovery rates and basis are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation, and macro-economic conditions.

Commodity prices and spreads: For contracts where the holder is receiving a commodity, an increase in the spread (price difference from a benchmark index due to differences in quality or delivery location) or price generally results in a higher fair value measurement.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Fair Value of Derivatives by Level**

The tables below present the fair value of derivatives on a gross basis by level and major product type. Gross fair values in the tables below exclude the effects of both netting of receivable balances with payable balances under

enforceable netting agreements, and netting of cash received or posted under credit support agreements both in and across levels of the fair value hierarchy, and therefore are not representative of the firm's exposure.

Derivative Assets at Fair Value as of September 2012**Cross-Level**

<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$ 15	\$ 638,393	\$ 262	\$	\$ 638,670
Credit		83,310	11,660		94,970
Currencies		71,907	1,348		73,255
Commodities		27,617	703		28,320
Equities	62	57,781	1,043		58,886
Gross fair value of derivative assets	77	879,008	15,016		894,101
Counterparty netting ¹		(711,084)	(3,906)	(2,573) ³	(717,563)
Subtotal	\$ 77	\$ 167,924	\$ 11,110	\$(2,573)	\$ 176,538
Cash collateral netting ²					(103,709)
Fair value included in financial instruments owned					\$ 72,829

Derivative Liabilities at Fair Value as of September 2012**Cross-Level**

<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$ 79	\$ 573,172	\$ 745	\$	\$ 573,996
Credit		77,148	4,681		81,829
Currencies		61,917	997		62,914
Commodities		27,771	1,354		29,125
Equities	60	49,417	1,620		51,097
Gross fair value of derivative liabilities	139	789,425	9,397		798,961
Counterparty netting ¹		(711,084)	(3,906)	(2,573) ³	(717,563)
Subtotal	\$ 139	\$ 78,341	\$ 5,491	\$(2,573)	\$ 81,398
Cash collateral netting ²					(29,627)
Fair value included in financial instruments sold, but not yet purchased					\$ 51,771

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

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3. Represents the netting of receivable balances with payable balances for the same counterparty across levels of the fair value hierarchy under enforceable netting agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Derivative Assets at Fair Value as of December 2011					
Cross-Level					
<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$ 33	\$ 645,923	\$ 214	\$	\$ 646,170
Credit		137,110	13,706		150,816
Currencies		86,752	2,026		88,778
Commodities		35,062	904		35,966
Equities	24	62,684	1,427		64,135
Gross fair value of derivative assets	57	967,531	18,277		985,865
Counterparty netting ¹		(778,639)	(6,377)	(2,717) ³	(787,733)
Subtotal	\$ 57	\$ 188,892	\$ 11,900	\$(2,717)	\$ 198,132
Cash collateral netting ²					(118,104)
Fair value included in financial instruments owned					\$ 80,028

Derivative Liabilities at Fair Value as of December 2011					
Cross-Level					
<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$ 24	\$ 582,012	\$ 585	\$	\$ 582,621
Credit		123,253	7,406		130,659
Currencies		70,573	1,184		71,757
Commodities		36,541	1,509		38,050
Equities	185	49,884	1,859		51,928
Gross fair value of derivative liabilities	209	862,263	12,543		875,015
Counterparty netting ¹		(778,639)	(6,377)	(2,717) ³	(787,733)
Subtotal	\$209	\$ 83,624	\$ 6,166	\$(2,717)	\$ 87,282
Cash collateral netting ²					(28,829)
Fair value included in financial instruments sold, but not yet purchased					\$ 58,453

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

3. Represents the netting of receivable balances with payable balances for the same counterparty across levels of the fair value hierarchy under enforceable netting agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Level 3 Rollforward**

If a derivative was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are reported at the beginning of the reporting period in which they occur.

Gains and losses on level 3 derivatives should be considered in the context of the following:

A derivative with level 1 and/or level 2 inputs is classified in level 3 in its entirety if it has at least one significant level 3 input.

If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified as level 3.

Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to level 1 or level 2 derivatives and/or level 1, level 2 and level 3 cash instruments. As a result, gains/(losses) included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources. The tables below present changes in fair value for all derivatives categorized as level 3 as of the end of the period.

Level 3 Derivative Assets and Liabilities at Fair Value for the Three Months Ended September 2012

	Asset/ (liability) balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of period
<i>in millions</i>									
Interest rates net	\$ (353)	\$(24)	\$ 49	\$ 1	\$ (58)	\$ (36)	\$ (147) ³	\$ 27 ⁴	\$ (483)
Credit net	6,119	72	(736)	50	(58)	(596)	2,124	4 ⁴	6,979
Currencies net	192	(8)	27	4	(7)	75	61	7 ⁴	351
Commodities net	(240)	(38)	18	74	(431)	31	(88) ³	23 ⁴	(651)
Equities net	(548)	(69)	(68)	4	(63)	146	(38) ³	59 ⁴	(577)
Total derivatives net	\$5,170	\$(67)¹	\$(710)^{1,2}	\$133	\$(559)	\$(380)	\$1,912	\$120	\$5,619

1. The aggregate amounts include approximately \$(625) million and \$(152) million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

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3. Reflects a net transfer to level 3 of derivative liabilities.

4. Reflects a net transfer to level 2 of derivative liabilities.

The net unrealized loss on level 3 derivatives of \$710 million for the three months ended September 2012 was primarily attributable to the impact of tighter credit spreads and changes in foreign exchange rates on certain credit derivatives.

Transfers into level 3 derivatives during the three months ended September 2012 primarily reflected transfers from level 2 of certain credit derivative assets, primarily due to unobservable inputs becoming significant to the valuation of these derivatives, and transfers from level 2 of other credit derivative assets, primarily due to reduced transparency of correlation inputs used to value these derivatives.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Level 3 Derivative Assets and Liabilities at Fair Value for the Nine Months Ended September 2012**

<i>in millions</i>	Asset/ (liability) balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers		Asset/ (liability) balance, end of period
							Transfers into level 3	Transfers out of level 3	
Interest rates net	\$ (371)	\$ (58)	\$ (4)	\$ 2	\$ (11)	\$ (10)	\$ (44) ³	\$ 13 ⁴	\$ (483)
Credit net	6,300	273	(354)	151	(159)	(1,418)	2,265	(79)	6,979
Currencies net	842	(18)	(208)	13	(10)	(100)	95	(263)	351
Commodities net	(605)	(75)	135	266	(605)	396	(188) ³	25 ⁴	(651)
Equities net	(432)	16	(276)	131	(240)	186	(15) ³	53 ⁴	(577)
Total derivatives net	\$5,734	\$138¹	\$(707)^{1,2}	\$563	\$(1,025)	\$ (946)	\$2,113	\$(251)	\$5,619

1. The aggregate amounts include approximately \$(465) million and \$(104) million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

3. Reflects a net transfer to level 3 of derivative liabilities.

4. Reflects a net transfer to level 2 of derivative liabilities.

The net unrealized loss on level 3 derivatives of \$707 million for the nine months ended September 2012 was primarily attributable to the impact of tighter credit spreads, an increase in global equity prices and changes in foreign exchange rates on certain derivatives.

Transfers into level 3 derivatives during the nine months ended September 2012 primarily reflected transfers from level 2 of certain credit derivative assets, primarily due to unobservable inputs becoming significant to the valuation of these derivatives, and transfers from level 2 of other credit derivative assets, primarily due to reduced transparency of correlation inputs used to value these derivatives.

Transfers out of level 3 derivatives during the nine months ended September 2012 primarily reflected transfers to level 2 of certain currency derivative assets, primarily due to unobservable correlation inputs no longer being significant to the valuation of these derivatives.

Level 3 Derivative Assets and Liabilities at Fair Value for the Three Months Ended September 2011

<i>in millions</i>	Asset/	Net	Net unrealized gains/(losses) relating to	Purchases	Sales	Settlements	Net transfers in	Asset/
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	(liability) balance, beginning of period	realized gains/ (losses)	instruments still held at period-end				and/or (out) of level 3	(liability) balance, end of period
Interest rates net	\$ (192)	\$ (17)	\$ (124)	\$ 6	\$ (4)	\$ 7	\$ 49	\$ (275)
Credit net	6,019	117	1,281	269	(671)	(521)	(479)	6,015
Currencies net	1,123	10	30		(14)	27	(46)	1,130
Commodities net	184	(13)	(637)	13	(748)	142	(507)	(1,566)
Equities net	(903)	44	636	64	(302)	(5)	38	(428)
Total derivatives net	\$6,231	\$141 ¹	\$1,186 ^{1,2}	\$352	\$(1,739)	\$(350)	\$(945)	\$4,876

1. The aggregate amounts include approximately \$1.32 billion and \$8 million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

The net unrealized gain on level 3 derivatives of \$1.19 billion for the three months ended September 2011 was primarily attributable to the impact of changes in interest rates and exchange rates and wider credit spreads underlying certain credit derivatives, as well as the impact of a decline in global equity prices underlying certain equity

derivatives. These gains were partially offset by the impact of a decline in certain commodity prices. Unrealized gains on level 3 derivatives were substantially offset by unrealized losses on derivatives classified within level 2 which economically hedge derivatives classified within level 3.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Significant transfers in or out of level 3 derivatives during the three months ended September 2011 included:

Credit net: net transfer out of level 3 of \$479 million, principally due to unobservable inputs no longer being significant to the valuation of certain credit derivatives.

Commodities net: net transfer out of level 3 of \$507 million, primarily reflecting transfers to level 2, due to increased transparency of market prices used to value certain commodity derivative assets as a result of market activity in similar instruments, and unobservable inputs becoming less significant to the valuation of other commodity derivative assets. In addition, certain commodity derivative liabilities were transferred into level 3 due to reduced transparency of volatility inputs used to value these derivatives.

Level 3 Derivative Assets and Liabilities at Fair Value for the Nine Months Ended September 2011

	Asset/ (liability) balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Net transfers in and/or (out) of level 3	Asset/ (liability) balance, end of period
<i>in millions</i>								
Interest rates net	\$ 194	\$ (45)	\$ (178)	\$ 13	\$ (6)	\$ 59	\$ (312)	\$ (275)
Credit net	7,040	123	1,632	319	(873)	(1,179)	(1,047)	6,015
Currencies net	1,098	(17)	(210)	28	(18)	6	243	1,130
Commodities net	220	(222)	(785)	129	(800)	358	(466)	(1,566)
Equities net	(990)	65	734	306	(519)	(10)	(14)	(428)
Total derivatives net	\$7,562	\$ (96) ¹	\$1,193 ^{1,2}	\$795	\$(2,216)	\$ (766)	\$(1,596)	\$ 4,876

1. The aggregate amounts include approximately \$1.10 billion and \$(7) million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

The net unrealized gain on level 3 derivatives of \$1.19 billion for the nine months ended September 2011 was primarily attributable to the impact of changes in interest rates and exchange rates and wider credit spreads underlying certain credit derivatives, and the impact of a decline in global equity prices underlying certain equity derivatives. These gains were partially offset by the impact of a decline in certain commodity prices. Unrealized gains on level 3 derivatives were substantially offset by unrealized losses on derivatives classified within level 2 which economically hedge derivatives classified within level 3.

Significant transfers in or out of level 3 derivatives during the nine months ended September 2011 included:

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Credit net: net transfer out of level 3 of \$1.05 billion, principally due to unobservable inputs no longer being significant to the valuation of certain credit derivatives.

Commodities net: net transfer out of level 3 of \$466 million, primarily reflecting transfers to level 2, due to increased transparency of market prices used to value certain commodity derivative assets as a result of market activity in similar instruments, and unobservable inputs becoming less significant to the valuation of other commodity derivative assets. In addition, certain commodity derivative liabilities were transferred into level 3 due to reduced transparency of volatility inputs used to value these derivatives.

Impact of Credit Spreads on Derivatives

On an ongoing basis, the firm realizes gains or losses relating to changes in credit risk through the unwind of derivative contracts and changes in credit mitigants.

The net gain/(loss), including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was \$(377) million and \$328 million for the three months ended September 2012 and September 2011, respectively, and \$(716) million and \$459 million for the nine months ended September 2012 and September 2011, respectively.

Bifurcated Embedded Derivatives

The table below presents derivatives, primarily interest rate, equity and commodity products, that have been bifurcated from their related borrowings. These derivatives are recorded at fair value and included in Unsecured short-term borrowings and Unsecured long-term borrowings. See Note 8 for further information.

	As of	
	September	December
in millions, except number of contracts	2012	2011
Fair value of assets	\$ 342	\$422
Fair value of liabilities	490	304
Net asset/(liability)	\$(148)	\$118
Number of contracts	399	333

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****OTC Derivatives**

The tables below present the fair values of OTC derivative assets and liabilities by tenor and by product type. Tenor is based on expected duration for mortgage-related credit

derivatives and generally on remaining contractual maturity for other derivatives.

in millions

OTC Derivatives as of September 2012

Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	\$11,466	\$29,659	\$ 81,929	\$ 123,054
Credit	1,692	13,386	8,909	23,987
Currencies	8,116	8,432	13,026	29,574
Commodities	5,012	4,617	368	9,997
Equities	4,907	7,989	7,399	20,295
Netting across product types ¹	(2,983)	(5,976)	(5,637)	(14,596)
Subtotal	\$28,210	\$58,107	\$105,994	192,311
Cross maturity netting ²				(20,401)
Cash collateral netting ³				(103,709)
Total				\$ 68,201

Liabilities

Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	\$ 6,448	\$18,382	\$ 33,569	\$ 58,399
Credit	593	7,030	3,224	10,847
Currencies	6,815	5,254	7,142	19,211
Commodities	3,368	5,552	2,229	11,149
Equities	3,415	5,314	4,139	12,868
Netting across product types ¹	(2,983)	(5,976)	(5,637)	(14,596)
Subtotal	\$17,656	\$35,556	\$ 44,666	97,878
Cross maturity netting ²				(20,401)
Cash collateral netting ³				(29,627)
Total				\$ 47,850

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.

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2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.
3. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)***in millions*
Assets

OTC Derivatives as of December 2011

Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	\$10,931	\$32,194	\$ 82,480	\$ 125,605
Credit	3,054	15,468	13,687	32,209
Currencies	11,253	11,592	16,023	38,868
Commodities	5,286	5,931	147	11,364
Equities	6,663	7,768	7,468	21,899
Netting across product types ¹	(3,071)	(6,033)	(6,027)	(15,131)
Subtotal	\$34,116	\$66,920	\$113,778	214,814
Cross maturity netting ²				(22,562)
Cash collateral netting ³				(118,104)
Total				\$ 74,148

Liabilities

Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	\$ 5,787	\$18,607	\$ 37,739	\$ 62,133
Credit	1,200	6,957	3,894	12,051
Currencies	9,826	5,514	6,502	21,842
Commodities	6,322	5,174	2,727	14,223
Equities	3,290	4,018	4,246	11,554
Netting across product types ¹	(3,071)	(6,033)	(6,027)	(15,131)
Subtotal	\$23,354	\$34,237	\$ 49,081	106,672
Cross maturity netting ²				(22,562)
Cash collateral netting ³				(28,829)
Total				\$ 55,281

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.

2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.

3. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Derivatives with Credit-Related Contingent Features**

Certain of the firm's derivatives have been transacted under bilateral agreements with counterparties who may require the firm to post collateral or terminate the transactions based on changes in the firm's credit ratings. The firm assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of the firm at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. The table below presents the aggregate fair value of net derivative liabilities under such agreements (excluding application of collateral posted to reduce these liabilities), the related aggregate fair value of the assets posted as collateral, and the additional collateral or termination payments that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in the firm's credit ratings.

	As of	
	September	December
<i>in millions</i>	2012	2011
Net derivative liabilities under bilateral agreements	\$29,731	\$35,066
Collateral posted	25,512	29,002
Additional collateral or termination payments for a one-notch downgrade	1,397	1,303
Additional collateral or termination payments for a two-notch downgrade	2,698	2,183

Credit Derivatives

The firm enters into a broad array of credit derivatives in locations around the world to facilitate client transactions and to manage the credit risk associated with market-making and investing and lending activities. Credit derivatives are actively managed based on the firm's net risk position.

Credit derivatives are individually negotiated contracts and can have various settlement and payment conventions. Credit events include failure to pay, bankruptcy, acceleration of indebtedness, restructuring, repudiation and dissolution of the reference entity.

Credit Default Swaps. Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives

protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.

Credit Indices, Baskets and Tranches. Credit derivatives may reference a basket of single-name credit default swaps or a broad-based index. If a credit event occurs in one of the underlying reference obligations, the protection seller pays the protection buyer. The payment is typically a pro-rata portion of the transaction's total notional amount based on the underlying defaulted reference obligation. In certain transactions, the credit risk of a basket or index is separated into various portions (tranches), each having different levels of subordination. The most junior tranches cover initial defaults and once losses exceed the notional amount of these junior tranches, any excess loss is covered by the next most senior tranche in the capital structure.

Total Return Swaps. A total return swap transfers the risks relating to economic performance of a reference obligation from the protection buyer to the protection seller. Typically, the protection buyer receives from the protection seller a floating rate of interest and protection against any reduction in fair value of the reference obligation, and in return the protection seller receives the cash flows associated with the reference obligation, plus any increase in the fair value of the reference obligation.

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Credit Options. In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right, but does not assume the obligation, to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

The firm economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underlyings. Substantially all of the firm's purchased credit derivative transactions are with financial institutions and are subject to stringent collateral thresholds. In addition, upon the occurrence of a specified trigger event, the firm may take possession of the reference obligations underlying a particular written credit derivative, and consequently may, upon liquidation of the reference obligations, recover amounts on the underlying reference obligations in the event of default.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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As of September 2012, written and purchased credit derivatives had total gross notional amounts of \$1.86 trillion and \$1.98 trillion, respectively, for total net notional purchased protection of \$115.24 billion. As of December 2011, written and purchased credit derivatives had total gross notional amounts of \$1.96 trillion and \$2.08 trillion, respectively, for total net notional purchased protection of \$116.93 billion.

The table below presents certain information about credit derivatives. In the table below:

fair values exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under credit support agreements, and therefore are not representative of the firm's credit exposure; tenor is based on expected duration for mortgage-related credit derivatives and on remaining contractual maturity for other credit derivatives; and

the credit spread on the underlying, together with the tenor of the contract, are indicators of payment/performance risk. The firm is less likely to pay or otherwise be required to perform where the credit spread and the tenor are lower.

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives		
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives ¹	Other Purchased Credit Derivatives ²	Asset	Liability	Net
									Asset/ Liability
<i>\$ in millions</i>									
As of September 2012									
Credit spread on underlying									
(basis points)									
0-250	\$378,059	\$ 919,259	\$153,110	\$1,450,428	\$1,357,304	\$197,320	\$25,629	\$ 10,001	\$ 15,628
251-500	17,581	169,661	48,737	235,979	214,043	24,678	3,870	12,055	(8,185)
501-1,000	12,677	65,288	12,185	90,150	86,341	6,510	1,086	5,768	(4,682)
Greater than 1,000	16,997	61,631	7,429	86,057	72,992	18,664	496	24,540	(24,044)
Total	\$425,314	\$1,215,839	\$221,461	\$1,862,614	\$1,730,680	\$247,172	\$31,081	\$ 52,364	\$(21,283)

As of December 2011**Credit spread on underlying****(basis points)**

0-250	\$282,851	\$ 794,193	\$141,688	\$1,218,732	\$1,122,296	\$180,316	\$17,572	\$ 16,907	\$ 665
251-500	42,682	269,687	69,864	382,233	345,942	47,739	4,517	20,810	(16,293)
501-1,000	29,377	140,389	21,819	191,585	181,003	23,176	138	15,398	(15,260)
Greater than 1,000	30,244	114,103	22,995	167,342	147,614	28,734	512	57,201	(56,689)
Total	\$385,154	\$1,318,372	\$256,366	\$1,959,892	\$1,796,855	\$279,965	\$22,739	\$110,316	\$(87,577)

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1. Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they economically hedge written credit derivatives with identical underlyings.

2. This purchased protection represents the notional amount of purchased credit derivatives in excess of the notional amount included in Offsetting Purchased Credit Derivatives.

Hedge Accounting

The firm applies hedge accounting for (i) certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate unsecured long-term and short-term borrowings and certain fixed-rate certificates of deposit and (ii) certain foreign currency forward contracts and foreign currency-denominated debt used to manage foreign currency exposures on the firm's net investment in certain non-U.S. operations.

To qualify for hedge accounting, the derivative hedge must be highly effective at reducing the risk from the exposure being hedged. Additionally, the firm must formally document the hedging relationship at inception and test the hedging relationship at least on a quarterly basis to ensure the derivative hedge continues to be highly effective over the life of the hedging relationship.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Interest Rate Hedges**

The firm designates certain interest rate swaps as fair value hedges. These interest rate swaps hedge changes in fair value attributable to the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting a substantial portion of fixed-rate obligations into floating-rate obligations.

The firm applies a statistical method that utilizes regression analysis when assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and the risk being hedged (i.e., interest rate risk). An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

For qualifying fair value hedges, gains or losses on derivatives are included in Interest expense. The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses resulting from hedge ineffectiveness are included in Interest expense. When a derivative is no longer designated as a hedge, any remaining difference between the carrying value and par value of the hedged item is amortized to interest expense over the remaining life of the hedged item using the effective interest method. See Note 23 for further information about interest income and interest expense.

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged borrowings and bank deposits, and the hedge ineffectiveness on these derivatives.

<i>in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2012	2011	2012	2011
Interest rate hedges	\$(549)	\$ 6,654	\$ (995)	\$ 4,832
Hedged borrowings and bank deposits	102	(6,969)	(280)	(6,056)
Hedge ineffectiveness ¹	(447)	(315)	(1,275)	(1,224)

1. Primarily consisted of amortization of prepaid credit spreads resulting from the passage of time.

Net Investment Hedges

The firm seeks to reduce the impact of fluctuations in foreign exchange rates on its net investment in certain non-U.S. operations through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts designated as hedges, the effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts (i.e., based on changes in forward rates). For foreign currency-denominated debt designated as a hedge, the effectiveness of the hedge is assessed based on changes in spot rates.

For qualifying net investment hedges, the gains or losses on the hedging instruments, to the extent effective, are included in Currency translation adjustment, net of tax within the condensed consolidated statements of comprehensive income.

The table below presents the gains/(losses) from net investment hedging.

<i>in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2012	2011	2012	2011

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Currency hedges	\$(192)	\$ 513	\$(195)	\$ 110
Foreign currency-denominated debt	(73)	(130)	40	(142)

The gain/(loss) related to ineffectiveness was not material for the three and nine months ended September 2012 and September 2011, and the loss reclassified to earnings from accumulated other comprehensive income was not material for the three and nine months ended September 2012. The loss reclassified to earnings from accumulated other comprehensive income was \$151 million and \$169 million for the three and nine months ended September 2011, respectively.

As of September 2012 and December 2011, the firm had designated \$3.07 billion and \$3.11 billion, respectively, of foreign currency-denominated debt, included in Unsecured long-term borrowings and Unsecured short-term borrowings, as hedges of net investments in non-U.S. subsidiaries.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Fair Value Option

Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

In addition to all cash and derivative instruments included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value under the fair value option.

The primary reasons for electing the fair value option are to:

reflect economic events in earnings on a timely basis;

mitigate volatility in earnings from using different measurement attributes (e.g., transfers of financial instruments owned accounted for as financings are recorded at fair value whereas the related secured financing would be recorded on an accrual basis absent electing the fair value option); and

address simplification and cost-benefit considerations (e.g., accounting for hybrid financial instruments at fair value in their entirety versus bifurcation of embedded derivatives and hedge accounting for debt hosts).

Hybrid financial instruments are instruments that contain bifurcated embedded derivatives and do not require settlement by physical delivery of non-financial assets (e.g., physical commodities). If the firm elects to bifurcate the embedded derivative from the associated debt, the derivative is accounted for at fair value and the host contract is accounted for at amortized cost, adjusted for the effective portion of any fair value hedges. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under the fair value option.

Other financial assets and financial liabilities accounted for at fair value under the fair value option include:

resale and repurchase agreements;

securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;

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certain other secured financings, primarily transfers of assets accounted for as financings rather than sales and certain other nonrecourse financings;
certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;
certain unsecured long-term borrowings, including prepaid commodity transactions and certain hybrid financial instruments;

certain receivables from customers and counterparties, including certain margin loans and transfers of assets accounted for as secured loans rather than purchases;

certain insurance and reinsurance contract assets and liabilities and certain guarantees;

certain subordinated liabilities issued by consolidated VIEs; and

certain time deposits issued by the firm's bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments.

These financial assets and financial liabilities at fair value are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified as level 2 because the inputs are observable. Valuation adjustments may be made for liquidity and for counterparty and the firm's credit quality.

See below for information about the significant inputs used to value other financial assets and financial liabilities at fair value, including the ranges of significant unobservable inputs used to value the level 3 instruments within these categories. These ranges represent the significant unobservable inputs that were used in the valuation of each type of other financial assets and financial liabilities at fair value. The ranges of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one instrument. For example, the highest yield presented below for resale and repurchase agreements is appropriate for valuing a specific agreement in that category but may not be appropriate for valuing any other agreements in that category. Accordingly, the range of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 other financial assets and financial liabilities.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are collateral funding spreads, the amount and timing of expected future cash flows and interest rates. The ranges of significant unobservable inputs used to value level 3 resale and repurchase agreements as of September 2012 are as follows:

Yield: 1.9% to 5.3%

Duration: 0.4 to 4.8 years

Generally, increases in yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm's level 3 resale and repurchase agreements, the interrelationship of inputs is not necessarily uniform across such agreements.

See Note 9 for further information about collateralized agreements.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, collateral funding spreads, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. The ranges of significant unobservable inputs used to value level 3 other secured financings as of September 2012 are as follows:

Yield: 0.4% to 20.1%

Duration: 0.2 to 10.0 years

Generally, increases in yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm's level 3 other secured financings, the interrelationship of inputs is not necessarily uniform across such financings.

See Note 9 for further information about collateralized financings.

Unsecured Short-term and Long-term Borrowings. The significant inputs to the valuation of unsecured short-term and long-term borrowings at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of the firm, as well as commodity prices in the case of prepaid commodity transactions. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the firm's other derivative instruments. See Note 7 for further information about derivatives. See Notes 15 and 16 for further information about unsecured short-term and long-term borrowings, respectively.

Certain of the firm's unsecured short-term and long-term instruments are included in level 3, substantially all of which are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these borrowings, these inputs are incorporated in the firm's derivative disclosures related to unobservable inputs in Note 7.

Insurance and Reinsurance Contracts. Insurance and reinsurance contracts at fair value are included in Receivables from customers and counterparties and Other liabilities and accrued expenses. The insurance and reinsurance contracts for which the firm has elected the fair value option are contracts that can be settled only in cash and that qualify for the fair value option because they are recognized financial instruments. These contracts are valued using market transactions and other market evidence where possible, including market-based inputs to models,

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calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant level 2 inputs are interest rates, inflation rates, volatilities, and policy lapse and projected mortality assumptions. Significant level 3 inputs are funding spreads. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified in level 3. The range of significant unobservable inputs used to value level 3 insurance and reinsurance contracts as of September 2012 is as follows:

Funding spreads: 92 bps to 128 bps

Generally, an increase in funding spreads would result in a lower fair value measurement.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Receivables from Customers and Counterparties. Receivables from customers and counterparties at fair value, excluding insurance and reinsurance contracts, are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads. The range of significant unobservable inputs used to value level 3 receivables from customers and counterparties as of September 2012 is as follows:

Funding spreads: 112 bps to 157 bps

Generally, an increase in funding spreads would result in a lower fair value measurement.

Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Such receivables are primarily comprised of customer margin loans. While these margin loans are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value

hierarchy in Notes 6, 7 and 8. Had these margin loans been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of September 2012.

Deposits. The significant inputs to the valuation of time deposits are interest rates and the amount and timing of future cash flows. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the firm's other derivative instruments. See Note 7 for further information about derivatives. See Note 14 for further information about deposits.

The firm's deposits that are included in level 3 are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these deposits, these inputs are incorporated in the firm's derivative disclosures related to unobservable inputs in Note 7.

Fair Value of Other Financial Assets and Financial Liabilities by Level

The tables below present, by level within the fair value hierarchy, other financial assets and financial liabilities accounted for at fair value under the fair value option.

<i>in millions</i>	Other Financial Assets at Fair Value as of September 2012			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$25,346	\$ 8,741	\$	\$ 34,087
Securities purchased under agreements to resell		147,176	185	147,361
Securities borrowed		47,986		47,986
Receivables from customers and counterparties		6,295	625	6,920
Total	\$25,346	\$210,198	\$ 810	\$236,354

<i>in millions</i>	Other Financial Liabilities at Fair Value as of September 2012			
	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 5,373	\$ 301	\$ 5,674

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Securities sold under agreements to repurchase	164,067	2,119	166,186
Securities loaned	243		243
Other secured financings	23,926	1,253	25,179
Unsecured short-term borrowings	14,939	2,681	17,620
Unsecured long-term borrowings	10,877	2,001	12,878
Other liabilities and accrued expenses	492	9,483	9,975
Total	\$ 219,917	\$17,838	\$237,755

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes \$25.35 billion of level 1 and \$531 million of level 2 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, principally consisting of U.S. Treasury securities, money market instruments and insurance separate account assets.

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Notes to Condensed Consolidated Financial Statements**(Unaudited)**

<i>in millions</i>	Other Financial Assets at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$21,263	\$ 20,751	\$	\$ 42,014
Securities purchased under agreements to resell		187,232	557	187,789
Securities borrowed		47,621		47,621
Receivables from customers and counterparties		8,887	795	9,682
Total	\$21,263	\$264,491	\$ 1,352	\$287,106

<i>in millions</i>	Other Financial Liabilities at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 4,513	\$ 13	\$ 4,526
Securities sold under agreements to repurchase		162,321	2,181	164,502
Securities loaned		107		107
Other secured financings		28,267	1,752	30,019
Unsecured short-term borrowings		14,560	3,294	17,854
Unsecured long-term borrowings		14,971	2,191	17,162
Other liabilities and accrued expenses		490	8,996	9,486
Total	\$	\$225,229	\$18,427	\$243,656

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes \$21.26 billion of level 1 and \$528 million of level 2 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, principally consisting of U.S. Treasury securities, money market instruments and insurance separate account assets.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Transfers Between Levels of the Fair Value Hierarchy**

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 during the three and nine months ended September 2012. The tables below present information about transfers between level 2 and level 3.

Level 3 Rollforward

If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3.

The tables below present changes in fair value for other financial assets and financial liabilities accounted for at fair value under the fair value option categorized as level 3 as of the end of the period. Level 3 other financial assets and liabilities are frequently economically hedged with cash instruments and derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1, 2 or 3 cash instruments or derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issues	Settlements	Transfers		Balance, end of period
								into level 3	Transfers out of level 3	
Securities purchased under agreements to resell	\$ 1,023	\$ 2	\$	\$41	\$	\$	\$ (52)	\$	\$(829)	\$ 185
Receivables from customers and counterparties	616		19				(10)			625
Total	\$ 1,639	\$ 2¹	\$19¹	\$41	\$	\$	\$ (62)	\$	\$(829)	\$ 810

1. The aggregate amounts include gains of approximately \$20 million and \$1 million reported in Market making and Interest income, respectively.

<i>in millions</i>	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Issues	Settlements	Transfers		Balance, end of period
								into level 3	Transfers out of level 3	
Deposits	\$ 179	\$	\$ 4	\$	\$	\$102	\$	\$ 16	\$	\$ 301

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Securities sold under agreements to repurchase, at fair value	2,055			64					2,119	
Other secured financings	1,182	3		117	(200)	151			1,253	
Unsecured short-term borrowings	2,726	7	171	170	(253)	76	(216)		2,681	
Unsecured long-term borrowings	1,946	7	80	47	(108)	33	(4)		2,001	
Other liabilities and accrued expenses	8,969	(15)	608		(79)				9,483	
Total	\$17,057	\$ 2¹	\$863¹	\$	\$	\$500	\$(640)	\$276	\$(220)	\$17,838

1. The aggregate amounts include losses of approximately \$797 million, \$65 million and \$3 million reported in Market making, Other principal transactions and Interest expense, respectively.

The net unrealized loss on level 3 other financial liabilities of \$863 million for the three months ended September 2012 primarily reflected the impact of tighter funding spreads and changes in foreign exchange rates on certain insurance liabilities, and an increase in global equity prices and tighter credit spreads on certain hybrid financial instruments.

Transfers out of level 3 of other financial assets during the three months ended September 2012 reflected transfers to level 2 of certain resale agreements, primarily due to increased transparency of funding spreads as a result of market activity in similar instruments.

Transfers into level 3 of other financial liabilities during the three months ended September 2012 primarily reflected transfers from level 2 of certain secured financings, primarily due to less market activity in these instruments.

Transfers out of level 3 of other financial liabilities during the three months ended September 2012 primarily reflected transfers to level 2 of certain hybrid financial instruments, principally due to increased transparency of the correlation and volatility inputs used to value certain instruments and unobservable inputs no longer being significant to the valuation of other instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

<i>in millions</i>	Level 3 Other Financial Assets at Fair Value for the Nine Months Ended September 2012									
	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issues	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Securities purchased under agreements to resell	\$ 557	\$ 8	\$	\$ 51	\$	\$	\$ (431)	\$	\$	\$ 185
Receivables from customers and counterparties	795		21	199			(17)		(373)	625
Total	\$ 1,352	\$ 8¹	\$21¹	\$250	\$	\$	\$ (448)	\$	\$(373)	\$ 810

1. The aggregate amounts include gains of approximately \$21 million and \$8 million reported in Market making and Interest income, respectively.

<i>in millions</i>	Level 3 Other Financial Liabilities at Fair Value for the Nine Months Ended September 2012									
	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Issues	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Deposits	\$ 13	\$	\$	\$	\$	\$ 272	\$	\$ 16	\$	\$ 301
Securities sold under agreements to repurchase, at fair value	2,181						(62)			2,119
Other secured financings	1,752	9				296	(775)		(29)	1,253
Unsecured short-term borrowings	3,294	(33)	204	(13)	550	(817)	194	(698)	2,681	
Unsecured long-term borrowings	2,191	23	190		293	(238)	213	(671)	2,001	
Other liabilities and accrued expenses	8,996	(23)	764			(254)				9,483
Total	\$18,427	\$(24)¹	\$1,158¹	\$ (13)	\$ 1,411	\$(2,146)	\$423	\$(1,398)	\$17,838	

1. The aggregate amounts include losses of approximately \$1.02 billion, \$103 million and \$10 million reported in Market making, Other principal transactions and Interest expense, respectively.

The net unrealized loss on level 3 other financial liabilities of \$1.16 billion for the nine months ended September 2012 primarily reflected the impact of tighter funding spreads and changes in foreign exchange rates on certain insurance liabilities, and an increase in global equity prices and tighter credit spreads on certain hybrid financial instruments.

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Transfers out of level 3 of other financial assets during the nine months ended September 2012 reflected transfers to level 2 of certain insurance receivables, primarily due to increased transparency of the mortality inputs used to value these receivables.

Transfers into level 3 of other financial liabilities during the nine months ended September 2012 primarily reflected transfers from level 2 of certain hybrid financial instruments, principally due to decreased transparency of the correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during the nine months ended September 2012 primarily reflected transfers to level 2 of certain hybrid financial instruments, principally due to increased transparency of the correlation and volatility inputs used to value certain instruments, and unobservable inputs no longer being significant to the valuation of certain instruments.

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Level 3 Other Financial Assets at Fair Value for the Three Months Ended September 2011									
Net unrealized									
(gains)/(losses)									
Net relating to									
transfers									
Balance, realized instruments in and/or Balance,									
beginning gains/ still held at (out) of end of									
of period (losses) period-end Purchases Sales Issues Settlements level 3 period									
<i>in millions</i>									
Securities purchased under agreements to resell	\$ 299	\$	\$	\$ 232	\$	\$	\$ (46)	\$	\$ 485
Receivables from customers									
and counterparties	321		(19)	312			(7)	176	783
Total	\$ 620	\$¹	\$ (19)¹	\$544	\$	\$	\$ (53)	\$ 176	\$ 1,268

1. The aggregate amounts include losses of approximately \$19 million reported in Market making.

Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended September 2011									
Net unrealized									
(gains)/losses									
Net relating to									
transfers									
Balance, realized instruments in and/or Balance,									
beginning (gains)/ still held at (out) of end of									
of period losses period-end Purchases Sales Issues Settlements level 3 period									
<i>in millions</i>									
Securities sold under agreements to repurchase, at fair value	\$ 2,076	\$	\$	\$	\$	\$ 52	\$	\$	\$ 2,128
Other secured financings	5,297		(1)				(588)	(3,054)	1,654
Unsecured short-term borrowings	3,101	(86)	(367)		19	110	(356)	1,013	3,434
Unsecured long-term borrowings	2,554	4	(182)	(22)		163	(25)	149	2,641
Other liabilities and accrued expenses	6,944		359	227	(32)		(147)		7,351
Total	\$19,972	\$(82)¹	\$(191)¹	\$205	\$(13)	\$325	\$(1,116)	\$(1,892)	\$17,208

1. The aggregate amounts include gains/(losses) of approximately \$298 million and \$(25) million reported in Market making and Other principal transactions, respectively.

Significant transfers in or out of level 3 during the three months ended September 2011 included:

Other secured financings: net transfer out of level 3 of \$3.05 billion, principally due to transfers to level 2 of certain borrowings as unobservable inputs were no longer significant to the valuation of these borrowings as they neared maturity.

Unsecured short-term borrowings: net transfer into level 3 of \$1.01 billion, principally due to transfers to level 3 of certain borrowings due to less transparency of market prices as a result of less activity in these financial instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Level 3 Other Financial Assets at Fair Value for the Nine Months Ended September 2011

	Net unrealized								
	(gains)/losses								Net
	Net relating to								transfers
	Balance, realized							in and/or	Balance,
	beginning	gains/	still held at					(out) of	end of
<i>in millions</i>	of period	(losses)	period-end	Purchases	Sales	Issues	Settlements	level 3	period
Securities purchased under agreements to resell	\$ 100	\$ 2	\$	\$ 477	\$	\$	\$ (94)	\$	\$ 485
Receivables from customers and counterparties	298		2	325			(18)	176	783
Total	\$ 398	\$ 2 ¹	\$ 2 ¹	\$ 802	\$	\$	\$ (112)	\$ 176	\$ 1,268

1. The aggregate amounts include gains of approximately \$2 million and \$2 million reported in Market making and Other principal transactions, respectively.

Level 3 Other Financial Liabilities at Fair Value for the Nine Months Ended September 2011

	Net unrealized								
	(gains)/losses								Net
	Net relating to								transfers
	Balance, realized							in and/or	Balance,
	beginning	(gains)/	still held at					(out) of	end of
<i>in millions</i>	of period	losses	period-end	Purchases	Sales	Issues	Settlements	level 3	period
Securities sold under agreements to repurchase, at fair value	\$ 2,060	\$	\$	\$	\$	\$ 246	\$ (178)	\$	\$ 2,128
Other secured financings	8,349	8	3			272	(3,943)	(3,035)	1,654
Unsecured short-term borrowings	3,476	69	(652)	(3)	7	933	(781)	385	3,434
Unsecured long-term borrowings	2,104	14	(20)	(72)		453	(97)	259	2,641
Other liabilities and accrued expenses	2,409		662	4,564	(32)		(252)		7,351
Total	\$18,398	\$ 91 ¹	\$ (7) ¹	\$4,489	\$(25)	\$1,904	\$(5,251)	\$(2,391)	\$17,208

1. The aggregate amounts include gains/(losses) of approximately \$(94) million, \$18 million and \$(8) million reported in Market making, Other principal transactions and Interest expense, respectively.

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The net unrealized loss on other liabilities and accrued expenses of \$662 million was primarily attributable to the impact of a change in interest rates on certain insurance liabilities. The net unrealized gain on unsecured short-term borrowings of \$652 million primarily reflected gains on certain equity-linked notes, principally due to a decline in global equity markets.

Significant transfers in or out of level 3 during the nine months ended September 2011 included:

Other secured financings: net transfer out of level 3 of \$3.04 billion, principally due to transfers to level 2 of certain borrowings as unobservable inputs were no longer significant to the valuation of these borrowings as they neared maturity.

Unsecured short-term borrowings: net transfer into level 3 of \$385 million, principally due to transfers to level 3 of certain borrowings due to less transparency of market prices as a result of less activity in these financial instruments, partially offset by transfers from level 3 unsecured short-term borrowings to level 3 unsecured long-term borrowings related to an extension in the tenor of certain borrowings.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Gains and Losses on Other Financial Assets and Financial Liabilities at Fair Value**

The Fair Value Option columns in the table below present the gains and losses recognized as a result of the firm electing to apply the fair value option to certain financial assets and financial liabilities. These gains and losses are included in Market making and Other principal transactions.

The amounts in the table exclude contractual interest, which is included in Interest income and Interest expense, for all instruments other than hybrid financial instruments. See Note 23 for further information about interest income and interest expense. The table also excludes gains and losses related to financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value.

Included in the Other columns in the table below are:

Gains and losses on the embedded derivative component of hybrid financial instruments included in unsecured short-term borrowings and unsecured long-term borrowings. These gains and losses would have been recognized under other U.S. GAAP even if the firm had not elected to account for the entire hybrid instrument at fair value.

Gains and losses on secured financings related to transfers of assets accounted for as financings rather than sales. These gains and losses are offset by gains and losses on the related instruments included in Financial instruments owned, at fair value and Receivables from customers and counterparties.

Gains and losses on receivables from customers and counterparties related to transfers of assets accounted for as receivables rather than purchases. These gains and losses are offset by gains and losses on the related financial instruments included in Other secured financings.

Gains and losses on subordinated liabilities issued by consolidated VIEs, which are included in Other liabilities and accrued expenses. These gains and losses are offset by gains and losses on the financial assets held by the consolidated VIEs.

	Gains/(Losses) on Other Financial Assets and Financial Liabilities at Fair Value							
	Three Months Ended September				Nine Months Ended September			
	2012		2011		2012		2011	
	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Fair
		Value	Value			Value	Value	
	Value	Option	Other	Option	Other	Option	Other	
<i>in millions</i>								
Receivables from customers and counterparties ¹	\$ 49	\$ 786	\$ (24)	\$ 380	\$ 58	\$ 847	\$ (29)	\$ 899
Other secured financings	(22)	(1,267)	104	(613)	(33)	(1,636)	137	(1,538)
Unsecured short-term borrowings	(90)	(479)	83	2,125	(128)	(573)	114	2,228
Unsecured long-term borrowings	(313)	(662)	482	3,157	(495)	(1,017)	553	2,318
Other liabilities and accrued expenses ²	(595)	(48)	(307)	60	(787)	(6)	(560)	127
Other ³	(33)	(5)	46		(128)	(2)	91	
Total	\$(1,004)	\$(1,675)	\$ 384	\$5,109	\$(1,513)	\$(2,387)	\$ 306	\$ 4,034

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1. Primarily consists of gains/(losses) on certain transfers accounted for as receivables rather than purchases and certain reinsurance contracts.

2. Primarily consists of gains/(losses) on certain insurance contracts.

3. Primarily consists of gains/(losses) on resale and repurchase agreements, securities borrowed and loaned and deposits.

Excluding the gains and losses on the instruments accounted for under the fair value option described above, Market making and Other principal transactions

primarily represents gains and losses on Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Loans and Lending Commitments**

The table below presents the difference between the aggregate fair value and the aggregate contractual principal amount for loans and long-term receivables for which the fair value option was elected.

	September	As of December 2011
<i>in millions</i>	2012	December 2011
Aggregate contractual principal amount of performing loans and long-term receivables in excess of the related fair value	\$ 2,704	\$ 3,826
Aggregate contractual principal amount of loans on nonaccrual status and/or more than 90 days past due in excess of the related fair value	24,017	23,034
Total¹	\$26,721	\$26,860
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	\$ 2,262	\$ 3,174

1. The aggregate contractual principal exceeds the related fair value primarily because the firm regularly purchases loans, such as distressed loans, at values significantly below contractual principal amounts.

As of September 2012 and December 2011, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$2.04 billion and \$2.82 billion, respectively, and the related total contractual amount of these lending commitments was \$59.92 billion and \$66.12 billion, respectively. See Note 18 for further information about lending commitments.

Long-term Debt Instruments

The aggregate contractual principal amount of long-term other secured financings for which the fair value option was elected exceeded the related fair value by \$188 million and \$239 million as of September 2012 and December 2011, respectively. The fair value of unsecured long-term borrowings for which the fair value option was elected exceeded the related aggregate contractual principal amount by \$159 million as of September 2012, whereas the aggregate contractual principal amount exceeded the related fair value by \$693 million as of December 2011. The amounts above include both principal and non-principal-protected long-term borrowings.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain/(loss) attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was \$1.10 billion and \$(1.47) billion for the three months ended September 2012 and September 2011, respectively, and \$2.35 billion and \$(659) million for the nine months ended September 2012 and September 2011, respectively. Changes in the fair value of loans and lending commitments are primarily attributable to changes in instrument-specific credit spreads. Substantially all of the firm's performing loans and lending commitments are floating-rate.

Impact of Credit Spreads on Borrowings

The table below presents the net gains/(losses) attributable to the impact of changes in the firm's own credit spreads on borrowings for which the fair value option was elected. The firm calculates the fair value of borrowings by discounting future cash flows at a rate which incorporates the firm's credit spreads.

Three Months
Ended September

Nine Months
Ended September

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<i>in millions</i>	2012	2011	2012	2011
Net gains/(losses) including hedges	\$(370)	\$450	\$(588)	\$576
Net gains/(losses) excluding hedges	(396)	586	(628)	705

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Collateralized Agreements and Financings****Note 9.****Collateralized Agreements and Financings**

Collateralized agreements are securities purchased under agreements to resell (resale agreements or reverse repurchase agreements) and securities borrowed. Collateralized financings are securities sold under agreements to repurchase (repurchase agreements), securities loaned and other secured financings. The firm enters into these transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities.

Collateralized agreements and financings are presented on a net-by-counterparty basis when a legal right of setoff exists. Interest on collateralized agreements and collateralized financings is recognized over the life of the transaction and included in Interest income and Interest expense, respectively. See Note 23 for further information about interest income and interest expense.

The table below presents the carrying value of resale and repurchase agreements and securities borrowed and loaned transactions.

	September	As of December
<i>in millions</i>	2012	2011
Securities purchased under agreements to resell ¹	\$147,361	\$187,789
Securities borrowed ²	165,250	153,341
Securities sold under agreements to repurchase ¹	166,186	164,502
Securities loaned ²	13,640	7,182

1. Resale and repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.

2. As of September 2012 and December 2011, \$47.99 billion and \$47.62 billion of securities borrowed, and \$243 million and \$107 million of securities loaned were at fair value, respectively.

Resale and Repurchase Agreements

A resale agreement is a transaction in which the firm purchases financial instruments from a seller, typically in exchange for cash, and simultaneously enters into an agreement to resell the same or substantially the same financial instruments to the seller at a stated price plus accrued interest at a future date.

A repurchase agreement is a transaction in which the firm sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date.

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The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government and federal agency, and investment-grade sovereign obligations.

The firm receives financial instruments purchased under resale agreements, makes delivery of financial instruments sold under repurchase agreements, monitors the market value of these financial instruments on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the financial instruments, as appropriate. For resale agreements, the firm typically requires delivery of collateral with a fair value approximately equal to the carrying value of the relevant assets in the condensed consolidated statements of financial condition.

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, repos to maturity are accounted for as sales. A repo to maturity is a transaction in which the firm transfers a security under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the firm effectively no longer has a repurchase obligation and has relinquished control over the underlying security and, accordingly, accounts for the transaction as a sale. The firm had no repos to maturity outstanding as of September 2012 or December 2011.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Securities Borrowed and Loaned Transactions

In a securities borrowed transaction, the firm borrows securities from a counterparty in exchange for cash. When the firm returns the securities, the counterparty returns the cash. Interest is generally paid periodically over the life of the transaction.

In a securities loaned transaction, the firm lends securities to a counterparty typically in exchange for cash or securities, or a letter of credit. When the counterparty returns the securities, the firm returns the cash or securities posted as collateral. Interest is generally paid periodically over the life of the transaction.

The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of these securities on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the securities, as appropriate. For securities borrowed transactions, the firm typically requires collateral with a fair value approximately equal to the carrying value of the securities borrowed transaction.

Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution are recorded at fair value under the fair value option.

Securities borrowed and loaned within Securities Services are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such arrangements approximates fair value. While these arrangements are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these arrangements been included in the firm's fair value hierarchy, they would have been classified in level 2 as of September 2012.

As of September 2012 and December 2011, the firm had \$8.21 billion and \$20.22 billion, respectively, of securities received under resale agreements and securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in Cash and securities segregated for regulatory and other purposes.

Other Secured Financings

In addition to repurchase agreements and securities lending transactions, the firm funds certain assets through the use of other secured financings and pledges financial instruments and other assets as collateral in these transactions. These other secured financings consist of:

liabilities of consolidated VIEs;

transfers of assets accounted for as financings rather than sales (primarily collateralized central bank financings, pledged commodities, bank loans and mortgage whole loans); and

other structured financing arrangements.

Other secured financings include arrangements that are nonrecourse. As of September 2012 and December 2011, nonrecourse other secured financings were \$1.94 billion and \$3.14 billion, respectively.

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The firm has elected to apply the fair value option to the following other secured financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes:

transfers of assets accounted for as financings rather than sales; and

certain other nonrecourse financings.

See Note 8 for further information about other secured financings that are accounted for at fair value. Other secured financings that are not recorded at fair value are generally short-term and recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. While these financings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these financings been included in the firm's fair value hierarchy, they would have primarily been classified in level 2 as of September 2012.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The table below presents information about other secured financings. In the table below:

short-term secured financings include financings maturing within one year of the financial statement date and financings that are redeemable within one year of the financial statement date at the option of the holder;
long-term secured financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates; and

long-term secured financings that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.

<i>\$ in millions</i>	As of September 2012			As of December 2011		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):						
At fair value	\$13,392	\$4,918	\$18,310	\$18,519	\$ 5,140	\$23,659
At amortized cost	34	2,706	2,740	155	5,371	5,526
Interest rates ¹	6.82%	0.10%		3.85%	0.22%	
Other secured financings (long-term):						
At fair value	5,462	1,407	6,869	4,305	2,055	6,360
At amortized cost	710	764	1,474	1,024	795	1,819
Interest rates ¹	2.99%	2.84%		1.88%	3.28%	
Total ²	\$19,598	\$9,795	\$29,393	\$24,003	\$13,361	\$37,364
Amount of other secured financings collateralized by:						
Financial instruments ³	\$18,990	\$9,420	\$28,410	\$23,703	\$12,169	\$35,872
Other assets ⁴	608	375	983	300	1,192	1,492

1. The weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.

2. Includes \$6.18 billion and \$9.36 billion related to transfers of financial assets accounted for as financings rather than sales as of September 2012 and December 2011, respectively. Such financings were collateralized by financial assets included in Financial instruments owned, at fair value of \$6.20 billion and \$9.51 billion as of September 2012 and December 2011, respectively.

3. Includes \$15.58 billion and \$14.82 billion of other secured financings collateralized by financial instruments owned, at fair value as of September 2012 and December 2011, respectively, and includes \$12.83 billion and \$21.06 billion of other secured financings collateralized by financial instruments received as collateral and pledged as of September 2012 and December 2011, respectively.

4. Primarily real estate and cash.

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The table below presents other secured financings by maturity.

<i>in millions</i>	As of
	September 2012
Other secured financings (short-term)	\$21,050
Other secured financings (long-term):	
2013	771
2014	4,046
2015	1,274
2016	571
2017	197
2018-thereafter	1,484
Total other secured financings (long-term)	8,343
Total other secured financings	\$29,393

The aggregate contractual principal amount of other secured financings (long-term) for which the fair value option was elected exceeded the related fair value by \$188 million and \$239 million, as of September 2012 and December 2011, respectively.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Collateral Received and Pledged**

The firm receives financial instruments (e.g., U.S. government and federal agency, other sovereign and corporate obligations, as well as equities and convertible debentures) as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans.

In many cases, the firm is permitted to deliver or repledge these financial instruments when entering into repurchase agreements and securities lending agreements, primarily in connection with secured client financing activities. The firm is also permitted to deliver or repledge these financial instruments in connection with other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements.

The table below presents financial instruments at fair value received as collateral that were available to be delivered or repledged and were delivered or repledged by the firm.

	September	As of December
<i>in millions</i>	2012	2011
Collateral available to be delivered or repledged	\$573,711	\$622,926
Collateral that was delivered or repledged	431,090	454,604

The firm also pledges certain financial instruments owned, at fair value in connection with repurchase agreements, securities lending agreements and other secured financings, and other assets (primarily real estate and cash) in connection with other secured financings to counterparties who may or may not have the right to deliver or repledge them. The table below presents information about assets pledged by the firm.

	September	As of December
<i>in millions</i>	2012	2011
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	\$ 66,753	\$ 53,989
Did not have the right to deliver or repledge	118,630	110,949
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	2,603	3,444

Securitization Activities**Note 10.****Securitization Activities**

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The firm securitizes residential and commercial mortgages, corporate bonds, loans and other types of financial assets by selling these assets to securitization vehicles (e.g., trusts, corporate entities and limited liability companies) and acts as underwriter of the beneficial interests that are sold to investors. The firm's residential mortgage securitizations are substantially all in connection with government agency securitizations.

Beneficial interests issued by securitization entities are debt or equity securities that give the investors rights to receive all or portions of specified cash inflows to a securitization vehicle and include senior and subordinated shares of principal, interest and/or other cash inflows. The proceeds from the sale of beneficial interests are used to pay the transferor for the financial assets sold to the securitization vehicle or to purchase securities which serve as collateral.

The firm accounts for a securitization as a sale when it has relinquished control over the transferred assets. Prior to securitization, the firm accounts for assets pending transfer at fair value and therefore does not typically recognize significant gains or losses upon the transfer of assets. Net revenues from underwriting activities are recognized in connection with the sales of the underlying beneficial interests to investors.

For transfers of assets that are not accounted for as sales, the assets remain in Financial instruments owned, at fair value and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Notes 9 and 23 for further information about collateralized financings and interest expense, respectively.

The firm generally receives cash in exchange for the transferred assets but may also have continuing involvement with transferred assets, including ownership of beneficial interests in securitized financial assets, primarily in the form of senior or subordinated securities. The firm may also purchase senior or subordinated securities issued by securitization vehicles (which are typically VIEs) in connection with secondary market-making activities.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The primary risks included in beneficial interests and other interests from the firm's continuing involvement with securitization vehicles are the performance of the underlying collateral, the position of the firm's investment in the capital structure of the securitization vehicle and the market yield for the security. These interests are accounted for at fair value and are included in Financial instruments owned, at fair value and are generally classified in level 2 of the fair value hierarchy. See Notes 5 through 8 for further information about fair value measurements.

The table below presents the amount of financial assets securitized and the cash flows received on retained interests in securitization entities in which the firm had continuing involvement.

<i>in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Residential mortgages	\$8,530	\$10,091	\$27,797	\$31,642
Commercial mortgages	625		2,248	
Other financial assets		153		234
Total	\$9,155	\$10,244	\$30,045	\$31,876
Cash flows on retained interests	\$ 161	\$ 239	\$ 333	\$ 594

The table below presents the firm's continuing involvement in nonconsolidated securitization entities to which the firm sold assets, as well as the total outstanding principal amount of transferred assets in which the firm has continuing involvement. In this table:

the outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities in which the firm has continuing involvement and is not representative of the firm's risk of loss;

for retained or purchased interests, the firm's risk of loss is limited to the fair value of these interests; and

purchased interests represent senior and subordinated interests, purchased in connection with secondary market-making activities, in securitization entities in which the firm also holds retained interests.

<i>in millions</i>	As of September 2012			As of December 2011		
	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests
U.S. government agency-issued collateralized mortgage obligations ¹	\$57,923	\$3,809	\$	\$70,448	\$5,038	\$
Other residential mortgage-backed ²	3,769	105		4,459	101	3
Commercial mortgage-backed ³	3,186	18	46	3,398	606	331
CDOs, CLOs and other ⁴	9,259	37	266	9,972	32	211
Total⁵	\$74,137	\$3,969	\$312	\$88,277	\$5,777	\$545

1. Outstanding principal amount and fair value of retained interests primarily relate to securitizations during 2012 and 2011 as of September 2012, and securitizations during 2011 and 2010 as of December 2011.

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2. Outstanding principal amount and fair value of retained interests as of both September 2012 and December 2011 primarily relate to prime and Alt-A securitizations during 2007 and 2006.
3. As of September 2012, the outstanding principal amount and the fair value of retained interests primarily relate to securitizations during 2012. As of December 2011, the outstanding principal amount primarily relates to securitizations during 2010, 2007 and 2006 and the fair value of retained interests primarily relates to securitizations during 2010.
4. Outstanding principal amount and fair value of retained interests as of both September 2012 and December 2011 primarily relate to CDO and CLO securitizations during 2007 and 2006.
5. Outstanding principal amount includes \$815 million and \$774 million as of September 2012 and December 2011, respectively, related to securitization entities in which the firm's only continuing involvement is retained servicing which is not a variable interest.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

In addition to the interests in the table above, the firm had other continuing involvement in the form of derivative transactions and guarantees with certain nonconsolidated VIEs. The carrying value of these derivatives and guarantees was a net liability of \$3 million and \$52 million as of September 2012 and December 2011, respectively. The notional amounts of these derivatives and guarantees are included in maximum exposure to loss in the nonconsolidated VIE tables in Note 11.

The table below presents the weighted average key economic assumptions used in measuring the fair value of retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions.

<i>\$ in millions</i>	As of September 2012		As of December 2011	
	Type of Retained Interests		Type of Retained Interests	
	Mortgage-Backed	Other ¹	Mortgage-Backed	Other ¹
Fair value of retained interests	\$3,932	\$ 37	\$5,745	\$ 32
Weighted average life (years)	7.5	2.3	7.1	4.7
Constant prepayment rate ²	15.7%	N.M.	14.1%	N.M.
Impact of 10% adverse change ²	\$ (68)	N.M.	\$ (55)	N.M.
Impact of 20% adverse change ²	(128)	N.M.	(108)	N.M.
Discount rate ³	4.6%	N.M.	5.4%	N.M.
Impact of 10% adverse change	\$ (83)	N.M.	\$ (125)	N.M.
Impact of 20% adverse change	(155)	N.M.	(240)	N.M.

1. Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of September 2012 and December 2011. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$37 million and \$32 million as of September 2012 and December 2011, respectively.

2. Constant prepayment rate is included only for positions for which constant prepayment rate is a key assumption in the determination of fair value.

3. The majority of mortgage-backed retained interests are U.S. government agency-issued collateralized mortgage obligations, for which there is no anticipated credit loss. For the remainder of retained interests, the expected credit loss assumptions are reflected in the discount rate.

The preceding table does not give effect to the offsetting benefit of other financial instruments that are held to mitigate risks inherent in these retained interests. Changes in fair value based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is

not usually linear. In addition, the impact of a change in a particular assumption in the preceding table is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Variable Interest Entities

Note 11.

Variable Interest Entities

VIEs generally finance the purchase of assets by issuing debt and equity securities that are either collateralized by or indexed to the assets held by the VIE. The debt and equity securities issued by a VIE may include tranches of varying levels of subordination. The firm's involvement with VIEs includes securitization of financial assets, as described in Note 10, and investments in and loans to other types of VIEs, as described below. See Note 10 for additional information about securitization activities, including the definition of beneficial interests. See Note 3 for the firm's consolidation policies, including the definition of a VIE.

The firm is principally involved with VIEs through the following business activities:

Mortgage-Backed VIEs and Corporate CDO and CLO VIEs. The firm sells residential and commercial mortgage loans and securities to mortgage-backed VIEs and corporate bonds and loans to corporate CDO and CLO VIEs and may retain beneficial interests in the assets sold to these VIEs. The firm purchases and sells beneficial interests issued by mortgage-backed and corporate CDO and CLO VIEs in connection with market-making activities. In addition, the firm may enter into derivatives with certain of these VIEs, primarily interest rate swaps, which are typically not variable interests. The firm generally enters into derivatives with other counterparties to mitigate its risk from derivatives with these VIEs.

Certain mortgage-backed and corporate CDO and CLO VIEs, usually referred to as synthetic CDOs or credit-linked note VIEs, synthetically create the exposure for the beneficial interests they issue by entering into credit derivatives, rather than purchasing the underlying assets. These credit derivatives may reference a single asset, an index, or a portfolio/basket of assets or indices. See Note 7 for further information about credit derivatives. These VIEs use the funds from the sale of beneficial interests and the premiums received from credit derivative counterparties to purchase securities which serve to collateralize the beneficial interest holders and/or the credit derivative counterparty. These VIEs may enter into other derivatives, primarily interest rate swaps, which are typically not variable interests. The firm may be a counterparty to derivatives with these VIEs and generally enters into derivatives with other counterparties to mitigate its risk.

Real Estate, Credit-Related and Other Investing VIEs. The firm purchases equity and debt securities issued by and makes loans to VIEs that hold real estate, performing and nonperforming debt, distressed loans and equity securities.

Other Asset-Backed VIEs. The firm structures VIEs that issue notes to clients and purchases and sells beneficial interests issued by other asset-backed VIEs in connection with market-making activities. In addition, the firm may enter into derivatives with certain other asset-backed VIEs, primarily total return swaps on the collateral assets held by these VIEs under which the firm pays the VIE the return due to the note holders and receives the return on the collateral assets owned by the VIE. The firm generally can be removed as the total return swap counterparty. The firm generally enters into derivatives with other counterparties to mitigate its risk from derivatives with these VIEs. The firm typically does not sell assets to the other asset-backed VIEs it structures.

Power-Related VIEs. The firm purchases debt and equity securities issued by and may provide guarantees to VIEs that hold power-related assets. The firm typically does not sell assets to or enter into derivatives with these VIEs.

Investment Funds. The firm purchases equity securities issued by and may provide guarantees to certain of the investment funds it manages. The firm typically does not sell assets to or enter into derivatives with these VIEs.

Principal-Protected Note VIEs. The firm structures VIEs that issue principal-protected notes to clients. These VIEs own portfolios of assets, principally with exposure to hedge funds. Substantially all of the principal protection on the notes issued by these VIEs is provided by the asset portfolio rebalancing that is required under the terms of the notes. The firm enters into total return swaps with these VIEs under which the firm pays the VIE the return due to the principal-protected note holders and receives the return on the assets owned by the VIE. The firm may enter into derivatives with other counterparties to mitigate the risk it has from the derivatives it enters into with these VIEs. The firm also obtains funding through these VIEs.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

VIE Consolidation Analysis

A variable interest in a VIE is an investment (e.g., debt or equity securities) or other interest (e.g., derivatives or loans and lending commitments) in a VIE that will absorb portions of the VIE's expected losses and/or receive portions of the VIE's expected residual returns.

The firm's variable interests in VIEs include senior and subordinated debt in residential and commercial mortgage-backed and other asset-backed securitization entities, CDOs and CLOs; loans and lending commitments; limited and general partnership interests; preferred and common equity; derivatives that may include foreign currency, equity and/or credit risk; guarantees; and certain of the fees the firm receives from investment funds. Certain interest rate, foreign currency and credit derivatives the firm enters into with VIEs are not variable interests because they create rather than absorb risk.

The enterprise with a controlling financial interest in a VIE is known as the primary beneficiary and consolidates the VIE. The firm determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers:

which variable interest holder has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance;

which variable interest holder has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE;

the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders;

the VIE's capital structure;

the terms between the VIE and its variable interest holders and other parties involved with the VIE; and

related-party relationships.

The firm reassesses its initial evaluation of whether an entity is a VIE when certain reconsideration events occur. The firm reassesses its determination of whether it is the primary beneficiary of a VIE on an ongoing basis based on current facts and circumstances.

Nonconsolidated VIEs

The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the firm provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs.

The tables below present information about nonconsolidated VIEs in which the firm holds variable interests. Nonconsolidated VIEs are aggregated based on principal business activity. The nature of the firm's variable interests can take different forms, as described in the rows under maximum exposure to loss. In the tables below:

The maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.

For retained and purchased interests and loans and investments, the maximum exposure to loss is the carrying value of these interests.

For commitments and guarantees, and derivatives, the maximum exposure to loss is the notional amount, which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded. As a result, the maximum exposure to loss exceeds liabilities recorded for commitments and guarantees, and derivatives provided to VIEs.

The carrying values of the firm's variable interests in nonconsolidated VIEs are included in the consolidated statement of financial condition as follows:

Substantially all assets held by the firm related to mortgage-backed, corporate CDO and CLO and other asset-backed VIEs and investment funds are included in Financial instruments owned, at fair value. Substantially all liabilities held by the firm related to corporate CDO and CLO and other asset-backed VIEs are included in Financial instruments sold, but not yet purchased, at fair value.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Assets and liabilities held by the firm related to real estate, credit-related and other investing VIEs are primarily included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value and Other liabilities and accrued expenses, respectively.

Assets and liabilities held by the firm related to power-related VIEs are primarily included in Other assets and Other liabilities and accrued expenses, respectively.

<i>in millions</i>	Nonconsolidated VIEs As of September 2012						Total
	Mortgage- backed	Corporate CDOs and CLOs	Real estate, credit- related and other investing	Other asset- backed	Power- related	Investment funds	
Assets in VIE	\$85,380 ²	\$22,363	\$9,522	\$3,626	\$537	\$2,263	\$123,691
Carrying Value of the Firm's Variable Interests							
Assets	5,533	1,206	1,736	249	287	5	9,016
Liabilities		34		30			64
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	3,932	37					3,969
Purchased interests	1,317	680		230			2,227
Commitments and guarantees ¹		1	398		2	1	402
Derivatives ¹	1,994	6,382		1,081			9,457
Loans and investments	42		1,736		287	5	2,070
Total	\$ 7,285²	\$ 7,100	\$2,134	\$1,311	\$289	\$ 6	\$ 18,125

<i>in millions</i>	Nonconsolidated VIEs As of December 2011						Total
	Mortgage- backed	Corporate CDOs and CLOs	Real estate, credit- related and other investing	Other asset- backed	Power- related	Investment funds	
Assets in VIE	\$94,047 ²	\$20,340	\$8,974	\$4,593	\$519	\$2,208	\$130,681
Carrying Value of the Firm's Variable Interests							
Assets	7,004	911	1,495	352	289	5	10,056
Liabilities		63	3	24	2		92
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	5,745	32					5,777
Purchased interests	962	368		333			1,663
Commitments and guarantees ¹		1	373		46		420
Derivatives ¹	2,469	7,529		1,221			11,219
Loans and investments	82		1,495		288	5	1,870
Total	\$ 9,258²	\$ 7,930	\$1,868	\$1,554	\$334	\$ 5	\$ 20,949

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1. The aggregate amounts include \$3.59 billion and \$4.17 billion as of September 2012 and December 2011, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.
2. Assets in VIE and maximum exposure to loss include \$7.11 billion and \$2.42 billion, respectively, as of September 2012, and \$6.15 billion and \$2.62 billion, respectively, as of December 2011, related to CDOs backed by mortgage obligations.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Consolidated VIEs**

The tables below present the carrying amount and classification of assets and liabilities in consolidated VIEs, excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with the firm's variable interests. Consolidated VIEs are aggregated based on principal business activity and their assets and liabilities are presented net of intercompany eliminations. The majority of the assets in principal-protected notes VIEs are intercompany and are eliminated in consolidation.

Substantially all the assets in consolidated VIEs can only be used to settle obligations of the VIE.

The tables below exclude VIEs in which the firm holds a majority voting interest if (i) the VIE meets the definition of a business and (ii) the VIE's assets can be used for purposes other than the settlement of its obligations.

The liabilities of real estate, credit-related and other investing VIEs and CDOs, mortgage-backed and other asset-backed VIEs do not have recourse to the general credit of the firm.

<i>in millions</i>	Consolidated VIEs As of September 2012			Total
	Real estate, credit-related and other investing	mortgage-backed and other asset-backed	Principal- protected notes	
Assets				
Cash and cash equivalents	\$ 286	\$	\$	\$ 286
Cash and securities segregated for regulatory and other purposes	111		93	204
Receivables from brokers, dealers and clearing organizations	3			3
Financial instruments owned, at fair value	2,582	569	170	3,321
Other assets	1,331			1,331
Total	\$4,313	\$569	\$ 263	\$5,145
Liabilities				
Other secured financings	\$ 665	\$566	\$ 289	\$1,520
Financial instruments sold, but not yet purchased, at fair value			4	4
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings			1,963	1,963
Unsecured long-term borrowings	4		220	224
Other liabilities and accrued expenses	1,965			1,965
Total	\$2,634	\$566	\$2,476	\$5,676

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

<i>in millions</i>	Consolidated VIEs As of December 2011			Total
	Real estate, credit-related and other investing	mortgage-backed and other asset-backed	Principal- protected notes	
Assets				
Cash and cash equivalents	\$ 660	\$ 51	\$ 1	\$ 712
Cash and securities segregated for regulatory and other purposes	139			139
Receivables from brokers, dealers and clearing organizations	4			4
Receivables from customers and counterparties		16		16
Financial instruments owned, at fair value	2,369	352	112	2,833
Other assets	1,552	437		1,989
Total	\$4,724	\$856	\$ 113	\$5,693
Liabilities				
Other secured financings	\$1,418	\$298	\$3,208	\$4,924
Payables to customers and counterparties		9		9
Financial instruments sold, but not yet purchased, at fair value			2	2
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	185		1,941	2,126
Unsecured long-term borrowings	4		269	273
Other liabilities and accrued expenses	2,046	40		2,086
Total	\$3,653	\$347	\$5,420	\$9,420

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Other Assets

Note 12.**Other Assets**

Other assets are generally less liquid, non-financial assets. The table below presents other assets by type.

	September	As of December
<i>in millions</i>	2012	2011
Property, leasehold improvements and equipment ¹	\$ 8,470	\$ 8,697
Goodwill and identifiable intangible assets ²	5,296	5,468
Income tax-related assets ³	5,426	5,017
Equity-method investments ⁴	518	664
Miscellaneous receivables and other ⁵	4,014	3,306
Total	\$23,724	\$23,152

1. Net of accumulated depreciation and amortization of \$9.02 billion and \$8.46 billion as of September 2012 and December 2011, respectively.

2. See Note 13 for further information about goodwill and identifiable intangible assets.

3. See Note 24 for further information about income taxes.

4. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of \$4.71 billion and \$4.17 billion as of September 2012 and December 2011, respectively, which are included in Financial instruments owned, at fair value. The firm has generally elected the fair value option for such investments acquired after the fair value option became available.

5. Includes \$460 million of assets held for sale as of September 2012.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment included \$6.21 billion and \$6.48 billion as of September 2012 and December 2011, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities, including VIEs, consolidated by the firm.

Substantially all property and equipment are depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements are amortized on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter. Certain costs of software developed or obtained for internal use are capitalized and amortized on a straight-line basis over the useful life of the software.

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. The firm's policy for impairment testing of property, leasehold improvements and equipment is the same as is used for identifiable intangible assets with finite lives. See Note 13 for further information.

Impairments

As a result of a decline in the market conditions in which certain of the firm's consolidated investments operate, during the first nine months of 2012 the firm tested certain property, leasehold improvements and equipment and commodity-related intangible assets and other assets for impairment in accordance with ASC 360. The carrying value of these assets exceeded the projected undiscounted cash flows over the estimated remaining useful lives of these assets; as such, the firm determined the assets were impaired and recorded impairment losses. In addition, the firm classified certain assets as held for sale during the first nine months of 2012 and recognized impairment losses related to these assets. Collectively, the impairment losses were \$252 million during the nine months ended September 2012 (\$169 million related to property, leasehold improvements and equipment and \$83 million related to other assets and commodity-related intangible assets), substantially all of which were included in Depreciation and amortization. These impairment losses were included in the firm's Investing & Lending segment and represented the excess of the carrying values of these assets over their estimated fair values, which are primarily level 3 measurements, using a combination of discounted cash flow analyses and relative value analyses, including the estimated cash flows expected to be received from the disposition of certain of these assets.

In the first quarter of 2011, the firm classified certain assets as held for sale, primarily related to Litton Loan Servicing LP (Litton) and recognized impairment losses of approximately \$220 million, principally in the firm's Institutional Client Services segment. These impairment losses, which were included in Depreciation and amortization, represented the excess of (i) the carrying value of these assets over (ii) their estimated fair value less estimated cost to sell. These assets were sold in the third quarter of 2011. The firm received total consideration that approximated the firm's adjusted carrying value for Litton. See Note 18 for further information about the sale of Litton.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Goodwill and Identifiable Intangible Assets

Note 13.**Goodwill and Identifiable Intangible Assets**

The tables below present the carrying values of goodwill and identifiable intangible assets, which are included in Other assets.

	Goodwill	
	September	December
	As of	
<i>in millions</i>	2012	2011
Investment Banking:		
Financial Advisory	\$ 98	\$ 104
Underwriting	183	186
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	269	284
Equities Client Execution	2,389	2,390
Securities Services	104	117
Investing & Lending	131	147
Investment Management	589	574
Total	\$3,763	\$3,802

	Identifiable Intangible Assets	
	September	December
	As of	
<i>in millions</i>	2012	2011
Investment Banking:		
Financial Advisory	\$ 1	\$ 4
Underwriting		1
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	435	488
Equities Client Execution	655	677
Investing & Lending	308	369
Investment Management	134	127
Total	\$1,533	\$1,666

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date.

Goodwill is assessed annually in the fourth quarter for impairment or more frequently if events occur or circumstances change that indicate an impairment may exist. Qualitative factors are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less

than its carrying amount. If results of the qualitative assessment are not conclusive, a quantitative goodwill impairment test is performed.

The quantitative goodwill impairment test consists of two steps.

The first step compares the estimated fair value of each reporting unit with its estimated net book value (including goodwill and identified intangible assets). If the reporting unit's fair value exceeds its estimated net book value, goodwill is not impaired.

If the estimated fair value of a reporting unit is less than its estimated net book value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. An impairment loss is equal to the excess of the carrying amount of goodwill over its fair value.

To estimate the fair value of each reporting unit, both relative value and residual income valuation techniques are used because the firm believes market participants would use these techniques to value the firm's reporting units.

Relative value techniques apply average observable price-to-earnings multiples of comparable competitors to certain reporting units' net earnings. For other reporting units, fair value is estimated using price-to-book multiples based on residual income techniques, which consider a reporting unit's return on equity in excess of the firm's cost of equity capital. The net book value of each reporting unit reflects the estimated amount of shareholders' equity required to support the activities of the reporting unit under guidelines issued by the Basel Committee on Banking Supervision (Basel Committee) in December 2010.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Identifiable Intangible Assets**

The table below presents the gross carrying amount, accumulated amortization and net carrying amount of identifiable intangible assets and their weighted average remaining lives.

<i>\$ in millions</i>		September	As of Weighted Average Remaining Lives (years)	December
		2012		2011
Customer lists	Gross carrying amount	\$ 1,147		\$ 1,119
	Accumulated amortization	(650)		(593)
	Net carrying amount	497	8	526
Commodities-related intangibles ¹	Gross carrying amount	491		595
	Accumulated amortization	(204)		(237)
	Net carrying amount	287	9	358
Television broadcast royalties	Gross carrying amount	560		560
	Accumulated amortization	(170)		(123)
	Net carrying amount	390	6	437
Insurance-related intangibles ²	Gross carrying amount	339		292
	Accumulated amortization	(197)		(146)
	Net carrying amount	142	6	146
Other ³	Gross carrying amount	992		950
	Accumulated amortization	(775)		(751)

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	Net carrying amount	217	11	199
Total	Gross carrying amount	3,529		3,516
	Accumulated amortization	(1,996)		(1,850)
	Net carrying amount	\$ 1,533	8	\$ 1,666

1. Primarily includes commodity-related customer contracts and relationships, permits and access rights.

2. Represents value of business acquired related to the firm's insurance businesses.

3. Primarily includes the firm's New York Stock Exchange (NYSE) Designated Market Maker (DMM) rights and exchange-traded fund lead market maker rights.

Substantially all of the firm's identifiable intangible assets are considered to have finite lives and are amortized (i) over their estimated lives, (ii) based on economic usage for certain commodity-related intangibles or (iii) in proportion

to estimated gross profits or premium revenues. Amortization expense for identifiable intangible assets is included in Depreciation and amortization.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The tables below present amortization expense for identifiable intangible assets for the three and nine months ended September 2012 and September 2011, and the estimated future amortization expense through 2017 for identifiable intangible assets as of September 2012.

<i>in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Amortization expense	\$60	\$84	\$206	\$207

<i>in millions</i>	As of September 2012
Estimated future amortization expense:	
Remainder of 2012	\$ 72
2013	247
2014	215
2015	181
2016	177
2017	173

Identifiable intangible assets are tested for recoverability whenever events or changes in circumstances indicate that an asset's or asset group's carrying value may not be recoverable.

If a recoverability test is necessary, the carrying value of an asset or asset group is compared to the total of the undiscounted cash flows expected to be received over the remaining useful life and from the disposition of the asset or asset group.

If the total of the undiscounted cash flows exceeds the carrying value, the asset or asset group is not impaired.

If the total of the undiscounted cash flows is less than the carrying value, the asset or asset group is not fully recoverable and an impairment loss is recognized as the difference between the carrying amount of the asset or asset group and its estimated fair value. See Note 12 for information about impairments of the firm's identifiable intangible assets.

Deposits**Note 14.****Deposits**

The table below presents deposits held in U.S. and non-U.S. offices. Substantially all U.S. deposits were held at Goldman Sachs Bank USA (GS Bank USA) and were interest-bearing and substantially all non-U.S. deposits were held at Goldman Sachs Bank (Europe) plc (GS Bank Europe) and Goldman Sachs International Bank (GSIB) and were interest-bearing.

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	As of	
	September	December
<i>in millions</i>	2012	2011
U.S. offices	\$53,643	\$38,477
Non-U.S. offices	7,883	7,632
Total	\$61,526¹	\$46,109¹

The table below presents maturities of time deposits held in U.S. and non-U.S. offices.

	As of September 2012		
<i>in millions</i>	U.S.	Non-U.S.	Total
Remainder of 2012	\$ 875	\$1,649	\$ 2,524
2013	5,069	602	5,671
2014	3,363		3,363
2015	2,784		2,784
2016	1,435		1,435
2017	2,002		2,002
2018 - thereafter	4,483		4,483
Total	\$20,011²	\$2,251³	\$22,262¹

1. Includes \$5.67 billion and \$4.53 billion as of September 2012 and December 2011, respectively, of time deposits accounted for at fair value under the fair value option.

2. Includes \$48 million greater than \$100,000, of which \$6 million matures within three months, \$6 million matures within three to six months, \$29 million matures within six to twelve months, and \$7 million matures after twelve months.

3. Substantially all were greater than \$100,000.

As of September 2012, demand deposits were \$39.26 billion, which were recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the firm designates certain derivatives as fair value hedges on substantially all of its time deposits for which it has not elected the fair value option. Accordingly, \$16.59 billion of time deposits were effectively converted from fixed-rate obligations to floating-rate obligations and were recorded at amounts that generally approximate fair value. While these demand deposits and time deposits are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these deposits been included in the firm's fair value hierarchy, they would have been classified in level 2.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Short-Term Borrowings****Note 15.****Short-Term Borrowings**

Short-term borrowings were comprised of the following:

	September	As of December
<i>in millions</i>	2012	2011
Other secured financings (short-term)	\$21,050	\$29,185
Unsecured short-term borrowings	47,271	49,038
Total	\$68,321	\$78,223

See Note 9 for further information about other secured financings.

Unsecured short-term borrowings include the portion of unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder.

The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under the fair value option. See Note 8 for further information about unsecured short-term borrowings that are accounted for at fair value. Short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations. While these short-term borrowings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of September 2012.

The table below presents unsecured short-term borrowings.

	September	As of December
<i>\$ in millions</i>	2012	2011
Current portion of unsecured long-term borrowings ¹	\$28,575	\$28,836
Hybrid financial instruments	12,278	11,526
Promissory notes	151	1,328
Commercial paper	359	1,491
Other short-term borrowings	5,908	5,857
Total	\$47,271	\$49,038
Weighted average interest rate ²	1.63%	1.89%

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1. As of September 2012, no borrowings guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP) were outstanding and the program had expired for new issuances. Includes \$8.53 billion as of December 2011, guaranteed by the FDIC under the TLGP.
2. The weighted average interest rates for these borrowings include the effect of hedging activities and exclude financial instruments accounted for at fair value under the fair value option. See Note 7 for further information about hedging activities.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Long-Term Borrowings

Note 16.**Long-Term Borrowings**

Long-term borrowings were comprised of the following:

<i>in millions</i>	As of	
	September 2012	December 2011
Other secured financings (long-term)	\$ 8,343	\$ 8,179
Unsecured long-term borrowings	167,878	173,545
Total	\$176,221	\$181,724

See Note 9 for further information about other secured financings. The table below presents unsecured long-term borrowings extending through 2061 and consisting principally of senior borrowings.

<i>in millions</i>	As of September 2012			As of December 2011		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
Fixed-rate obligations ¹	\$ 89,700	\$35,911	\$125,611	\$ 84,058	\$38,569	\$122,627
Floating-rate obligations ²	21,281	20,986	42,267	23,436	27,482	50,918
Total	\$110,981	\$56,897	\$167,878	\$107,494	\$66,051	\$173,545

1. Interest rates on U.S. dollar-denominated debt ranged from 0.20% to 10.04% (with a weighted average rate of 5.54%) and 0.10% to 10.04% (with a weighted average rate of 5.62%) as of September 2012 and December 2011, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.10% to 14.85% (with a weighted average rate of 4.71%) and 0.85% to 14.85% (with a weighted average rate of 4.75%) as of September 2012 and December 2011, respectively.

2. Floating interest rates generally are based on LIBOR or the federal funds target rate. Equity-linked and indexed instruments are included in floating-rate obligations.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The table below presents unsecured long-term borrowings by maturity date. In the table below:

unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holders are included as unsecured short-term borrowings;

unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates; and

unsecured long-term borrowings that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.

	As of
<i>in millions</i>	September 2012
2013	\$ 3,941
2014	21,653
2015	19,825
2016	21,929
2017	20,289
2018 - thereafter	80,241
Total ¹	\$167,878

1. Includes \$11.20 billion related to interest rate hedges on certain unsecured long-term borrowings, by year of maturity as follows: \$102 million in 2013, \$655 million in 2014, \$594 million in 2015, \$1.23 billion in 2016, \$1.38 billion in 2017 and \$7.24 billion in 2018 and thereafter.

The fair value of unsecured long-term borrowings (principal and non-principal-protected) for which the fair value option was elected exceeded the related aggregate contractual principal amount by \$159 million as of September 2012, whereas the aggregate contractual principal amount exceeded the related fair value by \$693 million as of December 2011.

The firm designates certain derivatives as fair value hedges to effectively convert a substantial portion of its fixed-rate unsecured long-term borrowings which are not accounted for at fair value into floating-rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of September 2012 and December 2011. While these unsecured long-term borrowings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of September 2012. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to changes in the firm's own credit spreads would be an increase of less than 1% and a reduction of less than 4% in the carrying value of total unsecured long-term borrowings as of September 2012 and December 2011, respectively. See Note 7 for further information about hedging activities.

The table below presents unsecured long-term borrowings, after giving effect to hedging activities that converted a substantial portion of fixed-rate obligations to floating-rate obligations.

<i>in millions</i>	As of
	September December

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	2012	2011
Fixed-rate obligations		
At fair value	\$ 65	\$ 76
At amortized cost ¹	25,981	28,773
Floating-rate obligations		
At fair value	12,813	17,086
At amortized cost ¹	129,019	127,610
Total	\$167,878	\$173,545

1. The weighted average interest rates on the aggregate amounts were 2.48% (5.12% related to fixed-rate obligations and 1.98% related to floating-rate obligations) and 2.59% (5.18% related to fixed-rate obligations and 2.03% related to floating-rate obligations) as of September 2012 and December 2011, respectively. These rates exclude financial instruments accounted for at fair value under the fair value option.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Subordinated Borrowings**

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated borrowings, which are junior to senior borrowings.

As of September 2012 and December 2011, subordinated debt had maturities ranging from 2015 to 2038 and 2017 to 2038, respectively. The table below presents subordinated borrowings.

	As of September 2012			As of December 2011		
	Par	Carrying		Par	Carrying	
<i>\$ in millions</i>	Amount	Amount	Rate¹	Amount	Amount	Rate ¹
Subordinated debt	\$14,501	\$17,512	4.20%	\$14,310	\$17,362	4.39%
Junior subordinated debt	2,835	4,284	2.81%	5,085	6,533	2.43%
Total subordinated borrowings	\$17,336	\$21,796	3.97%	\$19,395	\$23,895	3.87%

1. Weighted average interest rate after giving effect to fair value hedges used to convert these fixed-rate obligations into floating-rate obligations. See Note 7 for further information about hedging activities. See below for information about interest rates on junior subordinated debt.

Junior Subordinated Debt

Junior Subordinated Debt Issued to APEX Trusts. In 2007, Group Inc. issued a total of \$2.25 billion of remarketable junior subordinated debt to Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts), Delaware statutory trusts. The APEX Trusts issued \$2.25 billion of guaranteed perpetual Normal Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to Group Inc. Group Inc. also entered into contracts with the APEX Trusts to sell \$2.25 billion of Group Inc. perpetual non-cumulative preferred stock (the stock purchase contracts). See Note 19 for more information about the preferred stock that Group Inc. has issued in connection with the stock purchase contracts.

The firm accounted for the stock purchase contracts as equity instruments and, accordingly, recorded the cost of the stock purchase contracts as a reduction to additional paid-in capital.

During the first quarter of 2012, pursuant to a remarketing provided for by the initial terms of the junior subordinated debt, Goldman Sachs Capital II sold all of its \$1.75 billion of junior subordinated debt to Murray Street Investment Trust I (Murray Street Trust), a new trust sponsored by the firm. On June 1, 2012, pursuant to the stock purchase contracts, Goldman Sachs Capital II used the proceeds of this sale to purchase shares of Group Inc.'s Perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock).

During the third quarter of 2012, pursuant to a remarketing provided for by the initial terms of the junior subordinated debt, Goldman Sachs Capital III sold all of its \$500 million of junior subordinated debt to Vesey Street Investment Trust I (Vesey Street Trust), a new trust sponsored by the firm. On September 4, 2012, pursuant to the stock purchase contracts, Goldman Sachs Capital III used the proceeds of this sale to purchase shares of Group Inc.'s Perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock).

In connection with the remarketing of the junior subordinated debt to the Murray Street Trust and Vesey Street Trust (together, the 2012 Trusts), pursuant to the terms of the junior subordinated debt, the interest rate and other terms were modified. Following such sales, the firm pays interest semi-annually on the \$1.75 billion of junior subordinated debt held by the Murray Street Trust at a fixed annual rate of 4.647% and the debt

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matures on March 9, 2017 and on the \$500 million of junior subordinated debt held by the Vesey Street Trust at a fixed annual rate of 4.404% and the debt matures on September 1, 2016. To fund the purchase of the junior subordinated debt, the 2012 Trusts issued an aggregate of \$2.25 billion of senior guaranteed trust securities. The 2012 Trusts are required to pay distributions on their senior guaranteed trust securities in the same amounts and on the same dates that they are scheduled to receive interest on the junior subordinated debt they hold, and are required to redeem their respective senior guaranteed trust securities upon the maturity or earlier redemption of the junior subordinated debt they hold. Group Inc. fully and unconditionally guarantees the payment of these distribution and redemption amounts when due on a senior basis and, as such, the \$2.25 billion of junior subordinated debt held by the 2012 Trusts for the benefit of investors is no longer classified as junior subordinated debt.

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(Unaudited)

The firm has the right to defer payments on the junior subordinated debt, subject to limitations. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. If the firm were to defer payment of interest on the junior subordinated debt and the 2012 Trusts were therefore unable to make scheduled distributions to the holders of the senior guaranteed trust securities, under the guarantee, Group Inc. would be obligated to make those payments to the holders of the senior guaranteed trust securities.

The APEX Trusts and the 2012 Trusts are wholly-owned finance subsidiaries of the firm for regulatory and legal purposes but are not consolidated for accounting purposes.

In connection with the APEX issuance, the firm covenanted in favor of certain of its debtholders, who were initially and are currently the holders of Group Inc.'s 6.345% Junior Subordinated Debentures due February 15, 2034, that, subject to certain exceptions, the firm would not redeem or purchase APEX or shares of Group Inc.'s Series E Preferred Stock or Series F Preferred Stock prior to the date that is ten years after the applicable stock purchase date, unless the applicable redemption or purchase price does not exceed a maximum amount determined by reference to the aggregate amount of net cash proceeds that the firm has received from the sale of qualifying securities.

Junior Subordinated Debt Issued in Connection with Trust Preferred Securities. Group Inc. issued \$2.84 billion of junior subordinated debentures in 2004 to Goldman Sachs Capital I (Trust), a Delaware statutory trust. The Trust issued \$2.75 billion of guaranteed preferred beneficial interests to third parties and \$85 million of common beneficial interests to Group Inc. and used the proceeds from the issuances to purchase the junior subordinated debentures from Group Inc. The Trust is a wholly-owned finance subsidiary of the firm for regulatory and legal purposes but is not consolidated for accounting purposes.

The firm pays interest semi-annually on the debentures at an annual rate of 6.345% and the debentures mature on February 15, 2034. The coupon rate and the payment dates applicable to the beneficial interests are the same as the interest rate and payment dates for the debentures. The firm has the right, from time to time, to defer payment of interest on the debentures, and therefore cause payment on the Trust's preferred beneficial interests to be deferred, in each case up to ten consecutive semi-annual periods. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common stock. The Trust is not permitted to pay any distributions on the common beneficial interests held by Group Inc. unless all dividends payable on the preferred beneficial interests have been paid in full.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Other Liabilities and Accrued Expenses

Note 17.**Other Liabilities and Accrued Expenses**

The table below presents other liabilities and accrued expenses by type.

	September	As of December
<i>in millions</i>	2012	2011
Compensation and benefits	\$ 7,930	\$ 5,701
Insurance-related liabilities	22,656	18,614
Noncontrolling interests ¹	1,339	1,450
Income tax-related liabilities ²	2,103	533
Employee interests in consolidated funds	284	305
Subordinated liabilities issued by consolidated VIEs	1,046	1,090
Accrued expenses and other	4,638	4,108
Total	\$39,996	\$31,801

1. Includes \$1.18 billion and \$1.17 billion related to consolidated investment funds as of September 2012 and December 2011, respectively.

2. See Note 24 for further information about income taxes.

The table below presents insurance-related liabilities by type.

	September	As of December
<i>in millions</i>	2012	2011
Separate account liabilities	\$ 3,287	\$ 3,296
Liabilities for future benefits and unpaid claims	13,312	14,213
Contract holder account balances	5,793	835
Reserves for guaranteed minimum death and income benefits	264	270
Total ¹	\$22,656	\$18,614

1. Increase primarily due to reinsurance transactions during 2012.

Separate account liabilities are supported by separate account assets, representing segregated contract holder funds under variable annuity and life insurance contracts. Separate account assets are included in Cash and securities segregated for regulatory and other purposes.

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Liabilities for future benefits and unpaid claims include liabilities arising from reinsurance provided by the firm to other insurers. The firm had a receivable of \$1.46 billion and \$1.30 billion as of September 2012 and December 2011, respectively, related to such reinsurance contracts, which is reported in Receivables from customers and counterparties. In addition, the firm has ceded risks to reinsurers related to certain of its liabilities for future benefits and unpaid claims and had a receivable of \$234 million and \$648 million as of September 2012 and December 2011, respectively, related to such reinsurance contracts, which is reported in Receivables from customers and counterparties. Contracts to cede risks to reinsurers do not relieve the firm of its obligations to contract holders. Liabilities for future benefits and unpaid claims include \$9.26 billion and \$8.75 billion carried at fair value under the fair value option as of September 2012 and December 2011, respectively.

Contract holder account balances primarily include fixed annuities under reinsurance contracts.

Reserves for guaranteed minimum death and income benefits represent a liability for the expected value of guaranteed benefits in excess of projected annuity account balances. These reserves are based on total payments expected to be made less total fees expected to be assessed over the life of the contract.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Commitments, Contingencies and Guarantees

Note 18.**Commitments, Contingencies and Guarantees****Commitments**

The table below presents the firm's commitments.

<i>in millions</i>	Commitment Amount by Period of Expiration as of September 2012				Total Commitments as of	
	Remainder	2013-	2015-	2017- Thereafter	September	December
	2012	2014	2016		2012	2011
Commitments to extend credit ¹						
Commercial lending: ²						
Investment-grade	\$ 1,637	\$11,834	\$28,477	\$12,460	\$ 54,408	\$ 51,281
Non-investment-grade	659	4,656	8,191	6,052	19,558	14,217
Warehouse financing	150	604			754	247
Total commitments to extend credit	2,446	17,094	36,668	18,512	74,720	65,745
Contingent and forward starting resale and securities borrowing agreements ³	56,275	324			56,599	54,522
Forward starting repurchase and secured lending agreements ³	12,727				12,727	17,964
Letters of credit ⁴	397	468	5	5	875	1,353
Investment commitments	921	4,364	143	2,433	7,861	9,118
Other	3,654	234	49	71	4,008	5,342
Total commitments	\$76,420	\$22,484	\$36,865	\$21,021	\$156,790	\$154,044

1. Commitments to extend credit are presented net of amounts syndicated to third parties.

2. Includes commitments associated with the former William Street credit extension program.

3. These agreements generally settle within three business days.

4. Consists of commitments under letters of credit issued by various banks which the firm provides to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements.

Commitments to Extend Credit

The firm's commitments to extend credit are agreements to lend with fixed termination dates and depend on the satisfaction of all contractual conditions to borrowing. The total commitment amount does not necessarily reflect actual future cash flows because the firm may syndicate all or substantial portions of these commitments and commitments can expire unused or be reduced or cancelled at the counterparty's request.

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The firm generally accounts for commitments to extend credit at fair value. Losses, if any, are generally recorded, net of any fees in Other principal transactions.

Certain lending commitments, entered into during 2012, were held for investment and therefore were accounted for on an accrual basis. As of September 2012, approximately \$13.45 billion of the firm's lending commitments were held for investment. As of September 2012, the carrying value and the estimated fair value of such lending commitments were liabilities of \$58 million and \$406 million, respectively. As these lending commitments are not

accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these commitments been included in the firm's fair value hierarchy, they would have primarily been classified in level 3 as of September 2012.

Commercial Lending. The firm's commercial lending commitments are extended to investment-grade and non-investment-grade corporate borrowers. Commitments to investment-grade corporate borrowers are principally used for operating liquidity and general corporate purposes. The firm also extends lending commitments in connection with contingent acquisition financing and other types of corporate lending as well as commercial real estate financing. Commitments that are extended for contingent acquisition financing are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was \$33.19 billion and \$31.94 billion as of September 2012 and December 2011, respectively. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the firm realizes on such commitments, up to a maximum of approximately \$950 million. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$1.13 billion, of which \$300 million of protection had been provided as of both September 2012 and December 2011. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG. These instruments primarily include credit default swaps that reference the same or similar underlying instrument or entity or credit default swaps that reference a market index.

Warehouse Financing. The firm provides financing to clients who warehouse financial assets. These arrangements are secured by the warehoused assets, primarily consisting of commercial mortgage loans.

Contingent and Forward Starting Resale and Securities Borrowing Agreements/Forward Starting Repurchase and Secured Lending Agreements

The firm enters into resale and securities borrowing agreements and repurchase and secured lending agreements that settle at a future date. The firm also enters into commitments to provide contingent financing to its clients and counterparties through resale agreements. The firm's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

Investment Commitments

The firm's investment commitments consist of commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages. These commitments include \$1.01 billion and \$1.62 billion as of September 2012 and December 2011, respectively, related to real estate private investments and \$6.85 billion and \$7.50 billion as of September 2012 and December 2011, respectively, related to corporate and other private investments. Of these amounts, \$6.58 billion and \$8.38 billion as of September 2012 and December 2011, respectively, relate to commitments to invest in funds managed by the firm, which will be funded at market value on the date of investment.

Leases

The firm has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. The table below presents future minimum rental payments, net of minimum sublease rentals.

<i>in millions</i>	As of September 2012
Remainder of 2012	\$ 110
2013	432
2014	400
2015	358
2016	331
2017	319
2018 - thereafter	1,296
Total	\$3,246

Operating leases include office space held in excess of current requirements. Rent expense relating to space held for growth is included in Occupancy. The firm records a liability, based on the fair value of the remaining lease rentals reduced by any potential or existing sublease rentals, for leases where the firm has ceased using the space and management has concluded that the firm will not derive any future economic

benefits. Costs to terminate a lease before the end of its term are recognized and measured at fair value on termination.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

Contingencies

Legal Proceedings. See Note 27 for information about legal proceedings, including certain mortgage-related matters.

Certain Mortgage-Related Contingencies. There are multiple areas of focus by regulators, governmental agencies and others within the mortgage market that may impact originators, issuers, servicers and investors. There remains significant uncertainty surrounding the nature and extent of any potential exposure for participants in this market.

Representations and Warranties. The firm has not been a significant originator of residential mortgage loans. The firm did purchase loans originated by others and generally received loan-level representations of the type described below from the originators. During the period 2005 through 2008, the firm sold approximately \$10 billion of loans to government-sponsored enterprises and approximately \$11 billion of loans to other third parties. In addition, the firm transferred loans to trusts and other mortgage securitization vehicles. As of September 2012 and December 2011, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately \$36 billion and \$42 billion, respectively. This amount reflects paydowns and cumulative losses of approximately \$89 billion (\$19 billion of which are cumulative losses) as of September 2012 and approximately \$83 billion (\$17 billion of which are cumulative losses) as of December 2011. A small number of these Goldman Sachs-issued securitizations with an outstanding principal balance of \$560 million and total paydowns and cumulative losses of \$1.49 billion (\$499 million of which are cumulative losses) as of September 2012, and an outstanding principal balance of \$635 million and total paydowns and cumulative losses of \$1.42 billion (\$465 million of which are cumulative losses) as of December 2011, were structured with credit protection obtained from monoline insurers. In connection with both sales of loans and securitizations, the firm provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the firm purchased the loans.

The loan level representations made in connection with the sale or securitization of mortgage loans varied among transactions but were generally detailed representations applicable to each loan in the portfolio and addressed matters relating to the property, the borrower and the note. These representations generally included, but were not limited to, the following: (i) certain attributes of the borrower's financial status; (ii) loan-to-value ratios, owner occupancy status and certain other characteristics of the property; (iii) the lien position; (iv) the fact that the loan was originated in compliance with law; and (v) completeness of the loan documentation.

The firm has received repurchase claims for residential mortgage loans based on alleged breaches of representations, from government-sponsored enterprises, other third parties, trusts and other mortgage securitization vehicles, which have not been significant. During both the three and nine months ended September 2012 and September 2011, the firm repurchased loans with an unpaid principal balance of less than \$10 million. The loss related to the repurchase of these loans was not material for both the three and nine months ended September 2012 and September 2011.

Ultimately, the firm's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors including the following: (i) the extent to which these claims are actually made; (ii) the extent to which there are underlying breaches of representations that give rise to valid claims for repurchase; (iii) in the case of loans originated by others, the extent to which the firm could be held liable and, if it is, the firm's ability to pursue and collect on any claims against the parties who made representations to the firm; (iv) macro-economic factors, including developments in the residential real estate market; and (v) legal and regulatory developments.

Based upon the large number of defaults in residential mortgages, including those sold or securitized by the firm, there is a potential for increasing claims for repurchases. However, the firm is not in a position to make a meaningful estimate of that exposure at this time.

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Foreclosure and Other Mortgage Loan Servicing Practices and Procedures. The firm had received a number of requests for information from regulators and other agencies, including state attorneys general and banking regulators, as part of an industry-wide focus on the practices of lenders and servicers in connection with foreclosure proceedings and other aspects of mortgage loan servicing practices and procedures. The requests sought information about the foreclosure and servicing protocols and activities of Litton, a residential mortgage servicing subsidiary sold by the firm to Ocwen Financial Corporation (Ocwen) in the third quarter of 2011. The firm is cooperating with the requests and these inquiries may result in the imposition of fines or other regulatory action. In the third quarter of 2010, prior to the firm's sale of Litton, Litton had temporarily suspended evictions and foreclosure and real estate owned sales in a number of states, including those with judicial foreclosure procedures. Litton resumed these activities beginning in the fourth quarter of 2010.

In connection with the sale of Litton, the firm provided customary representations and warranties, and indemnities for breaches of these representations and warranties, to Ocwen. These indemnities are subject to various limitations, and are capped at approximately \$50 million. The firm has not yet received any claims relating to these indemnities. The firm also agreed to provide specific indemnities to Ocwen related to claims made by third parties with respect to servicing activities during the period that Litton was owned by the firm and which are in excess of the related reserves accrued for such matters by Litton at the time of the sale. These indemnities are capped at approximately \$125 million. The firm has recorded a reserve for the portion of these potential losses that it believes is probable and can be reasonably estimated. As of September 2012, the firm had not received material claims with respect to these indemnities and had not made material payments in connection with these claims.

The firm further agreed to provide indemnities to Ocwen not subject to a cap, which primarily relate to potential liabilities constituting fines or civil monetary penalties which could be imposed in settlements with certain terms with U.S. states attorneys general or in consent orders with certain terms with the Federal Reserve, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the FDIC or the New York State Department of Financial Services, in each case relating to Litton's foreclosure and servicing practices while it was owned by the firm. Under the Litton sale agreement the firm also retained liabilities associated with claims related to Litton's failure to maintain lender-placed mortgage insurance, obligations to repurchase certain loans from

government-sponsored enterprises, subpoenas from one of Litton's regulators, and fines or civil penalties imposed by the Federal Reserve or the New York State Department of Financial Services in connection with certain compliance matters. Management is unable to develop an estimate of the maximum potential amount of future payments under these indemnities because the firm has received no claims under these indemnities other than an immaterial amount with respect to government-sponsored enterprises. However, management does not believe, based on currently available information, that any payments under these indemnities will have a material adverse effect on the firm's financial condition.

On September 1, 2011, Group Inc. and GS Bank USA entered into a Consent Order (the Order) with the Board of Governors of the Federal Reserve System (Federal Reserve Board) relating to the servicing of residential mortgage loans. The terms of the Order are substantially similar and, in many respects, identical to the orders entered into with the Federal Reserve Board by other large U.S. financial institutions. The Order sets forth various allegations of improper conduct in servicing by Litton, requires that Group Inc. and GS Bank USA cease and desist such conduct, and requires that Group Inc. and GS Bank USA, and their boards of directors, take various affirmative steps. The Order requires (i) Group Inc. and GS Bank USA to engage a third-party consultant to conduct a review of certain foreclosure actions or proceedings that occurred or were pending between January 1, 2009 and December 31, 2010; (ii) the adoption of policies and procedures related to management of third parties used to outsource residential mortgage servicing, loss mitigation or foreclosure; (iii) a validation report from an independent third-party consultant regarding compliance with the Order for the first year; and (iv) submission of quarterly progress reports as to compliance with the Order by the boards of directors (or committees thereof) of Group Inc. and GS Bank USA.

In addition, on September 1, 2011, GS Bank USA entered into an Agreement on Mortgage Servicing Practices with the New York State Department of Financial Services, Litton and Ocwen relating to the servicing of residential mortgage loans, and, in a related agreement with the New York State Department of Financial Services, Group Inc. agreed to forgive 25% of the unpaid principal balance on certain delinquent first lien residential mortgage loans owned by Group Inc. or a subsidiary, totaling approximately \$13 million in principal forgiveness.

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Guaranteed Minimum Death and Income Benefits. In connection with its insurance business, the firm is contingently liable to provide guaranteed minimum death and income benefits to certain contract holders and has established a reserve related to \$5.45 billion and \$5.52 billion of contract holder account balances as of September 2012 and December 2011, respectively, for such benefits. The weighted average attained age of these contract holders was 69 years for both September 2012 and December 2011.

The net amount at risk, representing guaranteed minimum death and income benefits in excess of contract holder account balances, was \$1.25 billion and \$1.51 billion as of September 2012 and December 2011, respectively. See Note 17 for further information about the reserves recorded in Other liabilities and accrued expenses related to guaranteed minimum death and income benefits.

Guarantees

The firm enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. Disclosures about derivatives are not required if they may be cash settled and the firm has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties and certain other counterparties. Accordingly, the firm has not included such contracts in the table below.

The firm, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed.

In the ordinary course of business, the firm provides other financial guarantees of the obligations of third parties (e.g., standby letters of credit and other guarantees to enable clients to complete transactions and fund-related guarantees). These guarantees represent obligations to make payments to beneficiaries if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary.

The table below presents certain information about derivatives that meet the definition of a guarantee and certain other guarantees. The maximum payout in the table below is based on the notional amount of the contract and therefore does not represent anticipated losses. See Note 7 for further information about credit derivatives that meet the definition of a guarantee which are not included below.

Because derivatives are accounted for at fair value, the carrying value is considered the best indication of payment/performance risk for individual contracts. However, the carrying values below exclude the effect of a legal right of setoff that may exist under an enforceable netting agreement and the effect of netting of cash collateral posted under credit support agreements.

	Carrying Value of	As of September 2012 Maximum Payout/Notional Amount by Period of Expiration				
		Remainder of 2012	2013- 2014	2015- 2016	2017- Thereafter	Total
<i>in millions</i>	Net Liability					
Derivatives ¹	\$10,380	\$222,571	\$389,958	\$86,756	\$69,552	\$768,837
Securities lending indemnifications ²		29,932				29,932
Other financial guarantees ³	163	204	857	1,018	1,246	3,325

1. These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore these amounts do not reflect the firm's overall risk related to its derivative activities. As of December 2011, the carrying value of the net liability related to derivative guarantees was \$11.88 billion.

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2. Collateral held by the lenders in connection with securities lending indemnifications was \$30.82 billion as of September 2012. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.

3. Other financial guarantees excludes certain commitments to issue standby letters of credit that are included in Commitments to extend credit. See table in Commitments above for a summary of the firm's commitments. As of December 2011, the carrying value of the net liability related to other financial guarantees was \$205 million.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Guarantees of Securities Issued by Trusts. The firm has established trusts, including Goldman Sachs Capital I, the APEX Trusts, the 2012 Trusts, and other entities for the limited purpose of issuing securities to third parties, lending the proceeds to the firm and entering into contractual arrangements with the firm and third parties related to this purpose. The firm does not consolidate these entities. See Note 16 for further information about the transactions involving Goldman Sachs Capital I, the APEX Trusts, and the 2012 Trusts.

The firm effectively provides for the full and unconditional guarantee of the securities issued by these entities. Timely payment by the firm of amounts due to these entities under the guarantee, borrowing, preferred stock and related contractual arrangements will be sufficient to cover payments due on the securities issued by these entities.

Management believes that it is unlikely that any circumstances will occur, such as nonperformance on the part of paying agents or other service providers, that would make it necessary for the firm to make payments related to these entities other than those required under the terms of the guarantee, borrowing, preferred stock and related contractual arrangements and in connection with certain expenses incurred by these entities.

Indemnities and Guarantees of Service Providers. In the ordinary course of business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates.

The firm may also be liable to some clients for losses caused by acts or omissions of third-party service providers, including sub-custodians and third-party brokers. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults.

In connection with its prime brokerage and clearing businesses, the firm agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. In connection with joint venture investments, the firm may issue loan guarantees under which it may be liable in the event of fraud, misappropriation, environmental liabilities and certain other matters involving the borrower.

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the condensed consolidated statements of financial condition as of September 2012 and December 2011.

Other Representations, Warranties and Indemnifications. The firm provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The firm may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions such as securities issuances, borrowings or derivatives.

In addition, the firm may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws.

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the condensed consolidated statements of financial condition as of September 2012 and December 2011.

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(Unaudited)

Guarantees of Subsidiaries. Group Inc. fully and unconditionally guarantees the securities issued by GS Finance Corp., a wholly-owned finance subsidiary of the firm.

Group Inc. has guaranteed the payment obligations of Goldman, Sachs & Co. (GS&Co.), GS Bank USA, GS Bank Europe and Goldman Sachs Execution & Clearing, L.P. (GSEC), subject to certain exceptions.

In November 2008, the firm contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee the reimbursement of certain losses, including credit-related losses, relating to assets held by the contributed entities. In connection with this guarantee, Group Inc. also agreed to pledge to GS Bank USA certain collateral, including interests in subsidiaries and other illiquid assets.

In addition, Group Inc. guarantees many of the obligations of its other consolidated subsidiaries on a transaction-by-transaction basis, as negotiated with counterparties. Group Inc. is unable to develop an estimate of the maximum payout under its subsidiary guarantees; however, because these guaranteed obligations are also obligations of consolidated subsidiaries included in the table above, Group Inc.'s liabilities as guarantor are not separately disclosed.

Shareholders' Equity

Note 19.

Shareholders' Equity

Common Equity

On October 15, 2012, the Board of Directors of Group Inc. (Board) increased the firm's quarterly dividend to \$0.50 per common share from \$0.46 per common share. The dividend will be paid on December 28, 2012 to common shareholders of record on November 30, 2012.

The firm's share repurchase program is intended to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm's current and projected capital positions (i.e., comparisons of the firm's desired level and composition of capital to its actual level and composition of capital) and the issuance of shares resulting from employee share-based compensation, but which may also be influenced by general market conditions and the prevailing price and trading volumes of the firm's common stock. Any repurchase of the firm's common stock requires approval by the Federal Reserve Board.

During the three and nine months ended September 2012, the firm repurchased 11.8 million and 29.4 million shares of its common stock at an average cost per share of \$106.17 and \$106.07, for a total cost of \$1.25 billion and \$3.11 billion, respectively, under the share repurchase program. In addition, pursuant to the terms of certain share-based compensation plans, employees may remit shares to the firm or the firm may cancel RSUs to satisfy minimum statutory employee tax withholding requirements. Under these plans, during the nine months ended September 2012, employees remitted 33,477 shares with a total value of \$3 million and the firm cancelled 8.9 million of RSUs with a total value of \$947 million.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Preferred Equity**

The table below presents perpetual preferred stock issued and outstanding as of September 2012.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Dividend Rate	Redemption Value (in millions)
A	50,000	30,000	29,999	3 month LIBOR + 0.75%, with floor of 3.75% per annum	\$ 750
B	50,000	32,000	32,000	6.20% per annum	800
C	25,000	8,000	8,000	3 month LIBOR + 0.75%, with floor of 4.00% per annum	200
D	60,000	54,000	53,999	3 month LIBOR + 0.67%, with floor of 4.00% per annum	1,350
E	17,500	17,500	17,500	3 month LIBOR + 0.77%, with floor of 4.00% per annum	1,750
F	5,000	5,000	5,000	3 month LIBOR + 0.77%, with floor of 4.00% per annum	500
	207,500	146,500	146,498		\$5,350

Each share of non-cumulative Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock issued and outstanding has a par value of \$0.01, has a liquidation preference of \$25,000, is represented by 1,000 depository shares and is redeemable at the firm's option, subject to the approval of the Federal Reserve Board, at a redemption price equal to \$25,000 plus declared and unpaid dividends.

All series of preferred stock are pari passu and have a preference over the firm's common stock on liquidation. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. The firm's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the firm fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period.

In 2007, the Board authorized 17,500 shares of Series E Preferred Stock, and 5,000 shares of Series F Preferred Stock, in connection with the APEX Trusts. On June 1, 2012, Group Inc. issued 17,500 shares of Series E Preferred Stock to Goldman Sachs Capital II pursuant to the stock purchase contracts held by Goldman Sachs

Capital II. On September 4, 2012, Group Inc. issued 5,000 shares of Series F Preferred Stock to Goldman Sachs Capital III pursuant to the stock purchase contracts held by Goldman Sachs Capital III. Each share of Series E and Series F Preferred Stock issued and outstanding has a par value of \$0.01, has a liquidation preference of \$100,000 and is redeemable at the option of the firm at any time subject to approval from the Federal Reserve Board and to certain covenant restrictions governing the firm's ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics. See Note 16 for further information about the APEX Trusts.

On October 24, 2012, Group Inc. issued 34,000 shares of perpetual 5.95% Non-Cumulative Preferred Stock, Series I, par value \$0.01 per share (Series I Preferred Stock), out of a total of 34,500 shares of Series I Preferred Stock authorized for issuance. Each share of Series I Preferred

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Stock issued and outstanding has a liquidation preference of \$25,000, is represented by 1,000 depositary shares and is redeemable at the firm's option beginning November 10, 2017, subject to the approval of the Federal Reserve Board, at a redemption price equal to \$25,000 plus accrued and unpaid dividends.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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In March 2011, the firm provided notice to Berkshire Hathaway Inc. and certain of its subsidiaries (collectively, Berkshire Hathaway) that it would redeem in full the 50,000 shares of the firm's 10% Cumulative Perpetual Preferred Stock, Series G (Series G Preferred Stock) held by Berkshire Hathaway for the stated redemption price of \$5.50 billion (\$110,000 per share), plus accrued and unpaid dividends. In connection with this notice, the firm recognized a preferred dividend of \$1.64 billion (calculated as the difference between the carrying value and the redemption value of the preferred stock), which was recorded as a reduction to earnings applicable to common

shareholders for the first quarter of 2011. The redemption also resulted in the acceleration of \$24 million of preferred dividends related to the period from April 1, 2011 to the redemption date, which was included in the firm's results during the three months ended March 2011. The Series G Preferred Stock was redeemed on April 18, 2011. Berkshire Hathaway continues to hold a five-year warrant, issued in October 2008, to purchase up to 43.5 million shares of common stock at an exercise price of \$115.00 per share.

The table below presents preferred dividends declared on preferred stock.

	Three Months Ended September				Nine Months Ended September			
	2012		2011		2012		2011	
	<i>per share</i>	<i>in millions</i>	<i>per share</i>	<i>in millions</i>	<i>per share</i>	<i>in millions</i>	<i>per share</i>	<i>in millions</i>
Series A	\$ 239.58	\$ 7	\$239.58	\$ 7	\$ 718.74	\$ 21	\$ 710.93	\$ 21
Series B	387.50	13	387.50	12	1,162.50	37	1,162.50	37
Series C	255.56	2	255.56	2	766.68	6	758.34	6
Series D	255.56	14	255.56	14	766.68	42	758.34	41
Series E	1,055.56	18			1,055.56	18		
Series G							2,500.00	125 ¹
Total		\$54		\$35		\$124		\$230

1. Excludes preferred dividends related to the redemption of the firm's Series G Preferred Stock.

Accumulated Other Comprehensive Income/(Loss)

The tables below present accumulated other comprehensive income/(loss) by type.

<i>in millions</i>	As of September 2012			Accumulated other comprehensive income/(loss), net of tax
	Currency translation adjustment, net of tax	Pension and postretirement liability adjustments, net of tax	Net unrealized gains/(losses) on available-for-sale securities, net of tax	
Balance, beginning of year	\$(225)	\$(374)	\$ 83	\$(516)
Other comprehensive income/(loss)	(63)	13	184	134
Balance, end of period	\$(288)	\$(361)	\$267¹	\$(382)

<i>in millions</i>	As of December 2011			Accumulated other comprehensive income/(loss),
	Currency translation adjustment, net of tax	Pension and postretirement	Net unrealized gains/(losses) on available-for-sale	

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		liability adjustments, net of tax	securities, net of tax	net of tax
Balance, beginning of year	\$(170)	\$(229)	\$113	\$(286)
Other comprehensive loss	(55)	(145)	(30)	(230)
Balance, end of year	\$(225)	\$(374)	\$ 83 ¹	\$(516)

1. Substantially all consists of net unrealized gains on securities held by the firm's insurance subsidiaries as of both September 2012 and December 2011.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Regulation and Capital Adequacy

Note 20.**Regulation and Capital Adequacy**

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956. As a bank holding company, the firm is subject to consolidated regulatory capital requirements that are computed in accordance with the Federal Reserve Board's risk-based capital requirements (which are based on the Basel I Capital Accord of the Basel Committee). These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). The firm's U.S. bank depository institution subsidiaries, including GS Bank USA, are subject to similar capital requirements.

Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action that is applicable to GS Bank USA, the firm and its U.S. bank depository institution subsidiaries must meet specific capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory reporting practices. The firm and its U.S. bank depository institution subsidiaries' capital amounts, as well as GS Bank USA's prompt corrective action classification, are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Many of the firm's subsidiaries, including GS&Co. and the firm's other broker-dealer subsidiaries, are subject to separate regulation and capital requirements as described below.

Group Inc.

Federal Reserve Board regulations require bank holding companies to maintain a minimum Tier 1 capital ratio of 4% and a minimum total capital ratio of 8%. The required minimum Tier 1 capital ratio and total capital ratio in order to be considered a well-capitalized bank holding company under the Federal Reserve Board guidelines are 6% and 10%, respectively. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending on their particular condition, risk profile and growth plans. The minimum Tier 1 leverage ratio is 3% for bank holding companies that have received the highest supervisory rating under Federal Reserve Board guidelines or that have implemented the Federal Reserve Board's risk-based capital measure for market risk. Other bank holding companies must have a minimum Tier 1 leverage ratio of 4%.

The table below presents information regarding Group Inc.'s regulatory capital ratios.

	As of	
	September	December
<i>\$ in millions</i>	2012	2011
Tier 1 capital	\$ 65,230	\$ 63,262
Tier 2 capital	\$ 13,425	\$ 13,881
Total capital	\$ 78,655	\$ 77,143
Risk-weighted assets	\$435,331	\$457,027
Tier 1 capital ratio	15.0%	13.8%
Total capital ratio	18.1%	16.9%
Tier 1 leverage ratio	7.2%	7.0%

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RWAs under the Federal Reserve Board's risk-based capital requirements are calculated based on the amount of market risk and credit risk. RWAs for market risk are determined by reference to the firm's Value-at-Risk (VaR) model, supplemented by other measures to capture risks not reflected in the firm's VaR model. Credit risk for on-balance sheet assets is based on the balance sheet value. For off-balance sheet exposures, including OTC derivatives and commitments, a credit equivalent amount is calculated based on the notional amount of each trade. All such assets and amounts are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or qualifying securities firm or other entity (or if collateral is held, depending on the nature of the collateral).

Tier 1 leverage ratio is defined as Tier 1 capital under Basel 1 divided by average adjusted total assets (which includes adjustments for disallowed goodwill and intangible assets, and the carrying value of equity investments in non-financial companies that are subject to deductions from Tier 1 capital).

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Regulatory Reform

The firm is currently working to implement the requirements set out in the Federal Reserve Board's Risk-Based Capital Standards: Advanced Capital Adequacy Framework – Basel 2, as applicable to Group Inc. as a bank holding company (Basel 2), which are based on the advanced approaches under the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee. U.S. banking regulators have incorporated the Basel 2 framework into the existing risk-based capital requirements by requiring that internationally active banking organizations, such as Group Inc., adopt Basel 2, once approved to do so by regulators. The firm's capital adequacy ratio will also be impacted by the further changes outlined below under the Basel 2.5 framework, provisions of the Dodd-Frank Act, and the Basel 3 framework.

In June 2012, the U.S. federal bank regulatory agencies (the Agencies) issued revised rules which modify their market risk regulatory capital requirements for banking organizations that have significant trading activities. These modifications are designed to address the adjustments to the market risk regulatory capital framework that were announced by the Basel Committee in June 2010 (Basel 2.5), as well as the prohibition on the use of external credit ratings, as required by the Dodd-Frank Act. These changes will be implemented in January 2013 and will result in increased regulatory capital requirements for market risk.

In addition, in June 2012, the Agencies proposed further modifications to their capital adequacy regulations to address aspects of both the Dodd-Frank Act and the guidelines issued by the Basel Committee in December 2010 (Basel 3). If enacted as proposed, the most significant changes that would impact the firm include (i) revisions to the definition of Tier 1 capital, including new deductions from Tier 1 capital, (ii) higher minimum capital and leverage ratios, (iii) the introduction of a new minimum ratio of Tier 1 common equity to RWAs, (iv) new capital conservation and counter-cyclical capital buffers, (v) an additional leverage ratio, which includes measures of off-balance sheet exposures, and (vi) revisions to the methodology for calculating RWAs, particularly for credit risk capital requirements on derivatives. Among the consequences of these proposals would be the phase out of Tier 1 capital treatment for the firm's junior subordinated debt issued to trusts over a three-year period beginning on January 1, 2013.

In accordance with the Collins Amendment of the Dodd-Frank Act, the Agencies have proposed risk-based capital floors for the capital ratios. Furthermore, the June 2012 proposals include provisions which, if enacted as proposed, would modify these risk-based capital floors.

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The Basel Committee has published its final provisions for assessing the global systemic importance of banking institutions and the range of additional Tier 1 common equity that should be maintained by banking institutions deemed to be globally systemically important. The additional capital for these institutions would initially range from 1% to 2.5% of Tier 1 common equity and could be as much as 3.5% for a bank that increases its systemic footprint (e.g., by increasing total assets). In November 2012, the Financial Stability Board (established at the direction of the leaders of the Group of 20) indicated that the firm would be required to hold an additional 1.5% of Tier 1 common equity as a globally systemically important bank under the Basel Committee's methodology. Therefore, depending upon any future revisions to this provisional additional Tier 1 common equity requirement and the manner and timing of the U.S. banking regulators' implementation of the Basel Committee's methodology, the firm expects that the minimum Tier 1 common ratio requirement applicable to the firm will include this additional capital assessment. The firm expects that globally systemically important banking institutions will be required to meet the capital surcharges on a phased-in basis from 2016 through 2019.

The Basel Committee also published its final provisions for calculating incremental capital requirements for domestic systemically important banks. The provisions are complementary to the framework outlined above for global systemically important banks, but are more principles-based in order to provide an appropriate degree of national discretion. These provisions may impact the regulatory capital requirements of GS Bank USA, but the exact impact will depend on how they are implemented by the U.S. banking regulators.

In May 2012, the Basel Committee released a consultation paper proposing a Fundamental Review of the Trading Book. The paper proposes a series of comprehensive changes to the regulatory capital requirements for market risk which, if enacted by the U.S. banking regulators, would likely replace the Basel 2.5 requirements that, as outlined above, become effective in January 2013.

The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants. Entities that register under these provisions will be subject to regulatory capital requirements, which have not yet been finalized by the CFTC and SEC. Nevertheless, the firm expects that this will result in modifications to the regulatory capital requirements of some of its entities, and will result in some of its other entities becoming subject to regulatory capital requirements for the first time.

The interaction among the Dodd-Frank Act, the Basel Committee's proposed changes and other proposed or announced changes from other governmental entities and regulators (including the European Union (EU) and the U.K.'s Financial Services Authority (FSA)) adds further uncertainty to the firm's future capital and liquidity requirements and those of the firm's subsidiaries.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Bank Subsidiaries**

GS Bank USA, an FDIC-insured, New York State-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve Board, the FDIC, the New York State Department of Financial Services and the Bureau of Consumer Financial Protection, and is subject to minimum capital requirements (described below) that are calculated in a manner similar to those applicable to bank holding companies. GS Bank USA computes its capital ratios in accordance with the regulatory capital guidelines currently applicable to state member banks, which are based on Basel 1 as implemented by the Federal Reserve Board, for purposes of assessing the adequacy of its capital. Under the regulatory framework for prompt corrective action that is applicable to GS Bank USA, in order to be considered a well-capitalized depository institution, GS Bank USA must maintain a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. GS Bank USA has agreed with the Federal Reserve Board to maintain minimum capital ratios in excess of these well-capitalized levels. Accordingly, for a period of time, GS Bank USA is expected to maintain a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 11% and a Tier 1 leverage ratio of at least 6%. As noted in the table below, GS Bank USA was in compliance with these minimum capital requirements as of September 2012 and December 2011.

The table below presents information regarding GS Bank USA's regulatory capital ratios under Basel 1 as implemented by the Federal Reserve Board.

	As of	
	September	December
<i>\$ in millions</i>	2012	2011
Tier 1 capital	\$ 20,333	\$ 19,251
Tier 2 capital	\$ 33	\$ 6
Total capital	\$ 20,366	\$ 19,257
Risk-weighted assets	\$112,922	\$112,824
Tier 1 capital ratio	18.0%	17.1%
Total capital ratio	18.0%	17.1%
Tier 1 leverage ratio	17.8%	18.5%

GS Bank USA is currently working to implement the Basel 2 framework, as implemented by the Federal Reserve Board. Similar to the firm's requirement as a bank holding company, GS Bank USA is required to adopt Basel 2, once approved to do so by regulators. GS Bank USA will also be impacted by the modified market risk regulatory capital framework outlined above, which will be implemented in January 2013. In addition, the capital requirements for GS Bank USA are expected to be impacted by the June 2012 proposed modifications to the Agencies capital adequacy regulations outlined above. If enacted as proposed, these proposals would also change the regulatory framework for prompt corrective action that is applicable to GS Bank USA. The firm also expects that GS Bank USA will be impacted by aspects of the Dodd-Frank Act, including new stress tests.

The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The amount deposited by the firm's depository institution held at the Federal Reserve Bank was approximately \$49.72 billion and \$40.06 billion as of September 2012 and December 2011, respectively, which exceeded required reserve amounts by \$49.42 billion and \$39.51 billion as of September 2012 and December 2011, respectively.

Transactions between GS Bank USA and its subsidiaries and Group Inc. and its subsidiaries and affiliates (other than, generally, subsidiaries of GS Bank USA) are regulated by the Federal Reserve Board. These regulations generally limit the types and amounts of transactions (including loans to and borrowings from GS Bank USA) that may take place and generally require those transactions to be on an arm's-length basis.

GSIB, a wholly-owned credit institution, regulated by the FSA, and GS Bank Europe, a wholly-owned credit institution, regulated by the Central Bank of Ireland, are both subject to minimum capital requirements. As of September 2012 and December 2011, GSIB and GS Bank Europe were in compliance with all regulatory capital requirements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

Broker-Dealer Subsidiaries

The firm's U.S. regulated broker-dealer subsidiaries include GS&Co. and GSEC. GS&Co. and GSEC are registered U.S. broker-dealers and futures commission merchants, and are subject to regulatory capital requirements, including those imposed by the SEC, the U.S. Commodity Futures Trading Commission (CFTC), Chicago Mercantile Exchange, the Financial Industry Regulatory Authority, Inc. (FINRA) and the National Futures Association. Rule 15c3-1 of the SEC and Rule 1.17 of the CFTC specify uniform minimum net capital requirements, as defined, for their registrants, and also effectively require that a significant part of the registrants' assets be kept in relatively liquid form. GS&Co. and GSEC have elected to compute their minimum capital requirements in accordance with the Alternative Net Capital Requirement as permitted by Rule 15c3-1.

As of September 2012 and December 2011, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$13.24 billion and \$11.24 billion, respectively, which exceeded the amount required by \$11.41 billion and \$9.34 billion, respectively. As of September 2012 and December 2011, GSEC had regulatory net capital, as defined by Rule 15c3-1, of \$2.21 billion and \$2.10 billion, respectively, which exceeded the amount required by \$2.08 billion and \$2.00 billion, respectively.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of September 2012 and December 2011, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

Insurance Subsidiaries

The firm has U.S. insurance subsidiaries that are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed. In addition, certain of the firm's insurance subsidiaries outside of the U.S. are regulated by the FSA and certain are regulated by the Bermuda Monetary Authority. The firm's insurance subsidiaries were in compliance with all regulatory capital requirements as of September 2012 and December 2011.

Other Non-U.S. Regulated Subsidiaries

The firm's principal non-U.S. regulated subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's regulated U.K. broker-dealer, is subject to the capital requirements imposed by the FSA. GSJCL, the firm's regulated Japanese broker-dealer, is subject to the capital requirements imposed by Japan's Financial Services Agency. As of September 2012 and December 2011, GSI and GSJCL were in compliance with their local capital adequacy requirements. Certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of September 2012 and December 2011, these subsidiaries were in compliance with their local capital adequacy requirements.

Restrictions on Payments

The regulatory requirements referred to above restrict Group Inc.'s ability to withdraw capital from its regulated subsidiaries. As of September 2012 and December 2011, Group Inc. was required to maintain approximately \$30.89 billion and \$25.53 billion, respectively, of minimum equity capital in these regulated subsidiaries. This minimum equity capital requirement includes certain restrictions imposed by federal and state laws as to the payment of dividends to Group Inc. by its regulated subsidiaries. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board, the FDIC and the New York State Department of Financial Services have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Earnings Per Common Share

Note 21.**Earnings Per Common Share**

Basic earnings/(loss) per common share (EPS) is calculated by dividing net earnings/(loss) applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and RSUs for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of

basic EPS and, in addition reflects the dilutive effect of the common stock deliverable for stock warrants and options and for RSUs for which future service is required as a condition to the delivery of the underlying common stock.

The table below presents the computations of basic and diluted EPS.

<i>in millions, except per share amounts</i>	Three Months		Nine Months	
	Ended September	2011	Ended September	2011
Numerator for basic and diluted EPS net earnings/(loss) applicable to common shareholders	\$ 1,458	\$ (428)	\$ 4,459	\$1,532
Denominator for basic EPS weighted average number of common shares	491.2	518.2	501.1	530.1
Effect of dilutive securities:				
RSUs	12.0		10.8	14.0
Stock options and warrants	7.7		8.2	22.5
Dilutive potential common shares	19.7		19.0	36.5
Denominator for diluted EPS weighted average number of common shares and dilutive potential common shares	510.9	518.2	520.1	566.6
Basic EPS	\$ 2.95	\$ (0.84)	\$ 8.85	\$2.84
Diluted EPS	2.85	(0.84)	8.57	2.70

In the table above, unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of \$0.02 for the three months ended September 2012 and an increase in basic and diluted loss per common share of \$0.01 for the three months ended

September 2011, and a reduction in basic EPS of \$0.05 for both the nine months ended September 2012 and September 2011.

The diluted EPS computations in the table above do not include the following:

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<i>in millions</i>	Three Months		Nine Months	
	Ended September	2011	Ended September	2011
Number of antidilutive RSUs and common shares underlying antidilutive stock options and warrants	52.4	123.4	52.4	6.4

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Transactions with Affiliated Funds

Note 22.**Transactions with Affiliated Funds**

The firm has formed numerous nonconsolidated investment funds with third-party investors. As the firm generally acts as the investment manager for these funds, it is entitled to receive management fees and, in certain cases, advisory fees or incentive fees from these funds. Additionally, the firm invests alongside the third-party investors in certain funds.

The tables below present fees earned from affiliated funds, fees receivable from affiliated funds and the aggregate carrying value of the firm's interests in affiliated funds.

<i>in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Fees earned from affiliated funds	\$ 602	\$ 663	\$1,947	\$2,104

<i>in millions</i>	As of	
	September	December
Fees receivable from funds	2012 \$ 622	2011 \$ 721
Aggregate carrying value of interests in funds	15,095	14,960

As of September 2012 and December 2011, the firm had outstanding loans and guarantees to certain of its funds of \$637 million and \$289 million, respectively, which are collateralized by certain fund assets. These amounts relate primarily to certain real estate funds for which the firm voluntarily provided financial support to alleviate liquidity constraints during the financial crisis and, more recently, to enable them to fund investment opportunities. As of September 2012 and December 2011, the firm had no outstanding commitments to extend credit to these funds.

The Volcker Rule, as currently drafted, would restrict the firm from providing additional voluntary financial support to these funds after July 2014 (subject to extension by the Federal Reserve Board). As a general matter, in the ordinary course of business, the firm does not expect to provide additional voluntary financial support to these funds; however, in the event that such support is provided, the amount of any such support is not expected to be material. In addition, in the ordinary course of business, the firm may also engage in other activities with these funds, including, among others, securities lending, trade execution, market making, custody, and acquisition and bridge financing. See Note 18 for the firm's investment commitments related to these funds.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Interest Income and Interest Expense****Note 23.****Interest Income and Interest Expense**

Interest income is recorded on an accrual basis based on contractual interest rates. The table below presents the sources of interest income and interest expense.

<i>in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2012	2011	2012	2011
Interest income				
Deposits with banks	\$ 38	\$ 32	\$ 111	\$88
Securities borrowed, securities purchased under agreements to resell and federal funds sold ¹	(74)	170	(49)	572
Financial instruments owned, at fair value	2,324	2,755	7,334	8,218
Other interest ²	341	397	1,121	1,264
Total interest income	2,629	3,354	8,517	10,142
Interest expense				
Deposits	106	65	292	205
Securities loaned and securities sold under agreements to repurchase	188	266	615	703
Financial instruments sold, but not yet purchased, at fair value	594	585	1,783	1,844
Short-term borrowings ³	133	150	453	401
Long-term borrowings ³	941	829	2,841	2,471
Other interest ⁴	(169)	103	(374)	391
Total interest expense	1,793	1,998	5,610	6,015
Net interest income	\$ 836	\$ 1,356	\$ 2,907	\$4,127

1. Includes rebates paid and interest income on securities borrowed.

2. Includes interest income on customer debit balances and other interest-earning assets.

3. Includes interest on unsecured borrowings and other secured financings.

4. Includes rebates received and interest expense on customer credit balances and other interest-bearing liabilities.

Income Taxes

Note 24.

Income Taxes

Provision for Income Taxes

Income taxes are provided for using the asset and liability method under which deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities. The firm reports interest expense related to income tax matters in Provision for taxes and income tax penalties in Other expenses.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Tax assets and liabilities are presented as a component of Other assets and Other liabilities and accrued expenses, respectively.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Unrecognized Tax Benefits**

The firm recognizes tax positions in the financial statements only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the financial statements.

Regulatory Tax Examinations

The firm is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the firm has significant business operations, such as the United Kingdom, Japan, Hong Kong, Korea and various states, such as New York. The tax years under examination vary by jurisdiction. The firm believes that during 2012, certain audits have a reasonable possibility of being completed. The firm does not expect completion of these audits to have a material impact on the firm's financial condition but it may be material to operating results for a particular period, depending, in part, on the operating results for that period.

The table below presents the earliest tax years that remain subject to examination by major jurisdiction.

	As of
Jurisdiction	September 2012
U.S. Federal ¹	2005
New York State and City ²	2004
United Kingdom	2007
Japan ³	2008
Hong Kong	2005
Korea	2008

1. IRS examination of fiscal 2008 through calendar 2010 began during 2011. IRS examination of fiscal 2005, 2006 and 2007 began during 2008. IRS examination of fiscal 2003 and 2004 has been completed, but the liabilities for those years are not yet final.

2. New York State and City examination of fiscal 2004, 2005 and 2006 began in 2008.

3. Japan National Tax Agency examination of fiscal 2005 through 2009 began during the first quarter of 2010. The examinations have been completed, but the liabilities for 2008 and 2009 are not yet final.

All years subsequent to the above remain open to examination by the taxing authorities. The firm believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

Business Segments**Note 25.****Business Segments**

Basis of Presentation

In reporting segments, certain of the firm's business lines have been aggregated where they have similar economic characteristics and are similar in each of the following areas: (i) the nature of the services they provide, (ii) their methods of distribution, (iii) the types of clients they serve and (iv) the regulatory environments in which they operate.

The cost drivers of the firm taken as a whole—compensation, headcount and levels of business activity—are broadly similar in each of the firm's business segments. Compensation and benefits expenses in the firm's segments reflect, among other factors, the overall performance of the firm as well as the performance of individual businesses. Consequently, pre-tax margins in one segment of the firm's business may be significantly affected by the performance of the firm's other business segments.

The firm allocates assets (including allocations of excess liquidity and cash, secured client financing and other assets), revenues and expenses among the four reportable business segments. Due to the integrated nature of these segments, estimates and judgments are made in allocating certain assets, revenues and expenses. Transactions between segments are based on specific criteria or approximate third-party rates. Total operating expenses include corporate items that have not been allocated to individual business segments. The allocation process is based on the manner in which management views the business of the firm.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Management believes that the following information provides a reasonable representation of each segment's

contribution to consolidated pre-tax earnings/(loss) and total assets.

<i>in millions</i>		For the Three Months Ended or as of September		For the Nine Months Ended or as of September	
		2012	2011	2012	2011
Investment Banking	Net revenues	\$ 1,164	\$ 781	\$ 3,521	\$ 3,498
	Operating expenses	825	541	2,560	2,445
	Pre-tax earnings	\$ 339	\$ 240	\$ 961	\$ 1,053
	Segment assets	\$ 1,765	\$ 2,136	\$ 1,765	\$ 2,136
Institutional Client Services	Net revenues ¹	\$ 4,184	\$ 4,062	\$ 13,782	\$ 14,224
	Operating expenses	3,186	2,631	10,016	10,255
	Pre-tax earnings	\$ 998	\$ 1,431	\$ 3,766	\$ 3,969
	Segment assets	\$842,950	\$845,055	\$842,950	\$845,055
Investing & Lending	Net revenues	\$ 1,804	\$ (2,479)	\$ 3,918	\$ 1,270
	Operating expenses	1,002	86	2,216	1,864
	Pre-tax earnings/(loss)	\$ 802	\$ (2,565)	\$ 1,702	\$ (594)
	Segment assets	\$ 92,541	\$ 87,712	\$ 92,541	\$ 87,712
Investment Management	Net revenues	\$ 1,199	\$ 1,223	\$ 3,706	\$ 3,770
	Operating expenses	977	989	3,037	3,112
	Pre-tax earnings	\$ 222	\$ 234	\$ 669	\$ 658
	Segment assets	\$ 11,951	\$ 14,006	\$ 11,951	\$ 14,006
Total	Net revenues	\$ 8,351	\$ 3,587	\$ 24,927	\$ 22,762
	Operating expenses	6,053	4,317	18,033	17,840
	Pre-tax earnings/(loss)	\$ 2,298	\$ (730)	\$ 6,894	\$ 4,922
	Total assets	\$949,207	\$948,909	\$949,207	\$948,909

1. Includes \$30 million and \$31 million for the three months ended September 2012 and September 2011, respectively, and \$81 million for both the nine months ended September 2012 and September 2011, of realized gains on available-for-sale securities held in the firm's insurance subsidiaries.

Total operating expenses in the table above include the following expenses that have not been allocated to the firm's segments:

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net provisions for a number of litigation and regulatory proceedings of \$62 million and \$59 million for the three months ended September 2012 and September 2011, respectively, and \$188 million and \$128 million for the nine months ended September 2012 and September 2011, respectively;

charitable contributions of \$12 million and \$25 million for the nine months ended September 2012 and September 2011, respectively; and real estate-related exit costs of \$1 million and \$11 million for the three months ended September 2012 and September 2011, respectively, and \$4 million and \$11 million for the nine months ended September 2012 and September 2011, respectively. Real estate-related exit costs are included in Depreciation and amortization and Occupancy in the condensed consolidated statements of earnings.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The tables below present the amounts of net interest income or interest expense included in net revenues, and the amounts of depreciation and amortization expense included in pre-tax earnings.

<i>in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Investment Banking	\$ (4)	\$	\$ (13)	\$
Institutional Client Services	813	1,243	2,799	3,375
Investing & Lending	2	60	9	595
Investment Management	25	53	112	157
Total net interest	\$ 836	\$ 1,356	\$ 2,907	\$4,127

<i>in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Investment Banking	\$ 36	\$ 44	\$ 117	\$ 133
Institutional Client Services	188	230	559	753
Investing & Lending	119	56	406	318
Investment Management	52	59	155	151
Total depreciation and amortization	\$ 396¹	\$ 389	\$ 1,238¹	\$1,355

1. Includes real estate-related exit costs of \$1 million for both the three and nine months ended September 2012 that have not been allocated to the firm's segments.

Geographic Information

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. The methodology for allocating profitability to geographic regions is dependent on estimates and management judgment because a significant portion of the firm's activities require cross-border coordination in order to facilitate the needs of the firm's clients.

Geographic results are generally allocated as follows:

Investment Banking: location of the client and investment banking team.

Institutional Client Services: Fixed Income, Currency and Commodities Client Execution, and Equities (excluding Securities Services): location of the market-making desk; Securities Services: location of the primary market for the underlying security.

Investing & Lending: Investing: location of the investment; Lending: location of the client.

Investment Management: location of the sales team.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The table below presents the total net revenues and pre-tax earnings/(loss) of the firm by geographic region allocated based on the methodology referred to above, as well as the

percentage of total net revenues and pre-tax earnings/(loss) (excluding Corporate) for each geographic region.

<i>\$ in millions</i>	Three Months Ended September				Nine Months Ended September			
	2012		2011		2012		2011	
Net revenues								
Americas ¹	\$5,114	61%	\$2,485	69%	\$14,807	59%	\$14,149	62%
EMEA ²	2,160	26	1,349	38	6,660	27	5,974	26
Asia ³	1,077	13	(247)	(7)	3,460	14	2,639	12
Total net revenues	\$8,351	100%	\$3,587	100%	\$24,927	100%	\$22,762	100%
Pre-tax earnings/(loss)								
Americas ¹	\$1,401	59%	\$ 92	N.M.	\$ 3,943	56%	\$ 3,567	70%
EMEA ²	709	30	107	N.M.	2,279	32	1,678	33
Asia ³	251	11	(859)	N.M.	876	12	(159)	(3)
Subtotal	2,361	100%	(660)	100%	7,098	100%	5,086	100%
Corporate ⁴	(63)		(70)		(204)		(164)	
Total pre-tax earnings/(loss)	\$2,298		\$ (730)		\$ 6,894		\$ 4,922	

1. Substantially all relates to the U.S.

2. EMEA (Europe, Middle East and Africa).

3. Asia also includes Australia and New Zealand.

4. Consists of net provisions for a number of litigation and regulatory proceedings of \$62 million and \$59 million for the three months ended September 2012 and September 2011, respectively, and \$188 million and \$128 million for the nine months ended September 2012 and September 2011, respectively; charitable contributions of \$12 million and \$25 million for the nine months ended September 2012 and September 2011, respectively; and real estate-related exit costs of \$1 million and \$11 million for the three months ended September 2012 and September 2011, respectively, and \$4 million and \$11 million for the nine months ended September 2012 and September 2011, respectively.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Credit Concentrations****Note 26.****Credit Concentrations**

Credit concentrations may arise from market making, client facilitation, investing, underwriting, lending and collateralized transactions and may be impacted by changes in economic, industry or political factors. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the firm's activities expose it to many different industries and counterparties, the firm routinely executes a high volume of transactions with asset managers, investment funds, commercial banks, brokers and dealers, clearing houses and exchanges, which results in significant credit concentrations.

In the ordinary course of business, the firm may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, or to a particular clearing house or exchange.

The table below presents the credit concentrations in assets held by the firm. As of September 2012 and December 2011, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

	September	As of December
<i>\$ in millions</i>	2012	2011
U.S. government and federal agency obligations ¹	\$116,426	\$103,468
% of total assets	12.3%	11.2%
Non-U.S. government and agency obligations ^{1, 2}	\$ 62,952	\$ 49,025
% of total assets	6.6%	5.3%

1. Included in Financial instruments owned, at fair value and Cash and securities segregated for regulatory and other purposes.

2. Principally related to Germany, Japan and the United Kingdom as of both September 2012 and December 2011.

To reduce credit exposures, the firm may enter into agreements with counterparties that permit the firm to offset receivables and payables with such counterparties and/or enable the firm to obtain collateral on an upfront or contingent basis. Collateral obtained by the firm related to derivative assets is principally cash and is held by the firm or a third-party custodian. Collateral obtained by the firm related to resale agreements and securities borrowed transactions is primarily U.S. government and federal agency obligations and Non-U.S. government and agency obligations. See Note 9 for further information about collateralized agreements and financings.

The table below presents U.S. government and federal agency obligations, and Non-U.S. government and agency obligations that collateralize resale agreements and securities borrowed transactions (including those in Cash and securities segregated for regulatory and other purposes). Because the firm's primary credit exposure on such transactions is to the counterparty to the transaction, the firm would be exposed to the collateral issuer only in the event of counterparty default.

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	As of	
	September	December
<i>in millions</i>	2012	2011
U.S. government and federal agency obligations	\$69,330	\$ 94,603
Non-U.S. government and agency obligations ¹	90,930	110,178

1. Principally consisting of securities issued by the governments of Germany and France.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Legal Proceedings

Note 27.

Legal Proceedings

The firm is involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the firm's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages.

Under ASC 450 an event is "reasonably possible" if the chance of the future event or events occurring is more than remote but less than likely and an event is "remote" if the chance of the future event or events occurring is slight. Thus, references to the upper end of the range of reasonably possible loss for cases in which the firm is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which the firm believes the risk of loss is more than slight. The amounts reserved against such matters are not significant as compared to the upper end of the range of reasonably possible loss.

With respect to proceedings described below for which management has been able to estimate a range of reasonably possible loss where (i) plaintiffs have claimed an amount of money damages, (ii) the firm is being sued by purchasers in an underwriting and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the amount of securities that the firm sold in the underwritings and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of September 2012 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any factors believed to be relevant to the particular proceeding or proceedings of that type. As of the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such proceedings and for any other proceedings described below where management has been able to estimate a range of reasonably possible aggregate loss to be approximately \$3.6 billion.

Management is generally unable to estimate a range of reasonably possible loss for proceedings other than those included in the estimate above, including where (i) plaintiffs have not claimed an amount of money damages, unless management can otherwise determine an appropriate amount, (ii) the proceedings are in early stages, (iii) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) there are novel legal issues presented. However, for these cases, management does not believe, based on currently available information, that the outcomes of such proceedings will have a material adverse effect on the firm's financial condition, though the outcomes could be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period.

IPO Process Matters. Group Inc. and GS&Co. are among the numerous financial services companies that have been named as defendants in a variety of lawsuits alleging improprieties in the process by which those companies participated in the underwriting of public offerings.

GS&Co. has been named as a defendant in an action commenced on May 15, 2002 in New York Supreme Court, New York County, by an official committee of unsecured creditors on behalf of eToys, Inc., alleging that the firm intentionally underpriced eToys, Inc.'s initial public offering. The action seeks, among other things, unspecified compensatory damages resulting from the alleged lower amount of offering proceeds. On appeal from rulings on GS&Co.'s motion to dismiss, the New York Court of Appeals dismissed claims for breach of contract, professional malpractice and unjust enrichment, but permitted claims for breach of fiduciary duty and fraud to continue. On remand, the lower court granted GS&Co.'s motion for summary judgment and, on December 8, 2011, the appellate court affirmed the lower court's decision. On September 6, 2012, the New York Court of Appeals granted the creditors' motion for leave to appeal.

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Group Inc. and certain of its affiliates have, together with various underwriters in certain offerings, received subpoenas and requests for documents and information from various governmental agencies and self-regulatory organizations in connection with investigations relating to the public offering process. Goldman Sachs has cooperated with these investigations.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

World Online Litigation. In March 2001, a Dutch shareholders' association initiated legal proceedings for an unspecified amount of damages against GSI and others in Amsterdam District Court in connection with the initial public offering of World Online in March 2000, alleging misstatements and omissions in the offering materials and that the market was artificially inflated by improper public statements and stabilization activities. Goldman Sachs and ABN AMRO Rothschild served as joint global coordinators of the approximately \$2.9 billion offering. GSI underwrote 20,268,846 shares and GS&Co. underwrote 6,756,282 shares for a total offering price of approximately \$1.16 billion.

The district court rejected the claims against GSI and ABN AMRO, but found World Online liable in an amount to be determined. On appeal, the Netherlands Court of Appeals affirmed in part and reversed in part the decision of the district court, holding that certain of the alleged disclosure deficiencies were actionable as to GSI and ABN AMRO. On further appeal, the Netherlands Supreme Court affirmed the rulings of the Court of Appeals, except that it found certain additional aspects of the offering materials actionable and held that individual investors could potentially hold GSI and ABN AMRO responsible for certain public statements and press releases by World Online and its former CEO. The parties entered into a definitive settlement agreement, dated July 15, 2011, and GSI has paid the full amount of its proposed contribution. In the first quarter of 2012, GSI entered into a settlement agreement, subject to certain conditions, with respect to a claim filed by another shareholders' association relating to approximately 4 million of World Online shares. Other shareholders have made demands for compensation of alleged damages, and GSI and other syndicate members are discussing the possibility of settlement with certain of these shareholders.

Research Matters. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations relating to research practices, including, among other things, research analysts' methods for obtaining receipt and distribution of information and communications among research analysts, sales and trading personnel and clients.

Adelphia Communications Fraudulent Conveyance Litigation. GS&Co. is named as a defendant in two proceedings commenced in the U.S. Bankruptcy Court for the Southern District of New York, one on July 6, 2003 by a creditors committee, and the second on or about July 31, 2003 by an equity committee of Adelphia Communications, Inc. Those proceedings were consolidated in a single amended complaint filed by the Adelphia Recovery Trust on October 31, 2007. The complaint seeks, among other things, to recover, as fraudulent conveyances, approximately \$62.9 million allegedly paid to GS&Co. by Adelphia Communications, Inc. and its affiliates in respect of margin calls made in the ordinary course of business on accounts owned by members of the family that formerly controlled Adelphia Communications, Inc. The district court assumed jurisdiction over the action and, on April 8, 2011, granted GS&Co.'s motion for summary judgment. The plaintiff appealed on May 6, 2011.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Specialist Matters. Spear, Leeds & Kellogg Specialists LLC (SLKS) and certain affiliates have received requests for information from various governmental agencies and self-regulatory organizations as part of an industry-wide investigation relating to activities of floor specialists in recent years. Goldman Sachs has cooperated with the requests.

On March 30, 2004, certain specialist firms on the NYSE, including SLKS, without admitting or denying the allegations, entered into a final global settlement with the SEC and the NYSE covering certain activities during the years 1999 through 2003. The SLKS settlement involves, among other things, (i) findings by the SEC and the NYSE that SLKS violated certain federal securities laws and NYSE rules, and in some cases failed to supervise certain individual specialists, in connection with trades that allegedly disadvantaged customer orders, (ii) a cease and desist order against SLKS, (iii) a censure of SLKS, (iv) SLKS' agreement to pay an aggregate of \$45.3 million in disgorgement and a penalty to be used to compensate customers, (v) certain undertakings with respect to SLKS' systems and procedures, and (vi) SLKS' retention of an independent consultant to review and evaluate certain of SLKS' compliance systems, policies and procedures. Comparable findings were made and sanctions imposed in the settlements with other specialist firms. The settlement did not resolve the related private civil actions against SLKS and other firms or regulatory investigations involving individuals or conduct on other exchanges. On May 26, 2011, the SEC issued an order directing the undistributed settlement funds to be transferred to the U.S. Treasury; the funds will accordingly not be allocated to any settlement fund for the civil actions described below.

SLKS, Spear, Leeds & Kellogg, L.P. and Group Inc. are among numerous defendants named in purported class actions brought beginning in October 2003 on behalf of investors in the U.S. District Court for the Southern District of New York alleging violations of the federal securities laws and state common law in connection with NYSE floor specialist activities. The actions, which have been consolidated, seek unspecified compensatory damages, restitution and disgorgement on behalf of purchasers and sellers of unspecified securities between October 17, 1998 and October 15, 2003. By a decision dated March 14, 2009, the district court granted plaintiffs' motion for class certification. The defendants' petition with the U.S. Court of Appeals for the Second Circuit seeking review of the certification ruling was denied, and the specialist defendants' petition for a rehearing and/or rehearing en banc was denied on February 24, 2010. On October 24, 2012, the parties entered into a definitive settlement agreement, subject to court approval. The firm has reserved the full amount of its proposed contribution to the settlement.

Fannie Mae Litigation. GS&Co. was added as a defendant in an amended complaint filed on August 14, 2006 in a purported class action pending in the U.S. District Court for the District of Columbia. The complaint asserts violations of the federal securities laws generally arising from allegations concerning Fannie Mae's accounting practices in connection with certain Fannie Mae-sponsored REMIC transactions that were allegedly arranged by GS&Co. The complaint does not specify a dollar amount of damages. The other defendants include Fannie Mae, certain of its past and present officers and directors, and accountants. By a decision dated May 8, 2007, the district court granted GS&Co.'s motion to dismiss the claim against it. The time for an appeal will not begin to run until disposition of the claims against other defendants. A motion to stay the action filed by the Federal Housing Finance Agency (FHFA), which took control of the foregoing action following Fannie Mae's conservatorship, was denied on November 14, 2011.

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Compensation-Related Litigation. On January 17, 2008, Group Inc., its Board, executive officers and members of its management committee were named as defendants in a purported shareholder derivative action in the U.S. District Court for the Eastern District of New York predicting that the firm's 2008 Proxy Statement would violate the federal securities laws by undervaluing certain stock option awards and alleging that senior management received excessive compensation for 2007. The complaint seeks, among other things, an equitable accounting for the allegedly excessive compensation. Plaintiff's motion for a preliminary injunction to prevent the 2008 Proxy Statement from using options valuations that the plaintiff alleges are incorrect and to require the amendment of SEC Form 4s filed by certain of the executive officers named in the complaint to reflect the stock option valuations alleged by the plaintiff was denied, and plaintiff's appeal from this denial was dismissed. On February 13, 2009, the plaintiff filed an amended complaint, which added purported direct (i.e., non-derivative) claims based on substantially the same theory. The plaintiff filed a further amended complaint on March 24, 2010, and the defendants' motion to dismiss this further amended complaint was granted on the ground that dismissal of the shareholder plaintiff's prior action relating to the firm's 2007 Proxy Statement based on the failure to make a demand to the Board precluded relitigation of demand futility. On December 19, 2011, the appellate court vacated the order of dismissal, holding only that preclusion principles did not mandate dismissal and remanding for consideration of the alternative grounds for dismissal. On April 18, 2012, plaintiff disclosed that he no longer is a Group Inc. shareholder and thus lacks standing to continue to prosecute the action, as well as the New York state action described below.

On March 24, 2009, the same plaintiff filed an action in New York Supreme Court, New York County against Group Inc., its directors and certain senior executives alleging violation of Delaware statutory and common law in connection with substantively similar allegations regarding stock option awards. On January 7, 2011, the plaintiff filed an amended complaint. Defendants moved to dismiss the amended complaint, and the parties subsequently agreed to stay the state court action pending the final resolution of the appeal from the dismissal of the federal court action in respect of the firm's 2008 Proxy Statement described above, as well as any remanded proceedings further adjudicating defendants' motion to dismiss.

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Mortgage-Related Matters. On April 16, 2010, the SEC brought an action (SEC Action) under the U.S. federal securities laws in the U.S. District Court for the Southern District of New York against GS&Co. and Fabrice Tourre, one of its employees, in connection with a CDO offering made in early 2007 (ABACUS 2007-AC1 transaction), alleging that the defendants made materially false and misleading statements to investors and seeking, among other things, unspecified monetary penalties. Investigations of GS&Co. by FINRA and of GSI by the FSA were subsequently initiated, and Group Inc. and certain of its affiliates have received subpoenas and requests for information from other regulators, regarding CDO offerings, including the ABACUS 2007-AC1 transaction, and related matters.

On July 14, 2010, GS&Co. entered into a consent agreement with the SEC, settling all claims made against GS&Co. in the SEC Action (SEC Settlement), pursuant to which GS&Co. paid \$550 million of disgorgement and civil penalties, and which was approved by the U.S. District Court for the Southern District of New York on July 20, 2010.

On January 6, 2011, ACA Financial Guaranty Corp. filed an action against GS&Co. in respect of the ABACUS 2007-AC1 transaction in New York Supreme Court, New York County. The complaint includes allegations of fraudulent inducement, fraudulent concealment and unjust enrichment and seeks at least \$30 million in compensatory damages, at least \$90 million in punitive damages and unspecified disgorgement. On April 25, 2011, the plaintiff filed an amended complaint and, on June 3, 2011, GS&Co. moved to dismiss the amended complaint. By a decision dated April 23, 2012, the court granted the motion to dismiss as to the unjust enrichment claim and denied the motion as to the other claims, and on May 29, 2012, GS&Co. appealed the decision to the extent that its motion was denied and filed counterclaims for breach of contract and fraudulent inducement, and third-party claims against ACA Management, LLC for breach of contract, unjust enrichment and indemnification. ACA Financial Guaranty Corp. and ACA Management, LLC moved to dismiss GS&Co.'s counterclaims and third-party claims on August 31, 2012.

Since July 1, 2011, two putative shareholder derivative actions have been filed in the U.S. District Court for the Southern District of New York against Group Inc., the Board and certain officers and employees of Group Inc. and Litton in connection with the servicing of residential mortgage loans and other mortgage-related activities beginning in January 2009. The complaints generally include allegations of breach of fiduciary duty, waste, abuse of control, and mismanagement and seek, among other things, declaratory relief, unspecified damages and certain governance reforms. The district court consolidated the actions, and, on December 20, 2011, the plaintiffs filed a consolidated amended complaint. On August 14, 2012, the district court dismissed all of the plaintiffs' claims and the time to appeal has run.

In addition, the Board has received books and records demands from several shareholders for materials relating to, among other subjects, the firm's mortgage servicing and foreclosure activities, participation in federal programs providing assistance to financial institutions and homeowners, loan sales to Fannie Mae and Freddie Mac, mortgage-related activities and conflicts management.

Since April 23, 2010, the Board has received letters from shareholders demanding that the Board take action to address alleged misconduct by GS&Co., the Board and certain officers and employees of Group Inc. and its affiliates. These demands, which the Board has rejected, generally alleged misconduct in connection with the firm's securitization practices, including the ABACUS 2007-AC1 transaction, the alleged failure by Group Inc. to adequately disclose the SEC investigation that led to the SEC Action, and Group Inc.'s 2009 compensation practices. An additional demand that the Board investigate and take action was received from another shareholder in June 2012, relating to the firm's mortgage-related activities and to stock sales by certain directors and executives of the firm.

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In addition, beginning April 26, 2010, a number of purported securities law class actions have been filed in the U.S. District Court for the Southern District of New York challenging the adequacy of Group Inc.'s public disclosure of, among other things, the firm's activities in the CDO market and the SEC investigation that led to the SEC Action. The purported class action complaints, which name as defendants Group Inc. and certain officers and employees of Group Inc. and its affiliates, have been consolidated, generally allege violations of Sections 10(b) and 20(a) of the Exchange Act and seek unspecified damages. Plaintiffs filed a consolidated amended complaint on July 25, 2011. On October 6, 2011, the defendants moved to dismiss, and by a decision dated June 21, 2012, the district court dismissed the claims based on Group Inc.'s not disclosing that it had received a Wells notice from the staff of the SEC related to the ABACUS 2007-AC1 transaction, but permitted the plaintiffs' other claims to proceed.

GS&Co., Goldman Sachs Mortgage Company (GSMC) and GS Mortgage Securities Corp. (GSMSC) and three current or former Goldman Sachs employees are defendants in a putative class action commenced on December 11, 2008 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2007. The complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory damages and rescission or rescissionary damages. The defendants' motion to dismiss the second amended complaint was granted with leave to replead certain claims. On March 31, 2010, the plaintiff filed a third amended complaint relating to two offerings, which the defendants moved to dismiss. This motion to dismiss was

denied as to the plaintiff's Section 12(a)(2) claims and granted as to the plaintiff's Section 11 claims, and the plaintiff's motion for reconsideration was denied. The plaintiff filed a motion for entry of final judgment or certification of an interlocutory appeal as to plaintiff's Section 11 claims, which was denied. The plaintiff then filed a motion for leave to amend to reinstate the damages claims based on allegations that it had sold its securities, which was denied. On May 5, 2011, the court granted plaintiff's motion for entry of a final judgment dismissing all its claims. The plaintiff appealed from the dismissal with respect to all 17 of the offerings included in its original complaint. By a decision dated September 6, 2012, the U.S. Court of Appeals for the Second Circuit affirmed the district court's dismissal of plaintiff's claims with respect to 10 of the offerings included in plaintiff's original complaint but vacated the dismissal and remanded the case to the district court with instructions to reinstate the plaintiff's claims with respect to the other seven offerings. On October 26, 2012, the defendants filed a petition for certiorari with the U.S. Supreme Court seeking review of the Second Circuit decision. On October 31, 2012, the plaintiff served defendants with a fourth amended complaint relating to those seven offerings, plus seven additional offerings. On June 3, 2010, another investor (who had unsuccessfully sought to intervene in the action) filed a separate putative class action asserting substantively similar allegations relating to an additional offering pursuant to the 2007 registration statement. The district court twice granted defendants' motions to dismiss this separate action, both times with leave to replead. On July 9, 2012, that separate plaintiff filed a second amended complaint, and the defendants moved to dismiss on September 21, 2012. The securitization trusts issued, and GS&Co. underwrote, approximately \$11 billion principal amount of certificates to all purchasers in the fourteen offerings at issue in the initial plaintiff's fourth amended complaint and the one offering at issue in the separate plaintiff's second amended complaint.

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Group Inc., GS&Co., GSMC and GSMSC are among the defendants in a separate putative class action commenced on February 6, 2009 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2006. The other original defendants include three current or former Goldman Sachs employees and various rating agencies. The second amended complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory and rescissionary damages. Defendants moved to dismiss the second amended complaint. On January 12, 2011, the district court granted the motion to dismiss with respect to offerings in which plaintiff had not purchased securities as well as all claims against the rating agencies, but denied the motion to dismiss with respect to a single offering in which the plaintiff allegedly purchased securities. These trusts issued, and GS&Co. underwrote, approximately \$698 million principal amount of certificates to all purchasers in the offerings at issue in the complaint (excluding those offerings for which the claims have been dismissed). On February 2, 2012, the district court granted the plaintiff's motion for class certification and on June 13, 2012, the U.S. Court of Appeals for the Second Circuit granted defendants' petition to review that ruling. On July 31, 2012, the parties reached a settlement, subject to court approval. The firm has paid the full amount of the proposed settlement into an escrow account.

On September 30, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York against GS&Co., Group Inc. and two former GS&Co. employees on behalf of investors in \$821 million of notes issued in 2006 and 2007 by two synthetic CDOs (Hudson Mezzanine 2006-1 and 2006-2). The complaint, which was amended on February 4, 2011, asserts federal securities law and common law claims, and seeks unspecified compensatory, punitive and other damages. The defendants moved to dismiss on April 5, 2011, and the motion was granted as to plaintiff's claim of market manipulation and denied as to the remainder of plaintiff's claims by a decision dated March 21, 2012. On May 21, 2012, the defendants counterclaimed for breach of contract and fraud.

GS&Co., GSMC and GSMSC are among the defendants in a lawsuit filed in August 2011 by CIFG Assurance of North America, Inc. (CIFG) in the New York Supreme Court. The complaint alleges that CIFG was fraudulently induced to provide credit enhancement for a 2007 securitization sponsored by GSMC, and seeks, among other things, the repurchase of \$24.7 million in aggregate principal amount of mortgages that CIFG had previously stated to be non-conforming, an accounting for any proceeds associated with mortgages discharged from the securitization and unspecified compensatory damages. On October 17, 2011, the Goldman Sachs defendants moved to dismiss. By a decision dated May 1, 2012, the court dismissed the fraud and accounting claims but denied the motion as to certain breach of contract claims that were also alleged. On June 6, 2012, the Goldman Sachs defendants filed counterclaims for breach of contract. In addition, the parties have each appealed the court's May 1, 2012 decision to the extent adverse. The parties have been ordered to mediate, and proceedings in the trial court have been stayed pending mediation.

Various alleged purchasers of, and counterparties involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including certain Allstate affiliates, Basis Yield Alpha Fund (Master), Bayerische Landesbank, Cambridge Place Investment Management Inc., the Charles Schwab Corporation, Deutsche Zentral-Genossenschaftsbank, the FDIC (as receiver for Guaranty Bank), the Federal Home Loan Banks of Boston, Chicago, Indianapolis and Seattle, the FHFA (as conservator for Fannie Mae and Freddie Mac), Heungkuk Life Insurance Co. Limited (Heungkuk), HSH Nordbank, IKB Deutsche Industriebank AG, Landesbank Baden-Württemberg, Massachusetts Mutual Life Insurance Company, MoneyGram Payment Systems, Inc., the National Credit Union Administration, Phoenix Light SF Limited and related parties, Prudential Insurance Company of America and related parties, Sealink Funding Limited, Stichting Pensioenfond ABP, The Union Central Life Insurance Company, Ameritas Life Insurance Corp., Acacia Life Insurance Company, Watertown Savings Bank, The Western and Southern Life Insurance Co., John Hancock and related parties, and Royal Park Investments SA/NV) have filed complaints in state and federal court or initiated arbitration proceedings against firm affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material facts and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages. Certain of these complaints also name other firms as defendants.

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A number of other entities (including American International Group, Inc. (AIG), Deutsche Bank National Trust Company, John Hancock and related parties, M&T Bank and Norges Bank Investment Management) have threatened to assert claims of various types against the firm in connection with various mortgage-related transactions, and the firm has entered into agreements with a number of these entities to toll the relevant statute of limitations.

As of the date hereof, the aggregate notional amount of mortgage-related securities sold to plaintiffs in active cases brought against the firm where those plaintiffs are seeking rescission of such securities was approximately \$20.1 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities, statutory interest or any other adjustments that may be claimed). This amount does not include the threatened claims noted above, potential claims by these or other purchasers in the same or other mortgage-related offerings that have not actually been brought against the firm, or claims that have been dismissed.

In June 2011, Heungkuk filed a criminal complaint against certain past and present employees of the firm in South Korea relating to its purchase of a CDO securitization from Goldman Sachs. The filing does not represent any judgment by a governmental entity, but starts a process whereby the prosecutor investigates the complaint and determines whether to take action.

On September 1, 2011, Group Inc. and GS Bank USA entered into a Consent Order with the Federal Reserve Board relating to the servicing of residential mortgage loans. In addition, on September 1, 2011, GS Bank USA entered into an Agreement on Mortgage Servicing Practices with the New York State Department of Financial Services, Litton and Ocwen, in connection with which Group Inc. agreed to forgive 25% of the unpaid principal balance on certain delinquent first lien residential mortgage loans owned by Group Inc. or a subsidiary, totaling approximately \$13 million in principal forgiveness. See Note 18 for further information about these settlements.

Group Inc., GS&Co. and GSMC are among the numerous financial services firms named as defendants in a *qui tam* action originally filed by a relator on April 7, 2010 purportedly on behalf of the City of Chicago and State of Illinois in Cook County, Illinois Circuit Court asserting claims under the Illinois Whistleblower Reward and Protection Act and Chicago False Claims Act, based on allegations that defendants had falsely certified compliance with various Illinois laws, which were purportedly violated in connection with mortgage origination and servicing activities. The complaint, which was originally filed under seal, seeks treble damages and civil penalties. Plaintiff filed an amended complaint on December 28, 2011, naming GS&Co. and GSMC, among others, as additional defendants and a second amended complaint on February 8, 2012. On March 12, 2012, the action was removed to the U.S. District Court for the Northern District of Illinois, and on September 17, 2012 the district court granted the plaintiff's motion to remand the action to state court.

The firm has also received, and continues to receive, requests for information and/or subpoenas from federal, state and local regulators and law enforcement authorities, relating to the mortgage-related securitization process, subprime mortgages, CDOs, synthetic mortgage-related products, particular transactions involving these products, and servicing and foreclosure activities, and is cooperating with these regulators and other authorities, including in some cases agreeing to the tolling of the relevant statute of limitations. See also Financial Crisis-Related Matters below.

The firm expects to be the subject of additional putative shareholder derivative actions, purported class actions, rescission and put back claims and other litigation, additional investor and shareholder demands, and additional regulatory and other investigations and actions with respect to mortgage-related offerings, loan sales, CDOs, and servicing and foreclosure activities. See Note 18 for further information regarding mortgage-related contingencies.

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Private Equity-Sponsored Acquisitions Litigation. Group Inc. and GS Capital Partners are among numerous private equity firms and investment banks named as defendants in a federal antitrust action filed in the U.S. District Court for the District of Massachusetts in December 2007. As amended, the complaint generally alleges that the defendants have colluded to limit competition in bidding for private equity-sponsored acquisitions of public companies, thereby resulting in lower prevailing bids and, by extension, less consideration for shareholders of those companies in violation of Section 1 of the U.S. Sherman Antitrust Act and common law. The complaint seeks, among other things, treble damages in an unspecified amount. Defendants moved to dismiss on August 27, 2008. The district court dismissed claims relating to certain transactions that were the subject of releases as part of the settlement of shareholder actions challenging such transactions, and by an order dated December 15, 2008 otherwise denied the motion to dismiss. On April 26, 2010, the plaintiffs moved for leave to proceed with a second phase of discovery encompassing additional transactions. On August 18, 2010, the court permitted discovery on eight additional transactions, and the plaintiffs filed a fourth amended complaint on October 7, 2010. On January 13, 2011, the court granted defendants' motion to dismiss certain aspects of the fourth amended complaint. On March 1, 2011, the court granted the motion filed by certain defendants, including Group Inc., to dismiss another claim of the fourth amended complaint on the grounds that the transaction was the subject of a release as part of the settlement of a shareholder action challenging the transaction. On June 14, 2012, the plaintiffs filed a fifth amended complaint encompassing additional transactions. On July 18, 2012, the court granted defendants' motion to dismiss certain newly asserted claims on the grounds that certain transactions are subject to releases as part of settlements of shareholder actions challenging those transactions, and denied defendants' motion to dismiss certain additional claims as time-barred. On July 23, 2012, the defendants filed motions for summary judgment.

IndyMac Pass-Through Certificates Litigation. GS&Co. is among numerous underwriters named as defendants in a putative securities class action filed on May 14, 2009 in the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various securitizations of mortgage-related assets violated the disclosure requirements of the federal securities laws. The defendants include IndyMac-related entities formed in connection with the securitizations, the underwriters of the offerings, certain ratings agencies which evaluated the credit quality of the securities, and certain former officers and directors of IndyMac affiliates. On November 2, 2009, the underwriters moved to dismiss the complaint. The motion was granted in part on February 17, 2010 to the extent of dismissing claims based on offerings in which no plaintiff purchased, and the court reserved judgment as to the other aspects of the motion. By a decision dated June 21, 2010, the district court formally dismissed all claims relating to offerings in which no named plaintiff purchased certificates (including all offerings underwritten by GS&Co.), and both granted and denied the defendants' motions to dismiss in various other respects. On October 12, 2012, the plaintiffs filed a motion seeking reinstatement of claims relating to 42 offerings previously dismissed for lack of standing. GS&Co. was a co-underwriter for one of the 42 offerings; however, the plaintiffs' motion does not seek to add GS&Co. as a defendant. On May 17, 2010, four additional investors filed a motion seeking to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). The defendants opposed the motion on the ground that the putative intervenors' claims were time-barred and, on June 21, 2011, the court denied the motion to intervene with respect to, among others, the claims based on the offerings underwritten by GS&Co. Certain of the putative intervenors (including those seeking to assert claims based on two offerings underwritten by GS&Co.) have appealed.

GS&Co. underwrote approximately \$751 million principal amount of securities to all purchasers in the offerings at issue in the May 2010 motion to intervene. On July 11, 2008, IndyMac Bank was placed under an FDIC receivership, and on July 31, 2008, IndyMac Bancorp, Inc. filed for Chapter 7 bankruptcy in the U.S. Bankruptcy Court in Los Angeles, California.

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RALI Pass-Through Certificates Litigation. GS&Co. is among numerous underwriters named as defendants in a putative securities class action initially filed in September 2008 in New York Supreme Court, and subsequently removed to the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various offerings of mortgage-backed pass-through certificates violated the disclosure requirements of the federal securities laws. In addition to the underwriters, the defendants include Residential Capital, LLC (ResCap), Residential Accredited Loans, Inc. (RALI), Residential Funding Corporation (RFC), Residential Funding Securities Corporation (RFSC), and certain of their officers and directors. On March 31, 2010, the defendants' motion to dismiss was granted in part and denied in part by the district court, resulting in dismissal on the basis of standing of all claims relating to offerings in which no plaintiff purchased securities. In June and July 2010, the lead plaintiff and five additional investors moved to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). On April 28, 2011, the court granted defendants' motion to dismiss as to certain of these claims (including those relating to one offering underwritten by GS&Co. based on a release in an unrelated settlement), but otherwise permitted the intervenor case to proceed. Class certification of the claims based on the pre-intervention offerings was initially denied by the district court, and that denial was upheld on appeal; however, following remand, on October 15, 2012, the district court certified a class in connection with the pre-intervention offerings. The certified class consists of investors who bought the securities on the date of offering directly from the issuers. On November 5, 2012, the defendants sought leave from the U.S. Court of Appeals to appeal the certification order.

GS&Co. underwrote approximately \$1.28 billion principal amount of securities to all purchasers in the offerings for which claims have not been dismissed. On May 14, 2012, ResCap, RALI and RFC filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York and the action has been stayed with respect to them, RFSC and certain of their officers and directors.

MF Global Securities Litigation. GS&Co. is among numerous underwriters named as defendants in class action complaints filed in the U.S. District Court for the Southern District of New York commencing November 18, 2011. These complaints generally allege that the offering materials for two offerings of MF Global Holdings Ltd. convertible notes (aggregating approximately \$575 million in principal amount) in February 2011 and July 2011, among other things, failed to describe adequately the nature, scope and risks of MF Global's exposure to European sovereign debt, in violation of the disclosure requirements of the federal securities laws. On August 20, 2012, the plaintiffs filed a consolidated amended complaint and on October 19, 2012, the defendants filed a motion to dismiss the amended complaint. GS&Co. underwrote an aggregate principal amount of approximately \$214 million of the notes. On October 31, 2011, MF Global Holdings Ltd. filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Manhattan, New York.

GS&Co. has also received inquiries from various governmental and regulatory bodies and self-regulatory organizations concerning certain transactions with MF Global prior to its bankruptcy filing. Goldman Sachs is cooperating with all such inquiries.

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Employment-Related Matters. On September 15, 2010, a putative class action was filed in the U.S. District for the Southern District of New York by three former female employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. Group Inc. and GS&Co. filed a motion to stay the claims of one of the named plaintiffs and to compel individual arbitration with that individual, based on an arbitration provision contained in an employment agreement between Group Inc. and the individual. On April 28, 2011, the magistrate judge to whom the district judge assigned the motion denied the motion. On July 7, 2011, the magistrate judge denied Group Inc. and GS&Co. s motion for reconsideration of the magistrate judge s decision, and on July 21, 2011 Group Inc. and GS&Co. appealed the magistrate judge s decision to the district court, which affirmed the decision on November 15, 2011. Group Inc. and GS&Co. have appealed that decision to the U.S. Court of Appeals for the Second Circuit. On June 13, 2011, Group Inc. and GS&Co. moved to strike the class allegations of one of the three named plaintiffs based on her failure to exhaust administrative remedies. On September 29, 2011, the magistrate judge recommended denial of the motion to strike and Group Inc. and GS&Co. filed their objections to that recommendation with the district judge presiding over the case on October 11, 2011. By a decision dated January 10, 2012, the district court denied the motion to strike. On July 22, 2011, Group Inc. and GS&Co. moved to strike all of the plaintiffs class allegations, and for partial summary judgment as to plaintiffs disparate impact claims. By a decision dated January 19, 2012, the magistrate judge recommended that defendants motion be denied as premature. The defendants filed objections to that recommendation with the district judge and on July 17, 2012, the district court issued a decision granting in part Group Inc. s and GS&Co. s motion to strike plaintiffs class allegations on the ground that plaintiffs lacked standing to pursue certain equitable remedies and denying in part Group Inc. s and GS&Co. s motion to strike plaintiffs class allegations in their entirety as premature.

Hellenic Republic (Greece) Matters. Group Inc. and certain of its affiliates have been subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with the firm s transactions with the Hellenic Republic (Greece), including financing and swap transactions, as well as trading and research activities with respect to Greek sovereign debt. Goldman Sachs has cooperated with the investigations and reviews.

Investment Management Services. Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients relating to losses allegedly sustained as a result of the firm s investment management services. These claims generally seek, among other things, restitution or other compensatory damages and, in some cases, punitive damages. In addition, Group Inc. and its affiliates are subject from time to time to investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with the firm s investment management services. Goldman Sachs is cooperating with all such investigations and reviews.

Goldman Sachs Asset Management International (GSAMI) is the defendant in an action filed on July 9, 2012 with the High Court of Justice in London by certain entities representing Vervoer, a Dutch pension fund, alleging that GSAMI was negligent in performing its duties as investment manager in connection with the allocation of the plaintiffs funds among asset managers in accordance with asset allocations provided by plaintiffs and that GSAMI breached its contractual and common law duties to the plaintiffs. Specifically, plaintiffs allege that GSAMI provided inadequate disclosure, caused their assets to be invested in unsuitable products for an extended period, thereby causing in excess of \$81 million in losses, and caused them to be under-exposed for a period of time to certain other investments that performed well, thereby resulting in foregone potential gains. The plaintiffs are seeking unspecified monetary damages. On November 2, 2012, GSAMI served its defense to the allegations.

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Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Financial Advisory Services. Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients and third parties relating to the firm's financial advisory activities. These claims generally seek, among other things, compensatory damages and, in some cases, punitive damages, and in certain cases allege that the firm did not appropriately disclose or deal with conflicts of interest. In addition, Group Inc. and its affiliates are subject from time to time to investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with conflicts of interest. Goldman Sachs is cooperating with all such investigations and reviews.

Group Inc., GS&Co. and The Goldman, Sachs & Co. L.L.C. are defendants in an action brought by the founders and former majority shareholders of Dragon Systems, Inc. (Dragon) on November 18, 2008, alleging that the plaintiffs incurred losses due to GS&Co.'s financial advisory services provided in connection with the plaintiffs' exchange of their purported \$300 million interest in Dragon for stock of Lernout & Hauspie Speech Products, N.V. (L&H) in 2000. L&H filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Wilmington, Delaware on November 29, 2000. The action is pending in the United States District Court for the District of Massachusetts. The complaint, which was amended in November 2011 following the 2009 dismissal of certain of the plaintiffs' initial claims, seeks unspecified compensatory, punitive and other damages, and alleges breach of fiduciary duty, breach of contract, breach of implied covenant of good faith and fair dealing, violation of state unfair trade practices laws, negligence, negligent and intentional misrepresentation, gross negligence, willful misconduct and bad faith. Former minority shareholders of Dragon have brought a similar action against GS&Co. with respect to their purported \$49 million interest in Dragon, and this action has been consolidated with the action described above. All parties moved for summary judgment. By an order dated October 31, 2012, the court granted summary judgment with respect to certain counterclaims and an indemnification claim brought by the Goldman Sachs defendants against one of the shareholders, but denied summary judgment with respect to all other claims.

Sales, Trading and Clearance Practices. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews, certain of which are industry-wide, by various governmental and regulatory bodies and self-regulatory organizations relating to the sales, trading and clearance of corporate and government securities and other financial products, including compliance with the SEC's short sale rule, algorithmic and quantitative trading, futures trading, transaction reporting, securities lending practices, trading and clearance of credit derivative instruments, commodities trading, private placement practices and compliance with the U.S. Foreign Corrupt Practices Act.

The European Commission announced in April 2011 that it is initiating proceedings to investigate further numerous financial services companies, including Group Inc., in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anti-competitive practices. The proceedings in connection with the supply of data related to credit default swaps are ongoing but the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely. The firm has received civil investigative demands from the U.S. Department of Justice (DOJ) for information on similar matters. Goldman Sachs is cooperating with the investigations and reviews.

Insider Trading Investigations. From time to time, the firm and its employees are the subject of or otherwise involved in regulatory investigations relating to insider trading, the potential misuse of material nonpublic information and the effectiveness of the firm's insider trading controls and information barriers. It is the firm's practice to cooperate fully with any such investigations.

EU Price-Fixing Matter. On July 5, 2011, the European Commission issued a Statement of Objections to Group Inc. raising allegations of an industry-wide conspiracy to fix prices for power cables including by an Italian cable company in which certain Goldman Sachs-affiliated investment funds held ownership interests from 2005 to 2009. The Statement of Objections proposes to hold Group Inc. jointly and severally liable for some or all of any fine levied against the cable company under the concept of parental liability under EU competition law.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Municipal Securities Matters. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations relating to transactions involving municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, underwriting of Build America Bonds and the possible impact of credit default swap transactions on municipal issuers. Goldman Sachs is cooperating with the investigations and reviews.

Group Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) and GS Bank USA are among numerous financial services firms that have been named as defendants in numerous substantially identical individual antitrust actions filed beginning on November 12, 2009 that have been coordinated with related antitrust class action litigation and individual actions, in which no Goldman Sachs affiliate is named, for pre-trial proceedings in the U.S. District Court for the Southern District of New York. The plaintiffs include individual California municipal entities and three New York non-profit entities. All of these complaints against Group Inc., GSMMDP and GS Bank USA generally allege that the Goldman Sachs defendants participated in a conspiracy to arrange bids, fix prices and divide up the market for derivatives used by municipalities in refinancing and hedging transactions from 1992 to 2008. The complaints assert claims under the federal antitrust laws and either California's Cartwright Act or New York's Donnelly Act, and seek, among other things, treble damages under the antitrust laws in an unspecified amount and injunctive relief. On April 26, 2010, the Goldman Sachs defendants' motion to dismiss complaints filed by several individual California municipal plaintiffs was denied. On August 19, 2011, Group Inc., GSMMDP and GS Bank USA were voluntarily dismissed without prejudice from all actions except one brought by a California municipal entity.

On August 21, 2008, GS&Co. entered into a settlement in principle with the Office of the Attorney General of the State of New York and the Illinois Securities Department (on behalf of the North American Securities Administrators Association) regarding auction rate securities. Under the agreement, Goldman Sachs agreed, among other things, (i) to offer to repurchase at par the outstanding auction rate securities that its private wealth management clients purchased through the firm prior to February 11, 2008, with the exception of those auction rate securities where

auctions were clearing, (ii) to continue to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors, and (iii) to pay a \$22.5 million fine. The settlement is subject to approval by the various states. GS&Co. has entered into consent orders with New York, Illinois and most other states and is in the process of doing so with the remaining states.

On September 4, 2008, Group Inc. was named as a defendant, together with numerous other financial services firms, in two complaints filed in the U.S. District Court for the Southern District of New York alleging that the defendants engaged in a conspiracy to manipulate the auction securities market in violation of federal antitrust laws. The actions were filed, respectively, on behalf of putative classes of issuers of and investors in auction rate securities and seek, among other things, treble damages in an unspecified amount. Defendants' motion to dismiss was granted on January 26, 2010. On March 1, 2010, the plaintiffs appealed from the dismissal of their complaints.

Beginning in February 2012, GS&Co. was named as respondent in three FINRA arbitrations filed, respectively, by the cities of Houston, Texas and Reno, Nevada and a California school district, based on GS&Co.'s role as underwriter and broker-dealer of the claimants' issuances of an aggregate of over \$1.7 billion of auction rate securities from 2004 through 2007 (in the Houston arbitration, two other financial services firms were named as respondents as well). Each claimant alleges that GS&Co. failed to disclose that it had a practice of placing cover bids on auctions, and failed to offer the claimant the option of a formulaic maximum rate (rather than a fixed maximum rate), and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market (at an estimated cost, in the case of Houston, of approximately \$90 million). Houston and Reno also allege that GS&Co. advised them to enter into interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses (including, in the case of Reno, a swap termination obligation of over \$8 million). The claimants assert claims for breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD, and seek unspecified damages. GS&Co. has moved in federal court to enjoin the Reno and California school district arbitrations pursuant to an exclusive forum selection clause in the transaction documents.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Financial Crisis-Related Matters. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations and litigation relating to the 2008 financial crisis, including the establishment and unwind of credit default swaps between Goldman Sachs and AIG and other transactions with, and in the securities of, AIG, The Bear Stearns Companies Inc., Lehman Brothers Holdings Inc. and other firms. Goldman Sachs is cooperating with the investigations and reviews.

In the second quarter of 2011, a Staff Report of the Senate Permanent Subcommittee on Investigations concerning the key causes of the financial crisis was issued. Goldman Sachs and another financial institution were used as case studies with respect to the role of investment banks. The report was referred to the DOJ and the SEC for review. The firm has cooperated with the investigations arising from this referral. On August 9, 2012, the DOJ announced that it had concluded its investigation and would not be bringing criminal charges against the firm or any of its current or former employees in connection with this matter.

Subsequent Event

Note 28.

Subsequent Event

On October 15, 2012, the firm completed the sale of its hedge fund administration business to State Street Corporation for approximately \$515 million and will recognize a pre-tax gain of approximately \$500 million during the fourth quarter of 2012. The historical operating results of the hedge fund administration business were not material to the firm.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of

The Goldman Sachs Group, Inc.:

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of September 30, 2012, the related condensed consolidated statements of earnings for the three and nine months ended September 30, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2012 and 2011, the condensed consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2012, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2012 and 2011. These condensed consolidated interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2011, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 28, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2011, and the condensed consolidated statement of changes in shareholders' equity for the year ended December 31, 2011, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York

November 8, 2012

Table of Contents**Statistical Disclosures****Distribution of Assets, Liabilities and Shareholders' Equity**

The tables below present a summary of consolidated average balances and interest rates.

	2012		Three Months Ended September		2011	
	Average balance	Interest	Average rate (annualized)	Average balance	Interest	Average rate (annualized)
<i>in millions, except rates</i>						
Assets						
Deposits with banks	\$ 53,135	\$ 38	0.28%	\$ 38,298	\$ 32	0.33%
U.S.	49,749	35	0.28	33,184	24	0.29
Non-U.S.	3,386	3	0.35	5,114	8	0.62
Securities borrowed, securities purchased under agreements to resell, at fair value, and federal funds sold	328,166	(74)	(0.09)	353,310	170	0.19
U.S.	185,144	(135)	(0.29)	212,051	(93)	(0.17)
Non-U.S.	143,022	61	0.17	141,259	263	0.74
Financial instruments owned, at fair value ^{1,2}	313,755	2,324	2.95	297,534	2,755	3.67
U.S.	191,000	1,552	3.23	187,405	1,787	3.78
Non-U.S.	122,755	772	2.50	110,129	968	3.49
Other interest-earning assets ³	137,919	341	0.98	146,792	397	1.07
U.S.	90,586	234	1.03	102,620	221	0.85
Non-U.S.	47,333	107	0.90	44,172	176	1.58
Total interest-earning assets	832,975	2,629	1.26	835,934	3,354	1.59
Cash and due from banks	6,463			5,656		
Other non-interest-earning assets ²	104,106			127,653		
Total assets	\$943,544			\$969,243		
Liabilities						
Interest-bearing deposits	\$ 58,723	\$ 106	0.72%	\$ 40,432	\$ 65	0.64%
U.S.	50,870	96	0.75	32,939	55	0.66
Non-U.S.	7,853	10	0.51	7,493	10	0.53
Securities loaned and securities sold under agreements to repurchase, at fair value	167,480	188	0.45	178,348	266	0.59
U.S.	112,004	90	0.32	109,042	63	0.23
Non-U.S.	55,476	98	0.70	69,306	203	1.16
Financial instruments sold, but not yet purchased ^{1,2}	98,815	594	2.39	105,930	585	2.19
U.S.	44,445	225	2.01	55,043	238	1.72
Non-U.S.	54,370	369	2.70	50,887	347	2.71
Commercial paper	756		0.14	2,416	1	0.20
U.S.				1,183	1	0.25
Non-U.S.	756		0.14	1,233		0.15
Other borrowings ^{4,5}	66,889	133	0.79	80,540	149	0.73
U.S.	45,408	111	0.97	52,674	109	0.82
Non-U.S.	21,481	22	0.41	27,866	40	0.57
Long-term borrowings ^{5,6}	174,598	941	2.14	187,438	829	1.75
U.S.	168,330	913	2.16	179,438	779	1.72
Non-U.S.	6,268	28	1.78	8,000	50	2.48
Other interest-bearing liabilities ⁷	210,475	(169)	(0.32)	211,356	103	0.19
U.S.	152,836	(274)	(0.71)	154,848	(173)	(0.44)
Non-U.S.	57,639	105	0.72	56,508	276	1.94
Total interest-bearing liabilities	777,736	1,793	0.92	806,460	1,998	0.98
Non-interest-bearing deposits	358			128		
Other non-interest-bearing liabilities ²	92,407			91,390		

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Total liabilities	870,501		897,978	
Shareholders' equity				
Preferred stock	4,975		3,100	
Common stock	68,068		68,165	
Total shareholders' equity	73,043		71,265	
Total liabilities and shareholders' equity	\$943,544		\$969,243	
Interest rate spread		0.34%		0.61%
Net interest income and net yield on interest-earning assets	\$ 836	0.40	\$1,356	0.64
U.S.	525	0.40	867	0.64
Non-U.S.	311	0.39	489	0.65
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations ⁸				
Assets		38.00%		35.97%
Liabilities		26.21		27.44

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	Nine Months Ended September					
	2012			2011		
	Average balance	Interest	Average rate (annualized)	Average balance	Interest	Average rate (annualized)
<i>in millions, except rates</i>						
Assets						
Deposits with banks	\$ 50,086	\$ 111	0.30%	\$ 36,620	\$ 88	0.32%
U.S.	46,363	94	0.27	31,121	68	0.29
Non-U.S.	3,723	17	0.61	5,499	20	0.49
Securities borrowed, securities purchased under agreements to resell, at fair value, and federal funds sold	341,542	(49)	(0.02)	350,695	572	0.22
U.S.	194,089	(359)	(0.25)	221,838	(161)	(0.10)
Non-U.S.	147,453	310	0.28	128,857	733	0.76
Financial instruments owned, at fair value ^{1, 2}	304,312	7,334	3.22	291,927	8,218	3.76
U.S.	186,640	4,869	3.48	186,256	5,716	4.10
Non-U.S.	117,672	2,465	2.80	105,671	2,502	3.17
Other interest-earning assets ³	135,594	1,121	1.10	142,942	1,264	1.18
U.S.	89,011	720	1.08	99,216	680	0.92
Non-U.S.	46,583	401	1.15	43,726	584	1.79
Total interest-earning assets	831,534	8,517	1.37	822,184	10,142	1.65
Cash and due from banks	6,760			4,670		
Other non-interest-earning assets ²	107,363			118,363		
Total assets	\$945,657			\$945,217		
Liabilities						
Interest-bearing deposits	\$ 53,644	\$ 292	0.73%	\$ 39,259	\$ 205	0.70%
U.S.	45,932	262	0.76	32,476	179	0.74
Non-U.S.	7,712	30	0.52	6,783	26	0.51
Securities loaned and securities sold under agreements to repurchase, at fair value	174,131	615	0.47	175,246	703	0.54
U.S.	117,398	270	0.31	111,088	216	0.26
Non-U.S.	56,733	345	0.81	64,158	487	1.01
Financial instruments sold, but not yet purchased ^{1, 2}	96,514	1,783	2.47	103,871	1,844	2.37
U.S.	42,411	579	1.82	54,214	739	1.82
Non-U.S.	54,103	1,204	2.97	49,657	1,105	2.98
Commercial paper	1,039	2	0.24	1,744	3	0.21
U.S.	110	1	0.62	443	1	0.25
Non-U.S.	929	1	0.19	1,301	2	0.20
Other borrowings ^{4, 5}	70,710	451	0.85	75,123	398	0.71
U.S.	47,955	373	1.04	48,902	339	0.93
Non-U.S.	22,755	78	0.46	26,221	59	0.30
Long-term borrowings ^{5, 6}	177,351	2,841	2.14	186,428	2,471	1.77
U.S.	170,680	2,714	2.12	179,499	2,327	1.73
Non-U.S.	6,671	127	2.54	6,929	144	2.78
Other interest-bearing liabilities ⁷	208,968	(374)	(0.24)	202,636	391	0.26
U.S.	152,723	(763)	(0.67)	148,683	(322)	(0.29)
Non-U.S.	56,245	389	0.92	53,953	713	1.77
Total interest-bearing liabilities	782,357	5,610	0.96	784,307	6,015	1.03
Non-interest-bearing deposits	264			146		
Other non-interest-bearing liabilities ²	91,286			87,331		
Total liabilities	873,907			871,784		
Shareholders equity						
Preferred stock	3,850			4,257		
Common stock	67,900			69,176		
Total shareholders equity	71,750			73,433		
Total liabilities and shareholders equity	\$945,657			\$945,217		
Interest rate spread			0.41%			0.62%
Net interest income and net yield on interest-earning assets		\$2,907	0.47		\$ 4,127	0.67

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U.S.	1,888	0.49	2,824	0.70
Non-U.S.	1,019	0.43	1,303	0.61
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations ⁸				
Assets		37.93%		34.51%
Liabilities		26.22		26.65

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1. Consists of cash financial instruments, including equity securities and convertible debentures.
2. Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.
3. Primarily consists of cash and securities segregated for regulatory and other purposes and certain receivables from customers and counterparties.
4. Consists of short-term other secured financings and unsecured short-term borrowings, excluding commercial paper.
5. Interest rates include the effects of interest rate swaps accounted for as hedges.
6. Consists of long-term secured financings and unsecured long-term borrowings.
7. Primarily consists of certain payables to customers and counterparties.
8. Assets, liabilities and interest are attributed to U.S. and non-U.S. based on the location of the legal entity in which the assets and liabilities are held.

Ratios

The table below presents selected financial ratios.

	Three Months		Nine Months	
	Ended September 2012	2011	Ended September 2012	2011
Annualized net earnings to average assets	0.6%	N.M.	0.6%	0.5%
Annualized return on average common shareholders' equity ¹	8.6	N.M.	8.8	3.7 ⁴
Annualized return on average total shareholders' equity ²	8.3	N.M.	8.5	6.2
Total average equity to average assets	7.7	7.4%	7.6	7.8
Dividend payout ratio ³	16.1	N.M.	14.8	38.9

1. Based on annualized net earnings applicable to common shareholders divided by average monthly common shareholders' equity.
2. Based on annualized net earnings divided by average monthly total shareholders' equity.
3. Dividends declared per common share as a percentage of diluted earnings per common share.
4. The \$1.64 billion Series G Preferred Stock dividend was not annualized in the calculation of annualized net earnings applicable to common shareholders since it has no impact on other quarters in the year.

Table of Contents**Statistical Disclosures****Cross-border Outstandings**

Cross-border outstandings are based on the Federal Financial Institutions Examination Council's (FFIEC) regulatory guidelines for reporting cross-border information and represent the amounts that the firm may not be able to obtain from a foreign country due to country-specific events, including unfavorable economic and political conditions, economic and social instability, and changes in government policies.

Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments the firm holds and is measured based on the potential loss in an event of non-payment by a counterparty. Credit exposure is reduced through the effect of risk mitigants, such as netting agreements with counterparties that permit the firm to offset receivables and payables with such counterparties or obtaining collateral from counterparties. The tables below do not include all the effects of such risk mitigants and do not represent the firm's credit exposure.

Claims in the tables below include cash, receivables, securities purchased under agreements to resell, securities borrowed and cash financial instruments, but exclude derivative instruments and commitments. Securities purchased under agreements to resell and securities borrowed are presented gross, without reduction for related securities collateral held, based on the domicile of the counterparty. Margin loans (included in receivables) are presented based on the amount of collateral advanced by the counterparty.

The tables below present cross-border outstandings for each country in which cross-border outstandings exceed 0.75% of consolidated assets in accordance with the FFIEC guidelines.

<i>in millions</i>	As of September 2012			
	Banks	Governments	Other	Total
Country				
France	\$34,569 ¹	\$ 2,254	\$ 5,483	\$42,306
Cayman Islands	15		41,452	41,467
Japan	18,068	8	7,285	25,361
Germany	6,836	9,076	3,192	19,104
Switzerland	4,060	30	5,343	9,433
Canada	678	441	7,260	8,379
United Kingdom	1,625	1,130	5,559	8,314
Italy	763	5,048	1,685	7,496
Ireland	402	148	6,803	7,353 ²

<i>in millions</i>	As of December 2011			
	Banks	Governments	Other	Total
Country				
France	\$33,916 ¹	\$ 2,859	\$ 3,776	\$40,551
Cayman Islands			33,742	33,742
Japan	18,745	31	6,457	25,233
Germany	5,458	16,089	3,162	24,709
United Kingdom	2,111	3,349	5,243	10,703
Italy	6,143	3,054	841	10,038 ³
Ireland	1,148	63	8,801 ²	10,012
China	6,722	38	2,908	9,668
Switzerland	3,836	40	5,112	8,988
Canada	676	1,019	6,841	8,536
Australia	1,597	470	5,209	7,276

1. Primarily comprised of secured lending transactions with a clearing house which are secured by collateral.

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2. Primarily comprised of interests in and receivables from funds domiciled in Ireland, but whose underlying investments are primarily located outside of Ireland, and secured lending transactions.

3. Primarily comprised of secured lending transactions which are primarily secured by German government obligations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Introduction

The Goldman Sachs Group, Inc. (Group Inc.) is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

We report our activities in four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management. See Results of Operations below for further information about our business segments.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011. References to our Annual Report on Form 10-K are to our Annual Report on Form 10-K for the year ended December 31, 2011.

When we use the terms Goldman Sachs, the firm, we, us and our, we mean Group Inc., a Delaware corporation, and its consolidated subsidiaries.

References to this Form 10-Q are to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012. All references to September 2012 and September 2011 refer to our periods ended, or the dates, as the context requires, September 30, 2012 and September 30, 2011, respectively. All references to June 2012 and December 2011 refer to the dates June 30, 2012 and December 31, 2011, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Executive Overview

Three Months Ended September 2012 versus September 2011. The firm generated net earnings of \$1.51 billion for the third quarter of 2012, compared with a net loss of \$393 million for the third quarter of 2011. Our diluted earnings per common share were \$2.85 for the third quarter of 2012, compared with a diluted loss per common share of \$0.84 for the third quarter of 2011. Annualized return on average common shareholders equity (ROE)¹ was 8.6% for the third quarter of 2012.

Book value per common share was \$140.58 and tangible book value per common share² was \$129.69 as of September 2012, both approximately 3% higher compared with the end of the second quarter of 2012. Our Tier 1 capital ratio under Basel I was 15.0% and our Tier 1 common ratio under Basel I³ was 13.1% as of September 2012, both unchanged from the end of the second quarter of 2012. During the quarter, the firm repurchased 11.8 million shares of its common stock for a total cost of \$1.25 billion.

The firm generated net revenues of \$8.35 billion for the third quarter of 2012, compared with \$3.59 billion for the third quarter of 2011. These results reflected significantly improved results in Investing & Lending and, to a lesser extent, significantly higher net revenues in Investment Banking and slightly higher net revenues in Institutional Client Services compared with the third quarter of 2011. These increases were partially offset by slightly lower net revenues in Investment Management compared with the third quarter of 2011.

An overview of net revenues for each of our business segments is provided below.

1. See Results of Operations Financial Overview below for further information about our calculation of annualized ROE.

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2. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. See [Equity Capital](#) [Other Capital Metrics](#) below for further information about our calculation of tangible book value per common share.

3. Tier 1 common ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. See [Equity Capital](#) [Consolidated Regulatory Capital Ratios](#) below for further information about our Tier 1 common ratio.

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Management's Discussion and Analysis

Investment Banking

Net revenues in Investment Banking increased significantly compared with the third quarter of 2011, as net revenues in our Underwriting business were more than double the amount in the third quarter of 2011, which had particularly low volumes. This increase primarily reflected significantly higher net revenues in debt underwriting, principally due to higher net revenues from leveraged finance activity. Net revenues in equity underwriting were higher compared with the third quarter of 2011, primarily reflecting an increase in client activity. Net revenues in Financial Advisory were slightly lower compared with the third quarter of 2011.

Institutional Client Services

Net revenues in Institutional Client Services increased slightly compared with the third quarter of 2011, reflecting significantly higher net revenues in Fixed Income, Currency and Commodities Client Execution, partially offset by lower net revenues in Equities.

The increase in Fixed Income, Currency and Commodities Client Execution compared with the third quarter of 2011 reflected significantly higher net revenues in mortgages and higher net revenues in credit products, currencies and interest rate products, partially offset by significantly lower net revenues in commodities. During the third quarter of 2012, Fixed Income, Currency and Commodities Client Execution operated in an environment generally characterized by tighter credit spreads, as certain central banks took steps to ease monetary policy; however, broad market concerns persisted and levels of activity generally remained low.

The decrease in Equities compared with the third quarter of 2011 was primarily due to significantly lower commissions and fees, reflecting lower market volumes, and lower net revenues in equities client execution. In addition, net revenues in securities services were slightly lower compared with the third quarter of 2011, primarily reflecting the impact of lower average customer balances. During the quarter, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels.

The net loss attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$370 million (\$225 million and \$145 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the third quarter of 2012, compared with a net gain of \$450 million (\$308 million and \$142 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the third quarter of 2011.

Investing & Lending

Net revenues in Investing & Lending were \$1.80 billion for the third quarter of 2012, compared with negative net revenues of \$2.48 billion for the third quarter of 2011. During the third quarter of 2012, Investing & Lending net revenues were positively impacted by tighter credit spreads and an increase in global equity prices. Results for the third quarter of 2012 included a gain of \$99 million from our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC), net gains of \$824 million from other investments in equities, primarily in private equities, net gains and net interest income of \$558 million from debt securities and loans, and other net revenues of \$323 million, principally related to our consolidated investment entities.

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Investment Management

Net revenues in Investment Management decreased slightly compared with the third quarter of 2011, reflecting lower transaction revenues and slightly lower management and other fees, partially offset by higher incentive fees. During the quarter, assets under management increased \$20 billion to \$856 billion, reflecting net market appreciation.

Nine Months Ended September 2012 versus September 2011. The firm generated net earnings of \$4.58 billion for the first nine months of 2012, compared with \$3.43 billion for the first nine months of 2011. Our diluted earnings per common share were \$8.57 for the first nine months of 2012, compared with \$2.70¹ for the first nine months of 2011. Annualized ROE² was 8.8% for the first nine months of 2012, compared with 3.7%¹ for the first nine months of 2011.

The firm generated net revenues of \$24.93 billion for the first nine months of 2012, compared with \$22.76 billion for the first nine months of 2011. These results reflected significantly higher net revenues in Investing & Lending compared with the first nine months of 2011. This increase was partially offset by slightly lower net revenues in both Institutional Client Services and Investment Management compared with the first nine months of 2011. Net revenues in Investment Banking were essentially unchanged compared with the first nine months of 2011. An overview of net revenues for each of our business segments is provided below.

Investment Banking

Net revenues in Investment Banking were essentially unchanged compared with the first nine months of 2011. Net revenues in our Underwriting business were slightly higher than the first nine months of 2011. Net revenues in debt underwriting were significantly higher compared with the first nine months of 2011, reflecting higher net revenues across all types of underwriting offerings. Net revenues in equity underwriting were significantly lower compared with the first nine months of 2011, primarily reflecting a decline in industry-wide initial public offerings. Net revenues in Financial Advisory were slightly lower compared with the first nine months of 2011.

Institutional Client Services

Net revenues in Institutional Client Services decreased slightly compared with the first nine months of 2011, reflecting lower net revenues in Equities, partially offset by slightly higher net revenues in Fixed Income, Currency and Commodities Client Execution.

The increase in Fixed Income, Currency and Commodities Client Execution compared with the first nine months of 2011 reflected significantly higher net revenues in mortgages and higher net revenues in interest rate products, partially offset by significantly lower net revenues in commodities and lower net revenues in currencies. Net revenues in credit products were essentially unchanged compared with the first nine months of 2011. Although credit spreads generally tightened during the first nine months of 2012, broad market concerns and uncertainties contributed to generally low levels of activity, particularly during the second and third quarters of 2012.

The decrease in Equities compared with the first nine months of 2011 was primarily due to lower commissions and fees, reflecting lower market volumes, and slightly lower net revenues in equities client execution. In addition, net revenues in securities services were slightly lower compared with the first nine months of 2011, primarily reflecting the impact of lower average customer balances. During the first nine months of 2012, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels, as compared with the first nine months of 2011.

The net loss attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$588 million (\$354 million and \$234 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the first nine months of 2012, compared with a net gain of \$576 million (\$399 million and \$177 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the first nine months of 2011.

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1. Excluding the impact of the preferred dividend of \$1.64 billion in the first quarter of 2011 related to the redemption of our Series G Preferred Stock (calculated as the difference between the carrying value and the redemption value of the preferred stock), diluted earnings per common share were \$5.60 and annualized ROE was 6.0% for the first nine months of 2011. We believe that presenting our results for the first nine months of 2011 excluding this dividend is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and annualized ROE excluding this dividend are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. See [Results of Operations](#) [Financial Overview](#) below for further information about our calculation of diluted earnings per common share and annualized ROE excluding the impact of this dividend.

2. See [Results of Operations](#) [Financial Overview](#) below for further information about our calculation of annualized ROE.

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Investing & Lending

Net revenues in Investing & Lending were \$3.92 billion for the first nine months of 2012, compared with \$1.27 billion for the first nine months of 2011. During the first nine months of 2012, Investing & Lending net revenues were positively impacted by generally tighter credit spreads and an increase in global equity prices. Results for the first nine months of 2012 included a gain of \$74 million from our investment in the ordinary shares of ICBC and net gains of \$1.60 billion from other investments in equities, primarily in private equities. In addition, Investing & Lending included net gains and net interest income of \$1.37 billion from debt securities and loans, and other net revenues of \$876 million, principally related to our consolidated investment entities.

Investment Management

Net revenues in Investment Management decreased slightly compared with the first nine months of 2011 due to slightly lower management and other fees, and lower transaction revenues, partially offset by significantly higher incentive fees, primarily related to the sale of our funds remaining investment in the ordinary shares of ICBC during the second quarter of 2012. During the first nine months of 2012, assets under management increased \$28 billion to \$856 billion. The increase in assets under management included net market appreciation of \$39 billion, primarily in fixed income and equity assets, partially offset by net outflows of \$11 billion. Net outflows included outflows in money market, equity and alternative investment assets, partially offset by inflows in fixed income assets (including \$17 billion of fixed income asset inflows in connection with our acquisition of Dwight Asset Management Company LLC (Dwight Asset Management)).

Our business, by its nature, does not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and other factors. For a further discussion of the factors that may affect our future operating results, see **Certain Risk Factors That May Affect Our Businesses** below, as well as **Risk Factors** in Part I, Item 1A of our Annual Report on Form 10-K.

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Management's Discussion and Analysis**Business Environment****Global**

Global economic conditions continued to weaken during the third quarter of 2012, as real gross domestic product (GDP) appeared to decline in Europe and Japan, while real GDP growth in the United States and China was modest. After concerns regarding European sovereign debt risk heightened in the second quarter of 2012 and continued into the beginning of the third quarter, some positive developments, including certain central bank actions to ease monetary policy, alleviated market pressure. These actions resulted in tighter credit spreads, higher global equity prices and lower volatility levels compared with the second quarter of 2012. In addition, the price of crude oil increased. However, concerns and uncertainties about the outlook of the global economy, particularly as it relates to Europe, persisted. These concerns continued to weigh on investment banking activity, particularly in mergers and acquisitions, and initial public offerings activity levels, although industry-wide debt underwriting activity improved compared with the second quarter of 2012.

United States

In the United States, real GDP growth accelerated modestly during the quarter, reflecting an increase in the growth of consumer spending and an upturn in government spending, although growth in fixed investment slowed and net exports declined. Measures of business and consumer confidence improved. Unemployment levels declined, although the rate of unemployment remained elevated. Measures of inflation on average were lower compared with the second quarter of 2012. Housing market activity continued to improve, particularly in housing starts. The U.S. Federal Reserve maintained its federal funds rate at a target of zero to 0.25% and announced further easing measures that included an open-ended program to purchase mortgage-backed securities, as well as an extension of its commitment to keep interest rates exceptionally low until at least mid-2015. After reaching yields close to 1.40% earlier in the quarter, the 10-year Treasury note yield ended the quarter at 1.65%, essentially unchanged compared with the end of the second quarter of 2012. In equity markets, the NASDAQ Composite Index and the S&P 500 Index each increased by 6%, while the Dow Jones Industrial Average increased by 4%.

Europe

In the Euro area, real GDP appeared to decline during the quarter for the fourth consecutive quarter, reflecting the impact that the ongoing sovereign debt crisis has had on the region's economic growth, particularly in Spain and Italy. Although measures of business confidence improved in some countries from low levels, they deteriorated in the aggregate. Measures of inflation on average were essentially unchanged

compared with the second quarter of 2012. The European Central Bank (ECB) decreased its main refinancing operations rate by 25 basis points to 0.75%. In addition, the ECB announced a new program to make outright purchases of sovereign bonds in the secondary markets, with the goal of having a single monetary policy in the Euro area, maintaining price stability and preserving the Euro. The Euro appreciated by 2% against the U.S. dollar. In the United Kingdom, real GDP strongly rebounded after declining for three consecutive quarters, reflecting increases in industrial production, consumption and exports, positively impacted in part by the Olympic Games. The Bank of England maintained its official bank rate at 0.50% and increased the size of its asset purchase program. The British pound appreciated by 3% against the U.S. dollar. Long-term government bond yields declined in most Euro area economies, while yields decreased slightly in the U.K. In equity markets, the DAX Index, the Euro Stoxx 50 Index, the CAC 40 Index, and the FTSE 100 Index increased by 12%, 8%, 5%, and 3%, respectively, during the quarter.

Asia

In Japan, real GDP appeared to decline during the quarter, primarily reflecting declines in consumer spending and fixed investment, as well as a sharp contraction in exports. The Bank of Japan left its target overnight call rate unchanged at a range of zero to 0.10%, and continued to ease monetary policy by further increasing the size of its asset purchase program and by facilitating outright purchases of government and corporate bonds. The yield on 10-year Japanese government bonds decreased, while the Japanese yen appreciated by 2% against the U.S. dollar. The Nikkei 225 Index ended the quarter 2% lower. In China, real GDP growth increased modestly during the quarter, reflecting growth in

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industrial production and retail spending, but remained lower compared with the solid pace of growth in previous years. Measures of inflation continued to decline during the quarter, reaching its lowest level since 2010. The People's Bank of China left the reserve requirement ratio unchanged during the quarter. The Chinese yuan appreciated slightly against the U.S. dollar, while the Shanghai Composite Index decreased by 6%. In contrast, equity markets in Hong Kong and South Korea increased during the quarter. In India, real GDP growth during the quarter appeared to remain weak, reflecting continued weakness in investment demand, negatively impacted in part by less than normal monsoon rainfall. In addition, measures of wholesale inflation remained at an elevated level. The Indian rupee appreciated against the U.S. dollar and equity markets in India ended the quarter higher.

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Critical Accounting Policies

Fair Value

Fair Value Hierarchy. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value (i.e., inventory), as well as certain other financial assets and financial liabilities, are reflected in our condensed consolidated statements of financial condition at fair value (i.e., marked-to-market), with related gains or losses generally recognized in our condensed consolidated statements of earnings. The use of fair value to measure financial instruments is fundamental to our risk management practices and is our most critical accounting policy.

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the hierarchy under U.S. generally accepted accounting principles (U.S. GAAP) gives (i) the highest priority to unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities (level 1 inputs), (ii) the next priority to inputs other than level 1 inputs that are observable, either directly or indirectly (level 2 inputs), and (iii) the lowest priority to inputs that cannot be observed in market activity (level 3 inputs). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

The fair values for substantially all of our financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and the firm's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

Instruments categorized within level 3 of the fair value hierarchy, which represent approximately 5% of the firm's total assets, require one or more significant inputs that are not observable. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. Estimating the fair value of level 3 financial instruments requires judgments to be made. These judgments include:

- determining the appropriate valuation methodology and/or model for each type of level 3 financial instrument;

- determining model inputs based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations; and

- determining appropriate valuation adjustments related to illiquidity or counterparty credit quality.

Regardless of the methodology, valuation inputs and assumptions are only changed when corroborated by substantive evidence.

Controls Over Valuation of Financial Instruments. Market makers and investment professionals in our revenue-producing units are responsible for pricing our financial instruments. Our control infrastructure is independent of the revenue-producing units and is fundamental to ensuring that all of our financial instruments are appropriately valued at market-clearing levels. In the event that there is a difference of opinion in situations where estimating the fair value of financial instruments requires judgment (e.g., calibration to market comparables or trade comparison, as described below), the final valuation decision is made by senior managers in control and support functions that are independent of the revenue-producing units (independent control and support functions). This independent price verification is critical to ensuring that our financial instruments are properly valued.

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Price Verification. All financial instruments at fair value in levels 1, 2 and 3 of the fair value hierarchy are subject to our independent price verification process. The objective of price verification is to have an informed and independent opinion with regard to the valuation of financial instruments under review. Instruments that have one or more significant inputs which cannot be corroborated by external market data are classified within level 3 of the fair value hierarchy. Price verification strategies utilized by our independent control and support functions include:

Trade Comparison. Analysis of trade data (both internal and external where available) is used to determine the most relevant pricing inputs and valuations.

External Price Comparison. Valuations and prices are compared to pricing data obtained from third parties (e.g., broker or dealers, MarkIt, Bloomberg, IDC, TRACE). Data obtained from various sources is compared to ensure consistency and validity. When broker or dealer quotations or third-party pricing vendors are used for valuation or price verification, greater priority is generally given to executable quotations.

Calibration to Market Comparables. Market-based transactions are used to corroborate the valuation of positions with similar characteristics, risks and components.

Relative Value Analyses. Market-based transactions are analyzed to determine the similarity, measured in terms of risk, liquidity and return, of one instrument relative to another or, for a given instrument, of one maturity relative to another.

Collateral Analyses. Margin disputes on derivatives are examined and investigated to determine the impact, if any, on our valuations.

Execution of Trades. Where appropriate, trading desks are instructed to execute trades in order to provide evidence of market-clearing levels.

Backtesting. Valuations are corroborated by comparison to values realized upon sales.

See Notes 5 through 8 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about fair value measurements.

Review of Net Revenues. Independent control and support functions ensure adherence to our pricing policy through a combination of daily procedures, including the explanation and attribution of net revenues based on the underlying factors. Through this process we independently validate net revenues, identify and resolve potential fair value or trade booking issues on a timely basis and seek to ensure that risks are being properly categorized and quantified.

Review of Valuation Models. Quantitative professionals within our Market Risk Management department (Market Risk Management) perform an independent model approval process. This process incorporates a review of a diverse set of model and trade parameters across a broad range of values (including extreme and/or improbable conditions) in order to critically evaluate:

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the model's suitability for valuation and risk management of a particular instrument type;

the model's accuracy in reflecting the characteristics of the related product and its significant risks;

the suitability and properties of the numerical algorithms incorporated in the model;

the model's consistency with models for similar products; and

the model's sensitivity to input parameters and assumptions.

New or changed models are reviewed and approved. Models are evaluated and re-approved annually to assess the impact of any changes in the product or market and any market developments in pricing theories.

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Management's Discussion and Analysis

Level 3 Financial Assets at Fair Value. The table below presents financial assets measured at fair value and the amount of such assets that are classified within level 3 of the fair value hierarchy.

Total level 3 financial assets were \$47.81 billion, \$46.51 billion and \$47.94 billion as of September 2012, June 2012 and December 2011, respectively.

See Notes 5 through 8 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about changes in level 3 financial assets and fair value measurements.

	As of September 2012		As of June 2012		As of December 2011	
	Total at	Level 3	Total at	Level 3	Total at	Level 3
<i>in millions</i>	Fair Value	Total	Fair Value	Total	Fair Value	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 10,708	\$	\$ 10,011	\$ 7	\$ 13,440	\$
U.S. government and federal agency obligations	95,529		94,949		87,040	
Non-U.S. government and agency obligations	62,952	13	63,890	8	49,205	148
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	7,536	3,318	7,199	3,166	6,699	3,346
Loans and securities backed by residential real estate	9,602	1,288	8,467	1,632	7,592	1,709
Bank loans and bridge loans	21,011	10,833	20,770	10,461	19,745	11,285
Corporate debt securities	25,345	2,721	21,534	2,367	22,131	2,480
State and municipal obligations	3,296	583	3,493	547	3,089	599
Other debt obligations	4,489	2,008	4,639	1,757	4,362	1,451
Equities and convertible debentures	91,225	15,126	74,606	14,420	65,113	13,667
Commodities	10,771		6,330		5,762	
Total cash instruments	342,464	35,890	315,888	34,365	284,178	34,685
Derivatives	72,829	11,110	71,308	10,501	80,028	11,900
Financial instruments owned, at fair value	415,293	47,000	387,196	44,866	364,206	46,585
Securities segregated for regulatory and other purposes	34,087		37,279		42,014	
Securities purchased under agreements to resell	147,361	185	167,344	1,023	187,789	557
Securities borrowed	47,986		51,897		47,621	
Receivables from customers and counterparties	6,920	625	7,444	616	9,682	795
Total	\$651,647	\$47,810	\$651,160	\$46,505	\$651,312	\$47,937

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Management's Discussion and Analysis

Goodwill and Identifiable Intangible Assets

Goodwill. Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. Goodwill is assessed annually for impairment, or more frequently if events occur or circumstances change that indicate an impairment may exist, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative assessment are not conclusive, a quantitative goodwill impairment test is performed by comparing the estimated fair value of each reporting unit with its estimated net book value.

Estimating the fair value of our reporting units requires management to make judgments. Critical inputs to the fair value estimates include (i) projected earnings, (ii) estimated long-term growth rates and (iii) cost of equity.

During the second half of 2011, consistent with the decline in stock prices in the broader financial services sector, our stock price declined and throughout most of this period, our market capitalization was below book value. Accordingly, we performed a quantitative impairment test during the fourth quarter of 2011 and determined that goodwill was not impaired. The estimated fair value of our reporting units in which we hold substantially all of our goodwill significantly exceeded the estimated carrying values. We believe that it is appropriate to consider market capitalization, among other factors, as an indicator of fair value over a reasonable period of time.

If the current economic market conditions persist, and there is a prolonged period of weakness in the business environment and financial markets, our earnings may be adversely affected, which could result in an impairment of goodwill in the future. In addition, significant changes to other critical inputs of the goodwill impairment test (e.g., cost of equity) could cause the estimated fair value of our reporting units to decline, which could result in an impairment of goodwill in the future.

See Note 13 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for the carrying value of our goodwill.

Identifiable Intangible Assets. We amortize our identifiable intangible assets (i) over their estimated lives, (ii) based on economic usage or (iii) in proportion to estimated gross profits or premium revenues. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable.

An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. See Note 13 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for the carrying value and estimated remaining lives of our identifiable intangible assets by major asset class and impairments of our identifiable intangible assets.

A prolonged period of market weakness could adversely impact our businesses and impair the value of our identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including (i) decreases in revenues from commodity-related customer contracts and relationships, (ii) decreases in cash receipts from television broadcast royalties, (iii) an adverse action or assessment by a regulator or (iv) adverse actual experience on the contracts in our variable annuity and life insurance business. Management judgment is required to evaluate whether indications of potential impairment have occurred, and to test intangibles for impairment if required.

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Management's Discussion and Analysis

Use of Estimates

The use of generally accepted accounting principles requires management to make certain estimates and assumptions. In addition to the estimates we make in connection with fair value measurements, the accounting for goodwill and identifiable intangible assets, and discretionary compensation accruals, the use of estimates and assumptions is also important in determining provisions for losses that may arise from litigation, regulatory proceedings and tax audits.

A substantial portion of our compensation and benefits represents discretionary compensation, which is finalized at year-end. We believe the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the net revenues earned in such periods. In addition to the level of net revenues, our overall compensation expense in any given year is also influenced by, among other factors, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment. See Results of Operations Financial Overview Operating Expenses below for information regarding our ratio of compensation and benefits to net revenues.

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be reasonably estimated. In accounting for income taxes, we estimate and provide for potential liabilities that may arise out of tax audits to the extent that uncertain tax positions fail to meet the recognition standard under FASB Accounting Standards Codification 740. See Note 24 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about accounting for income taxes.

Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total estimated liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. See Notes 18 and 27 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information on certain judicial, regulatory and legal proceedings.

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Management's Discussion and Analysis**Results of Operations**

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. See "Certain Risk Factors That May Affect Our Businesses" below and "Risk Factors" in Part I, Item 1A of our Annual Report on

Form 10-K for a further discussion of the impact of economic and market conditions on our results of operations.

Financial Overview

The table below presents an overview of our financial results.

<i>\$ in millions, except per share amounts</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2012	2011	2012	2011
Net revenues	\$8,351	\$3,587	\$24,927	\$22,762
Pre-tax earnings/(loss)	2,298	(730)	6,894	4,922
Net earnings/(loss)	1,512	(393)	4,583	3,429
Net earnings/(loss) applicable to common shareholders	1,458	(428)	4,459	1,532
Diluted earnings/(loss) per common share	2.85	(0.84)	8.57	2.70 ²
Annualized return on average common shareholders' equity ¹	8.6%	N.M.	8.8%	3.7% ²

1. Annualized ROE is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders' equity. The impact of the \$1.64 billion Series G Preferred Stock dividend in the first quarter of 2011 was not annualized in the calculation of annualized net earnings applicable to common shareholders for the nine months ended September 2011 as this amount had no impact on other quarters in the year. The table below presents our average common shareholders' equity.

<i>in millions</i>	Average for the			
	Three Months		Nine Months	
	Ended September		Ended September	
	2012	2011	2012	2011
Total shareholders' equity	\$73,043	\$71,265	\$71,750	\$73,433
Preferred stock	(4,975)	(3,100)	(3,850)	(4,257)
Common shareholders' equity	\$68,068	\$68,165	\$67,900	\$69,176

2. Excluding the impact of the preferred dividend of \$1.64 billion in the first quarter of 2011 related to the redemption of our Series G Preferred Stock (calculated as the difference between the carrying value and the redemption value of the preferred stock), diluted earnings per common share were \$5.60 and annualized ROE was 6.0% for the first nine months of 2011. We believe that presenting our results for the first nine months of 2011 excluding this dividend is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and annualized ROE excluding this dividend are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. The

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tables below present the calculation of net earnings applicable to common shareholders, diluted earnings per common share and average common shareholders equity excluding the impact of this dividend.

	Nine Months Ended
<i>in millions, except per share amount</i>	
	September 2011
Net earnings applicable to common shareholders	\$ 1,532
Impact of the Series G Preferred Stock dividend	1,643
Net earnings applicable to common shareholders, excluding the impact of the Series G Preferred Stock dividend	3,175
Divided by: average diluted common shares outstanding	566.6
Diluted earnings per common share, excluding the impact of the Series G Preferred Stock dividend	\$ 5.60

	Average for the Nine Months Ended September 2011
<i>in millions</i>	
Total shareholders equity	\$73,433
Preferred stock	(4,257)
Common shareholders equity	69,176
Impact of the Series G Preferred Stock dividend	1,150
Common shareholders equity, excluding the impact of the Series G Preferred Stock dividend	\$70,326

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Net Revenues

Three Months Ended September 2012 versus September 2011. Net revenues on the condensed consolidated statements of earnings were \$8.35 billion for the third quarter of 2012, compared with \$3.59 billion for the third quarter of 2011, reflecting significantly improved other principal transactions revenues and, to a lesser extent, significantly higher market-making revenues and investment banking revenues compared with the third quarter of 2011. These increases were partially offset by significantly lower net interest income and commissions and fees compared with the third quarter of 2011. Investment management revenues were essentially unchanged compared with the third quarter of 2011.

Nine Months Ended September 2012 versus September 2011. Net revenues on the condensed consolidated statements of earnings were \$24.93 billion for the first nine months of 2012, 10% higher than the first nine months of 2011, reflecting significantly higher other principal transactions revenues and, to a lesser extent, higher market-making revenues. These increases were partially offset by significantly lower net interest income, as well as lower commissions and fees compared with the first nine months of 2011. Investment banking revenues and investment management revenues were essentially unchanged compared with the first nine months of 2011.

Non-interest Revenues

Investment banking

During the third quarter of 2012, investment banking revenues reflected an operating environment generally characterized by continued concerns about the outlook for the global economy, particularly as it relates to Europe. These concerns weighed on investment banking activity, particularly in mergers and acquisitions, and initial public offerings activity levels. However, industry-wide debt underwriting activity improved compared with the second quarter of 2012, as credit spreads tightened and interest rates remained low. If macroeconomic concerns continue and result in lower levels of client activity, investment banking revenues would likely be negatively impacted.

Three Months Ended September 2012 versus September 2011. Investment banking revenues on the condensed consolidated statements of earnings were \$1.17 billion for the third quarter of 2012, 50% higher than the third quarter of 2011, as revenues in our underwriting business were more than double the amount in the third quarter of 2011, which had particularly low volumes. This increase primarily reflected significantly higher revenues in debt underwriting, principally due to higher revenues from leveraged finance activity. Revenues in equity underwriting were higher compared with the third quarter of 2011, primarily reflecting an increase in client activity. Revenues in financial advisory were slightly lower compared with the third quarter of 2011.

Nine Months Ended September 2012 versus September 2011. Investment banking revenues on the condensed consolidated statements of earnings were \$3.53 billion for the first nine months of 2012, essentially unchanged compared with the first nine months of 2011. Revenues in our underwriting business were slightly higher than the first nine months of 2011. Revenues in debt underwriting were significantly higher compared with the first nine months of 2011, reflecting higher revenues across all types of underwriting offerings. Revenues in equity underwriting were significantly lower compared with the first nine months of 2011, primarily reflecting a decline in industry-wide initial public offerings. Revenues in financial advisory were slightly lower compared with the first nine months of 2011.

Investment management

During the third quarter of 2012, investment management revenues reflected an operating environment generally characterized by improved asset prices, resulting in appreciation in the value of client assets. However, the mix of assets under management has shifted slightly to lower risk asset classes compared with the third quarter of 2011. In the future, if asset prices were to decline or investors continue to withdraw their assets, investment management revenues would likely be negatively impacted. In addition, continued concerns about the global economic outlook could result in downward pressure on assets under management.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Three Months Ended September 2012 versus September 2011. Investment management revenues on the condensed consolidated statements of earnings were \$1.15 billion for the third quarter of 2012, essentially unchanged compared with the third quarter of 2011, as higher incentive fees were offset by slightly lower management and other fees.

Nine Months Ended September 2012 versus September 2011. Investment management revenues on the condensed consolidated statements of earnings were \$3.52 billion for the first nine months of 2012, essentially unchanged compared with the first nine months of 2011, as significantly higher incentive fees, primarily related to the sale of our funds' remaining investment in the ordinary shares of ICBC during the second quarter of 2012, were offset by slightly lower management and other fees, and lower transaction revenues.

Commissions and fees

Although global equity prices generally increased during the third quarter of 2012, commissions and fees reflected an environment characterized by significantly lower market volumes due to lower volatility levels, and broad market concerns and uncertainties about the outlook of the global economy, particularly as it relates to Europe. If macroeconomic concerns continue and result in lower market volumes, commissions and fees would likely continue to be negatively impacted.

Three Months Ended September 2012 versus September 2011. Commissions and fees on the condensed consolidated statements of earnings were \$748 million for the third quarter of 2012, 29% lower than the third quarter of 2011, reflecting lower market volumes.

Nine Months Ended September 2012 versus September 2011. Commissions and fees on the condensed consolidated statements of earnings were \$2.41 billion for the first nine months of 2012, 19% lower than the first nine months of 2011, reflecting lower market volumes.

Market making

During the third quarter of 2012, market-making revenues reflected an environment generally characterized by some positive developments, including certain central bank actions to ease monetary policy, which resulted in tighter credit spreads, higher global equity prices and lower volatility levels compared with the second quarter of 2012. However, concerns and uncertainties about the outlook of the global economy, particularly as it relates to Europe, persisted, which resulted in weak investor conviction and generally low levels of activity. If these concerns and uncertainties continue over the long term, market-making revenues would likely be negatively impacted.

Three Months Ended September 2012 versus September 2011. Market-making revenues on the condensed consolidated statement of earnings were \$2.65 billion for the third quarter of 2012, 47% higher than the third quarter of 2011, primarily reflecting significantly higher revenues in mortgages, equity shares and credit products, partially offset by significantly lower revenues in commodities.

Nine Months Ended September 2012 versus September 2011. Market-making revenues on the condensed consolidated statement of earnings were \$8.65 billion for the first nine months of 2012, 8% higher than the first nine months of 2011, primarily reflecting significantly higher revenues in mortgages, interest rate products and equity shares, partially offset by significantly lower revenues in commodities and equity derivatives.

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Management's Discussion and Analysis

Other principal transactions

During the third quarter of 2012, other principal transactions revenues reflected an operating environment characterized by tighter credit spreads and an increase in global equity prices. However, concerns about the outlook for the global economy, particularly as it relates to Europe, and uncertainty over financial regulatory reform persisted during the quarter. If equity prices decline and credit spreads widen, other principal transactions revenues would be negatively impacted.

Three Months Ended September 2012 versus September 2011. Other principal transactions revenues on the condensed consolidated statement of earnings were \$1.80 billion for the third quarter of 2012, compared with negative revenues of \$2.54 billion for the third quarter of 2011. Results for the third quarter of 2012 included a gain from our investment in the ordinary shares of ICBC, net gains from other investments in equities, primarily in private equities, net gains from debt securities and loans, and revenues related to our consolidated investment entities.

In the third quarter of 2011, other principal transactions revenues included a loss from our investment in the ordinary shares of ICBC, net losses from other investments in equities, primarily in public equities, as well as net losses from debt securities and loans, primarily in mezzanine and senior corporate loans. These net losses were partially offset by revenues related to our consolidated investment entities.

Nine Months Ended September 2012 versus September 2011. Other principal transactions revenues on the condensed consolidated statements of earnings were \$3.91 billion for the first nine months of 2012, compared with \$675 million for the first nine months of 2011. Results for the first nine months of 2012 included a gain from our investment in the ordinary shares of ICBC and net gains from other investments in equities, primarily in private equities. In addition, other principal transactions revenues included net gains from debt securities and loans, and revenues related to our consolidated investment entities.

In the first nine months of 2011, other principal transactions revenues included a loss from our investment in the ordinary shares of ICBC and net gains from other investments in equities, primarily driven by gains from private equities, partially offset by losses from public equities. In addition, other principal transactions revenues included net losses from debt securities and loans, primarily reflecting the impact of significantly wider credit spreads during the first nine months of 2011, and revenues related to our consolidated investment entities.

Net Interest Income

Three Months Ended September 2012 versus September 2011. Net interest income on the condensed consolidated statements of earnings was \$836 million for the third quarter of 2012, 38% lower than the third quarter of 2011. The decrease compared with the third quarter of 2011 was primarily due to lower average yields on financial instruments, owned at fair value and collateralized agreements.

Nine Months Ended September 2012 versus September 2011. Net interest income on the condensed consolidated statements of earnings was \$2.91 billion for the first nine months of 2012, 30% lower than the first nine months of 2011. The decrease compared with the first nine months of 2011 was primarily due to lower average yields on financial instruments, owned at fair value and collateralized agreements.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. Compensation and benefits includes salaries, estimated year-end discretionary compensation, amortization of equity awards and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment.

In the context of more difficult economic and financial conditions, the firm launched an initiative during the second quarter of 2011 to identify areas where we can operate more efficiently and reduce our operating expenses. We have met our 2011 targeted annual run rate compensation and non-compensation reduction of approximately \$1.4 billion. We are currently targeting approximately \$500 million in additional annual run rate compensation and non-compensation reductions that we expect to complete by year-end.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

The table below presents our operating expenses and total staff.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September 2012	2011	Ended September 2012	2011
Compensation and benefits	\$ 3,675	\$ 1,578	\$10,968	\$10,015
Brokerage, clearing, exchange and distribution fees	547	668	1,658	1,903
Market development	123	140	369	502
Communications and technology	190	209	588	617
Depreciation and amortization	396	389	1,238	1,351
Occupancy	217	262	643	781
Professional fees	205	253	652	749
Insurance reserves ¹	153	197	431	402
Other expenses	547	621	1,486	1,520
Total non-compensation expenses	2,378	2,739	7,065	7,825
Total operating expenses	\$ 6,053	\$ 4,317	\$18,033	\$17,840
Total staff at period-end ²	32,600	34,200		

1. Revenues related to our insurance activities are included in Market making on the condensed consolidated statements of earnings.

2. Includes employees, consultants and temporary staff.

Three Months Ended September 2012 versus September 2011. Operating expenses were \$6.05 billion for the third quarter of 2012, 40% higher than the third quarter of 2011. The accrual for compensation and benefits expenses was \$3.68 billion for the third quarter of 2012, which was higher than the third quarter of 2011 due to higher net revenues. Total staff remained essentially unchanged during the third quarter of 2012.

Non-compensation expenses were \$2.38 billion, 13% lower than the third quarter of 2011. The decrease compared with the third quarter of 2011 primarily reflected lower brokerage, clearing, exchange and distribution fees which principally reflected lower transaction volumes in Equities, lower expenses related to the U.K. bank levy (approximately \$100 million related to the enactment of the U.K. bank levy was included in other expenses in the third quarter of 2011) and the impact of expense reduction initiatives. The third quarter of 2012 included net provisions for litigation and regulatory proceedings of \$62 million.

Nine Months Ended September 2012 versus September 2011. Operating expenses were \$18.03 billion for the first nine months of 2012, essentially unchanged compared with the first nine months of 2011. The accrual for compensation and benefits expenses was \$10.97 billion for the first nine months of 2012, which was higher than the first nine months of 2011 due to higher net revenues. The ratio of compensation and benefits to net revenues for the first nine months of 2012 was 44.0%, consistent with the first nine months of 2011. Total staff decreased 2% during the first nine months of 2012.

Non-compensation expenses were \$7.07 billion, 10% lower than the first nine months of 2011. The decrease compared with the first nine months of 2011 primarily reflected lower brokerage, clearing, exchange and distribution fees which principally reflected lower transaction volumes in Equities, the impact of expense reduction initiatives and lower impairment charges during the first nine months of 2012. The first nine months of 2012 included net provisions for litigation and regulatory proceedings of \$188 million.

Provision for Taxes

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The effective income tax rate for the first nine months of 2012 was 33.5%, up slightly from 33.2% for the first half of 2012 and up from 28.0% for 2011. The increase from 28.0% to 33.5% was primarily due to the earnings mix and a decrease in the impact of permanent benefits.

Effective January 1, 2012, the rules related to the deferral of U.S. tax on certain non-repatriated active financing income expired. This change did not have a material effect on our financial condition, results of operations or cash flows as of or for the three and nine months ended September 2012 and we do not expect this change to have a material effect on our financial condition, results of operations or cash flows for the remainder of 2012. This change may have a material impact on our effective tax rate for 2013 if the expired provisions are not re-enacted.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis**Segment Operating Results**

The table below presents the net revenues, operating expenses and pre-tax earnings of our segments.

<i>in millions</i>		Three Months		Nine Months	
		Ended September		Ended September	
		2012	2011	2012	2011
Investment Banking	Net revenues	\$1,164	\$ 781	\$ 3,521	\$ 3,498
	Operating expenses	825	541	2,560	2,445
	Pre-tax earnings	\$ 339	\$ 240	\$ 961	\$ 1,053
Institutional Client Services	Net revenues	\$4,184	\$ 4,062	\$13,782	\$14,224
	Operating expenses	3,186	2,631	10,016	10,255
	Pre-tax earnings	\$ 998	\$ 1,431	\$ 3,766	\$ 3,969
Investing & Lending	Net revenues	\$1,804	\$(2,479)	\$ 3,918	\$ 1,270
	Operating expenses	1,002	86	2,216	1,864
	Pre-tax earnings/(loss)	\$ 802	\$(2,565)	\$ 1,702	\$ (594)
Investment Management	Net revenues	\$1,199	\$ 1,223	\$ 3,706	\$ 3,770
	Operating expenses	977	989	3,037	3,112
	Pre-tax earnings	\$ 222	\$ 234	\$ 669	\$ 658
Total	Net revenues	\$8,351	\$ 3,587	\$24,927	\$22,762
	Operating expenses	6,053	4,317	18,033	17,840
	Pre-tax earnings/(loss)	\$2,298	\$ (730)	\$ 6,894	\$ 4,922

Total operating expenses in the table above include the following expenses that have not been allocated to our segments:

net provisions for a number of litigation and regulatory proceedings of \$62 million and \$59 million for the three months ended September 2012 and September 2011, respectively, and \$188 million and \$128 million for the nine months ended September 2012 and September 2011, respectively;

charitable contributions of \$12 million and \$25 million for the nine months ended September 2012 and September 2011, respectively; and

real estate-related exit costs of \$1 million and \$11 million for the three months ended September 2012 and September 2011, respectively, and \$4 million and \$11 million for the nine months ended September 2012 and September 2011, respectively. Real estate-related exit costs are included in Depreciation and amortization and Occupancy in the condensed consolidated statements of earnings.

Net revenues in our segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. See Note 25 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our business segments.

The cost drivers of Goldman Sachs taken as a whole—compensation, headcount and levels of business activity—are broadly similar in each of our business segments. Compensation and benefits expenses within our segments reflect, among other factors, the overall performance of Goldman Sachs as well as the performance of individual businesses. Consequently, pre-tax margins in one segment of our business may be significantly affected by the performance of our other business segments. A discussion of segment operating results follows.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis**Investment Banking**

Our Investment Banking segment is comprised of:

Financial Advisory. Includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings and spin-offs, and derivative transactions directly related to these client advisory assignments.

Underwriting. Includes public offerings and private placements of a wide range of securities, loans and other financial instruments, and derivative transactions directly related to these client underwriting activities.

The table below presents the operating results of our Investment Banking segment.

<i>in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Financial Advisory	\$ 509	\$523	\$1,467	\$1,517
Equity underwriting	189	90	683	894
Debt underwriting	466	168	1,371	1,087
Total Underwriting	655	258	2,054	1,981
Total net revenues	1,164	781	3,521	3,498
Operating expenses	825	541	2,560	2,445
Pre-tax earnings	\$ 339	\$240	\$ 961	\$1,053

The table below presents our financial advisory and underwriting transaction volumes.¹

<i>in billions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
Announced mergers and acquisitions	\$176	\$143	\$473	\$497
Completed mergers and acquisitions	153	165	374	520
Equity and equity-related offerings ²	17	6	41	48
Debt offerings ³	55	41	166	174

1. Source: Thomson Reuters. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or a change in the value of a transaction.

2. Includes Rule 144A and public common stock offerings, convertible offerings and rights offerings.

3. Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues. Excludes leveraged loans.

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Three Months Ended September 2012 versus September 2011. Net revenues in Investment Banking were \$1.16 billion, 49% higher than the third quarter of 2011.

Net revenues in Financial Advisory were \$509 million, slightly lower compared with the third quarter of 2011. Net revenues in our Underwriting business were \$655 million, more than double the amount in the third quarter of 2011, which had particularly low volumes. This increase primarily reflected significantly higher net revenues in debt underwriting, principally due to higher net revenues from leveraged finance activity. Net revenues in equity underwriting were higher compared with the third quarter of 2011, primarily reflecting an increase in client activity.

During the third quarter of 2012, Investment Banking operated in an environment generally characterized by continued concerns about the outlook for the global economy, particularly as it relates to Europe. These concerns weighed on investment banking activity, particularly in mergers and acquisitions, and initial public offerings activity levels. However, industry-wide debt underwriting activity improved compared with the second quarter of 2012, as credit spreads tightened and interest rates remained low. If macroeconomic concerns continue and result in lower levels of client activity, net revenues in Investment Banking would likely be negatively impacted.

Our investment banking transaction backlog declined slightly compared with the end of the second quarter of 2012, reflecting lower estimated net revenues from potential underwriting transactions, partially offset by higher estimated net revenues from potential advisory transactions. Estimated net revenues from potential debt underwriting transactions were lower compared with the second quarter of 2012, primarily reflecting a decrease in estimated net revenues related to underwriting commercial mortgage-backed securities and leveraged finance transactions. Estimated net revenues from potential equity underwriting transactions were also lower compared with the second quarter of 2012, reflecting a decrease in potential transactions due to uncertainty in market conditions.

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Our investment banking transaction backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not. We believe changes in our investment banking transaction backlog may be a useful indicator of client activity levels which, over the long term, impact our net revenues. However, the time frame for completion and corresponding revenue recognition of transactions in our backlog varies based on the nature of the assignment, as certain transactions may remain in our backlog for longer periods of time and others may enter and leave within the same reporting period. In addition, our transaction backlog is subject to certain limitations, such as assumptions about the likelihood that individual client transactions will occur in the future. Transactions may be cancelled or modified, and transactions not included in the estimate may also occur.

Operating expenses were \$825 million for the third quarter of 2012, 52% higher than the third quarter of 2011, due to increased compensation and benefits expenses due to higher net revenues. Pre-tax earnings were \$339 million in the third quarter of 2012, 41% higher than the third quarter of 2011.

Nine Months Ended September 2012 versus September 2011. Net revenues in Investment Banking were \$3.52 billion, essentially unchanged compared with the first nine months of 2011.

Net revenues in Financial Advisory were \$1.47 billion, slightly lower than the first nine months of 2011. Net revenues in our Underwriting business were \$2.05 billion, slightly higher than the first nine months of 2011. Net revenues in debt underwriting were significantly higher compared with the first nine months of 2011, reflecting higher net revenues across all types of underwriting offerings. Net revenues in equity underwriting were significantly lower compared with the first nine months of 2011, primarily reflecting a decline in industry-wide initial public offerings.

During the first nine months of 2012, Investment Banking operated in an environment generally characterized by continued concerns about the outlook for the global economy, particularly as it relates to Europe. These concerns weighed on investment banking activity, particularly in mergers and acquisitions, and equity and equity-related underwriting activity levels. However, industry-wide debt underwriting activity improved compared with the first nine months of 2011, as credit spreads tightened and interest rates remained low. If macroeconomic concerns continue and result in lower levels of client activity, net revenues in Investment Banking would likely be negatively impacted.

Our investment banking transaction backlog increased compared with the end of 2011. The increase compared with the end of 2011 was due to an increase in potential debt underwriting transactions, primarily reflecting an increase in leveraged finance transactions, and an increase in potential advisory transactions. These increases were partially offset by a decrease in potential equity underwriting transactions compared with the end of 2011, reflecting uncertainty in market conditions.

Operating expenses were \$2.56 billion for the first nine months of 2012, 5% higher than the first nine months of 2011, due to increased compensation and benefits expenses. Pre-tax earnings were \$961 million in the first nine months of 2012, 9% lower than the first nine months of 2011.

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Management's Discussion and Analysis

Institutional Client Services

Our Institutional Client Services segment is comprised of:

Fixed Income, Currency and Commodities Client Execution. Includes client execution activities related to making markets in interest rate products, credit products, mortgages, currencies and commodities.

We generate market-making revenues in these activities, in three ways:

In large, highly liquid markets (such as markets for U.S. Treasury bills, large capitalization S&P 500 stocks or certain mortgage pass-through certificates), we execute a high volume of transactions for our clients for modest spreads and fees.

In less liquid markets (such as mid-cap corporate bonds, growth market currencies and certain non-agency mortgage-backed securities), we execute transactions for our clients for spreads and fees that are generally somewhat larger.

We also structure and execute transactions involving customized or tailor-made products that address our clients' risk exposures, investment objectives or other complex needs (such as a jet fuel hedge for an airline).

Given the focus on the mortgage market, our mortgage activities are further described below.

Our activities in mortgages include commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives (including U.S. government agency-issued collateralized mortgage obligations, other prime, subprime and Alt-A securities and loans), and other asset-backed securities, loans and derivatives.

We buy, hold and sell long and short mortgage positions, primarily for market making for our clients. Our inventory therefore changes based on client demands and is generally held for short-term periods.

See Notes 18 and 27 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information about exposure to mortgage repurchase requests, mortgage rescissions and mortgage-related litigation.

Equities. Includes client execution activities related to making markets in equity products, as well as commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide. Equities also includes our securities services business, which provides financing, securities lending and other prime brokerage services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and generates revenues primarily in the form of interest rate spreads or fees, and revenues related to our insurance activities.

The table below presents the operating results of our Institutional Client Services segment.

	Three Months	Nine Months
	Ended September	Ended September

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<i>in millions</i>	2012	2011	2012	2011
Fixed Income, Currency and Commodities Client Execution	\$2,224	\$1,731	\$ 7,876	\$ 7,655
Equities client execution	847	903	2,407	2,505
Commissions and fees	721	1,019	2,331	2,851
Securities services	392	409	1,168	1,213
Total Equities	1,960	2,331	5,906	6,569
Total net revenues	4,184	4,062	13,782	14,224
Operating expenses	3,186	2,631	10,016	10,255
Pre-tax earnings	\$ 998	\$1,431	\$ 3,766	\$ 3,969

Three Months Ended September 2012 versus September 2011. Net revenues in Institutional Client Services were \$4.18 billion, 3% higher than the third quarter of 2011.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$2.22 billion, 28% higher than the third quarter of 2011. This increase reflected significantly higher net revenues in mortgages and higher net revenues in credit products, currencies and interest rate products, partially offset by significantly lower net revenues in commodities. During the third quarter of 2012, Fixed Income, Currency and Commodities Client Execution operated in an environment generally characterized by tighter credit spreads, as certain central banks took steps to ease monetary policy; however, broad market concerns persisted and levels of activity generally remained low.

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Net revenues in Equities were \$1.96 billion, 16% lower than the third quarter of 2011, primarily due to significantly lower commissions and fees, reflecting lower market volumes, and lower net revenues in equities client execution. In addition, net revenues in securities services were slightly lower compared with the third quarter of 2011, primarily reflecting the impact of lower average customer balances. During the quarter, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels.

The net loss attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$370 million (\$225 million and \$145 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the third quarter of 2012, compared with a net gain of \$450 million (\$308 million and \$142 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the third quarter of 2011.

During the third quarter of 2012, Institutional Client Services operated in an environment generally characterized by some positive developments, including certain central bank actions to ease monetary policy, which resulted in tighter credit spreads, higher global equity prices and lower volatility levels compared with the second quarter of 2012. However, concerns and uncertainties about the outlook of the global economy, particularly as it relates to Europe, persisted, which resulted in weak investor conviction and generally low levels of activity. If these concerns and uncertainties continue over the long term, net revenues in Fixed Income, Currency and Commodities Client Execution and Equities would likely be negatively impacted.

Operating expenses were \$3.19 billion for the third quarter of 2012, 21% higher than the third quarter of 2011, due to increased compensation and benefits expenses, partially offset by lower brokerage, clearing, exchange and distribution fees, principally reflecting lower transaction volumes in Equities. Pre-tax earnings were \$998 million in the third quarter of 2012, 30% lower than the third quarter of 2011.

Nine Months Ended September 2012 versus September 2011. Net revenues in Institutional Client Services were \$13.78 billion, 3% lower than the first nine months of 2011.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$7.88 billion, slightly higher than the first nine months of 2011, reflecting significantly higher net revenues in mortgages and higher net revenues in interest rate products, partially offset by significantly lower net revenues in commodities and lower net revenues in currencies. Net revenues in credit products were essentially unchanged compared with the first nine months of 2011. Although credit spreads generally tightened during the first nine months of 2012, broad market concerns and uncertainties contributed to generally low levels of activity, particularly during the second and third quarters of 2012.

Net revenues in Equities were \$5.91 billion, 10% lower than the first nine months of 2011, primarily due to lower commissions and fees, reflecting lower market volumes, and slightly lower net revenues in equities client execution. In addition, net revenues in securities services were slightly lower compared with the first nine months of 2011, primarily reflecting the impact of lower average customer balances. During the first nine months of 2012, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels, as compared with the first nine months of 2011.

The net loss attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$588 million (\$354 million and \$234 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the first nine months of 2012, compared with a net gain of \$576 million (\$399 million and \$177 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the first nine months of 2011.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Institutional Client Services operated in an environment generally characterized by continued broad market concerns and uncertainties, although positive developments during the first nine months of 2012 helped to improve market conditions. These developments included certain central bank actions to ease monetary policy and address funding risks for European financial institutions, which resulted in generally tighter credit spreads, higher global equity prices and lower volatility levels. However, concerns and uncertainties about the outlook of the global economy, particularly as it relates to Europe, and uncertainty over financial regulatory reform, persisted. If these concerns and uncertainties continue over the long term, net revenues in Fixed Income, Currency and Commodities Client Execution and Equities would likely continue to be negatively impacted.

Operating expenses were \$10.02 billion for the first nine months of 2012, slightly lower than the first nine months of 2011, primarily due to lower brokerage, clearing, exchange and distribution fees, principally reflecting lower transaction volumes in Equities, and the impact of impairment charges during the first nine months of 2011, principally related to Litton Loan Servicing LP. Pre-tax earnings were \$3.77 billion in the first nine months of 2012, 5% lower than the first nine months of 2011.

Investing & Lending

Investing & Lending includes our investing activities and the origination of loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds that we manage, in debt securities, loans, public and private equity securities, real estate, consolidated investment entities and power generation facilities.

The table below presents the operating results of our Investing & Lending segment.

<i>in millions</i>	Three Months Ended September		Nine Months Ended September	
	2012	2011	2012	2011
ICBC	\$ 99	\$(1,045)	\$ 74	\$(905)
Equity securities (excluding ICBC)	824	(1,004)	1,603	736
Debt securities and loans	558	(907)	1,365	317
Other	323	477	876	1,122
Total net revenues	1,804	(2,479)	3,918	1,270
Operating expenses	1,002	86	2,216	1,864
Pre-tax earnings/(loss)	\$ 802	\$(2,565)	\$1,702	\$(594)

Three Months Ended September 2012 versus September 2011. Net revenues in Investing & Lending were \$1.80 billion for the third quarter of 2012, compared with negative net revenues of \$2.48 billion for the third quarter of 2011. During the third quarter of 2012, Investing & Lending net revenues were positively impacted by tighter credit spreads and an increase in global equity prices. Results for the third quarter of 2012 included a gain of \$99 million from our investment in the ordinary shares of ICBC, net gains of \$824 million from other investments in equities, primarily in private equities, net gains and net interest income of \$558 million from debt securities and loans, and other net revenues of \$323 million, principally related to our consolidated investment entities.

During the third quarter of 2011, Investing & Lending net revenues were negatively impacted by a significant decline in global equity markets and unfavorable credit markets. Results for the third quarter of 2011 included a loss of \$1.05 billion from our investment in the ordinary shares of ICBC, net losses of \$1.00 billion from other investments in equities, primarily in public equities, as well as net losses of \$907 million from debt securities and loans, primarily in mezzanine and senior corporate loans. These net losses were partially offset by other net revenues of \$477 million, principally related to our consolidated investment entities.

Operating expenses were \$1.00 billion for the third quarter of 2012, compared with \$86 million in the third quarter of 2011. The increase compared with the third quarter of 2011 was primarily due to increased compensation and benefits expenses due to higher net revenues. Pre-tax earnings were \$802 million in the third quarter of 2012, compared with a pre-tax loss of \$2.57 billion in the third quarter of 2011.

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Nine Months Ended September 2012 versus September 2011. Net revenues in Investing & Lending were \$3.92 billion for the first nine months of 2012, compared with \$1.27 billion for the first nine months of 2011. During the first nine months of 2012, Investing & Lending net revenues were positively impacted by generally tighter credit spreads and an increase in global equity prices. Results for the first nine months of 2012 included a gain of \$74 million from our investment in the ordinary shares of ICBC and net gains of \$1.60 billion from other investments in equities, primarily in private equities. In addition, Investing & Lending included net gains and net interest income of \$1.37 billion from debt securities and loans, and other net revenues of \$876 million, principally related to our consolidated investment entities.

Results for the first nine months of 2011 included a loss of \$905 million from our investment in the ordinary shares of ICBC, net gains of \$736 million from other investments in equities, primarily driven by gains from private equities, partially offset by losses from public equities, and net revenues of \$317 million from debt securities and loans, driven by net interest income, partially offset by losses, reflecting the impact of significantly wider credit spreads during the first nine months of 2011. In addition, Investing & Lending net revenues for the first nine months of 2011 included other net revenues of \$1.12 billion, principally related to our consolidated investment entities.

Operating expenses were \$2.22 billion for the first nine months of 2012, 19% higher than the first nine months of 2011, due to increased compensation and benefits expenses due to higher net revenues, and higher impairment charges related to our consolidated investment entities. Pre-tax earnings were \$1.70 billion in the first nine months of 2012, compared with a pre-tax loss of \$594 million in the first nine months of 2011.

Investment Management

Investment Management provides investment management services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse set of institutional and individual clients. Investment Management also offers wealth advisory services, including portfolio management and financial counseling, and brokerage and other transaction services to high-net-worth individuals and families.

Assets under management typically generate fees as a percentage of net asset value, which vary by asset class and are affected by investment performance as well as asset inflows and redemptions. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund's return or when the return exceeds a specified benchmark or other performance targets. Incentive fees are recognized when all material contingencies are resolved.

The table below presents the operating results of our Investment Management segment.

<i>in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2012	2011	2012	2011
Management and other fees	\$1,016	\$1,044	\$3,038	\$3,172
Incentive fees	82	45	357	182
Transaction revenues	101	134	311	416
Total net revenues	1,199	1,223	3,706	3,770
Operating expenses	977	989	3,037	3,112
Pre-tax earnings	\$ 222	\$ 234	\$ 669	\$ 658

Assets under management include client assets where we earn a fee for managing assets on a discretionary basis. This includes net assets in our mutual funds, hedge funds and private equity funds (including real estate funds), and separately managed accounts for institutional and individual investors. Assets under management do not include the self-directed assets of our clients, including brokerage accounts, or interest-bearing deposits held through our bank depository institution subsidiaries.

The tables below present our assets under management by asset class and a summary of the changes in our assets under management.

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<i>in billions</i>	September 30,		As of	
	2012	2011	2011	2010
Alternative investments ¹	\$136	\$144	\$142	\$148
Equity	135	123	126	144
Fixed income	378	347	340	340
Total non-money market assets	649	614	608	632
Money markets	207	207	220	208
Total assets under management	\$856	\$821	\$828	\$840

1. Primarily includes hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies.

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<i>in billions</i>	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	\$836	\$844	\$828	\$840
Net inflows/(outflows)				
Alternative investments	(3)		(8)	(3)
Equity	(1)		(8)	(2)
Fixed income	5	(5)	18	(3)
Total non-money market net inflows/(outflows)	1	(5)	2	(8)
Money markets	(2)	11	(13)	(1)
Total net inflows/(outflows)	(1)	6 ¹	(11) ²	(9) ¹
Net market appreciation/(depreciation)	21	(29)	39	(10)
Balance, end of period	\$856	\$821	\$856	\$821

1. Includes \$6 billion of asset inflows across all asset classes in connection with our acquisitions of Goldman Sachs Australia Pty Ltd and Benchmark Asset Management Company Private Limited.

2. Includes \$17 billion of fixed income asset inflows in connection with our acquisition of Dwight Asset Management.

Three Months Ended September 2012 versus September 2011. Net revenues in Investment Management were \$1.20 billion, 2% lower than the third quarter of 2011. The decrease in net revenues compared with the third quarter of 2011 reflected lower transaction revenues and slightly lower management and other fees, partially offset by higher incentive fees. During the quarter, assets under management increased \$20 billion to \$856 billion, reflecting net market appreciation.

During the third quarter of 2012, Investment Management operated in an environment generally characterized by improved asset prices, resulting in appreciation in the value of client assets. However, the mix of assets under management has shifted slightly to lower risk asset classes compared with the third quarter of 2011. In the future, if asset prices were to decline or investors continue to withdraw their assets, net revenues in Investment Management would likely continue to be negatively impacted. In addition, continued concerns about the global economic outlook could result in downward pressure on assets under management.

Operating expenses were \$977 million for the third quarter of 2012, essentially unchanged compared with the third quarter of 2011. Pre-tax earnings were \$222 million in the third quarter of 2012, 5% lower than the third quarter of 2011.

Nine Months Ended September 2012 versus September 2011. Net revenues in Investment Management were \$3.71 billion, 2% lower than the first nine months of 2011 due to slightly lower management and other fees, and lower transaction revenues, partially offset by significantly higher incentive fees, primarily related to the sale of our funds' remaining investment in the ordinary shares of ICBC during the second quarter of 2012. During the first nine months of 2012, assets under management increased \$28 billion to \$856 billion. The increase in assets under management included net market appreciation of \$39 billion, primarily in fixed income and equity assets, partially offset by net outflows of \$11 billion. Net outflows included outflows in money market, equity and alternative investment assets, partially offset by inflows in fixed income assets (including \$17 billion of fixed income asset inflows in connection with our acquisition of Dwight Asset Management).

During the first nine months of 2012, Investment Management operated in an environment generally characterized by improved asset prices, resulting in appreciation in the value of client assets. However, the mix of assets under management has shifted slightly to lower risk asset classes compared with the first nine months of 2011. In the future, if asset prices were to decline or investors continue to withdraw their assets, net revenues in Investment Management would likely continue to be negatively impacted. In addition, continued concerns about the global economic outlook could result in downward pressure on assets under management.

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Operating expenses were \$3.04 billion for the first nine months of 2012, slightly lower than the first nine months of 2011. Pre-tax earnings were \$669 million in the first nine months of 2012, slightly higher than the first nine months of 2011.

Geographic Data

See Note 25 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for a summary of our total net revenues and pre-tax earnings by geographic region.

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Management's Discussion and Analysis

Regulatory Developments

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted in July 2010, significantly altered the financial regulatory regime within which we operate. The implications of the Dodd-Frank Act for our businesses will depend to a large extent on the rules that will be adopted by the Board of Governors of the Federal Reserve System (Federal Reserve Board), the Federal Deposit Insurance Corporation (FDIC), the SEC, the U.S. Commodity Futures Trading Commission (CFTC) and other agencies to implement the legislation, as well as the development of market practices and structures under the regime established by the legislation and the implementing rules. Similar reforms are being considered by other regulators and policy makers worldwide and these reforms may affect our businesses. We expect that the principal areas of impact from regulatory reform for us will be:

the Dodd-Frank prohibition on proprietary trading and the limitation on the sponsorship of, and investment in, hedge funds and private equity funds by banking entities, including bank holding companies, referred to as the Volcker Rule;

increased regulation of and restrictions on over-the-counter (OTC) derivatives markets and transactions; and

increased regulatory capital requirements.

In October 2011, the proposed rules to implement the Volcker Rule were issued and included an extensive request for comments on the proposal. The proposed rules are highly complex and many aspects of the Volcker Rule remain unclear. The full impact of the rule will depend upon the detailed scope of the prohibitions, permitted activities, exceptions and exclusions, and the full impact on the firm will not be known with certainty until the rules are finalized.

While many aspects of the Volcker Rule remain unclear, we evaluated the prohibition on proprietary trading and determined that businesses that engage in bright line proprietary trading are most likely to be prohibited. In 2011 and 2010, we liquidated substantially all of our Principal Strategies and global macro proprietary trading positions.

In addition, we evaluated the limitations on sponsorship of, and investments in, hedge funds and private equity funds. The firm earns management fees and incentive fees for investment management services from private equity and hedge funds, which are included in our Investment Management segment. The firm also makes investments in funds and the gains and losses from such investments are included in our Investing & Lending segment; these gains and losses will be impacted by the Volcker Rule. The Volcker Rule limitation on investments in hedge funds and private equity funds requires the firm to reduce its investment in each private equity and hedge fund to 3% or less of net asset value, and to reduce the firm's aggregate investment in all such funds to 3% or less of the firm's Tier 1 capital. Over the period from 1999 through the third quarter of 2012, the firm's aggregate net revenues from its investments in hedge funds and private equity funds were not material to the firm's aggregate total net revenues over the same period. We continue to manage our existing private equity funds taking into account the transition periods under the Volcker Rule. With respect to our hedge funds, we currently plan to comply with the Volcker Rule by redeeming certain of our interests in the funds. We currently expect to redeem up to approximately 10% of certain hedge funds' total redeemable units per quarter over ten consecutive quarters, beginning March 2012 and ending June 2014. We redeemed approximately \$300 million and \$800 million of these interests in hedge funds during the three and nine months ended September 2012, respectively. In addition, we have limited the firm's initial investment to 3% for certain new funds.

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As required by the Dodd-Frank Act, the Federal Reserve Board and FDIC have jointly issued a rule requiring each bank holding company with over \$50 billion in assets and each designated systemically important financial institution to provide to regulators an annual plan for its rapid and orderly resolution in the event of material financial distress or failure (resolution plan). Our resolution plan must, among other things, ensure that Goldman Sachs Bank USA (GS Bank USA) is adequately protected from risks arising from our other entities. The regulators' joint rule sets specific standards for the resolution plans, including requiring a detailed resolution strategy and analyses of the company's material entities, organizational structure, interconnections and interdependencies, and management information systems, among other elements. We submitted our first resolution plan to the regulators on June 29, 2012. GS Bank USA also submitted a plan for its rapid and orderly resolution in the event of material financial distress or failure on June 29, 2012, as required by the FDIC.

In September 2011, the SEC proposed rules to implement the Dodd-Frank Act's prohibition against securitization participants engaging in any transaction that would involve or result in any material conflict of interest with an investor in a securitization transaction. The proposed rules would except bona fide market-making activities and risk-mitigating hedging activities in connection with securitization activities from the general prohibition.

In December 2011, the Federal Reserve Board has proposed regulations designed to strengthen the regulation and supervision of large bank holding companies and systemically important nonbank financial firms. These proposals address risk-based capital and leverage requirements, liquidity requirements, single counterparty limits and early remediation requirements that are designed to address financial weakness at an early stage. Although many of the proposals mirror initiatives to which bank holding companies are already subject, their full impact on the firm will not be known with certainty until the rules are finalized. In addition, in October 2012, the Federal Reserve Board issued final rules for stress testing requirements for certain bank holding companies, including the firm.

The Dodd-Frank Act also contains provisions that include (i) requiring the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants, and the clearing and execution of more liquid swaps through regulated facilities (subject to limited exceptions) and both public and regulatory reporting of trade information, (ii) placing new requirements on swap dealers and security-based swap dealers to comply with new business conduct standards, covering their relationships with counterparties and their internal management of risks and information associated with swaps and security-based swaps, and (iii) establishing mandatory margin requirements for trades that are not cleared through a central counterparty. Although it has not yet finalized its capital regulations, the CFTC has finalized many other rules and has laid out a series of implementation deadlines in the fourth quarter of 2012 and into 2013. Among other requirements, firms that meet the regulatory definition of a swap dealer must register as such with the CFTC by December 31, 2012. Additional CFTC requirements, including business conduct standards for swap dealers and swap reporting requirements for all market participants, will also start on or shortly after December 31, 2012. In October 2012, the SEC also published proposed rules to implement certain of the above provisions of the Dodd-Frank Act related to margin and capital requirements for security-based swap dealers, major security-based swap participants and the clearing and execution of security-based swaps. Furthermore, in July 2012, the Basel Committee and the International Organization of Securities Commissions released a consultative document proposing margin requirements for non-centrally-cleared derivatives. The full impact of these proposals on the firm will not be known with certainty until the rules are finalized.

The Dodd-Frank Act also establishes a Bureau of Consumer Financial Protection having broad authority to regulate providers of credit, payment and other consumer financial products and services, and this Bureau has oversight over certain of our products and services.

See Note 20 to the condensed consolidated financial statements in Part I, Item I of this Form 10-Q for additional information about regulatory developments as they relate to our regulatory capital ratios.

See Business Regulation in Part I, Item I of our Annual Report on Form 10-K for more information.

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Management's Discussion and Analysis

Balance Sheet and Funding Sources

Balance Sheet Management

One of our most important risk management disciplines is our ability to manage the size and composition of our balance sheet. While our asset base changes due to client activity, market fluctuations and business opportunities, the size and composition of our balance sheet reflect (i) our overall risk tolerance, (ii) our ability to access stable funding sources and (iii) the amount of equity capital we hold.

Although our balance sheet fluctuates on a day-to-day basis, our total assets and adjusted assets at quarterly and year-end dates are generally not materially different from those occurring within our reporting periods.

In order to ensure appropriate risk management, we seek to maintain a liquid balance sheet and have processes in place to dynamically manage our assets and liabilities which include:

quarterly planning;

business-specific limits;

monitoring of key metrics; and

scenario analyses.

Quarterly Planning. We prepare a quarterly balance sheet plan that combines our projected total assets and composition of assets with our expected funding sources and capital levels for the upcoming quarter. The objectives of this quarterly planning process are:

to develop our near-term balance sheet projections, taking into account the general state of the financial markets and expected client-driven and firm-driven activity levels;

to ensure that our projected assets are supported by an adequate amount and tenor of funding and that our projected capital and liquidity metrics are within management guidelines; and

to allow business risk managers and managers from our independent control and support functions to objectively evaluate balance sheet limit requests from business managers in the context of the firm's overall balance sheet constraints. These constraints include the firm's liability profile and equity capital levels, maturities and plans for new debt and equity issuances, share repurchases, deposit trends and secured funding transactions.

To prepare our quarterly balance sheet plan, business risk managers and managers from our independent control and support functions meet with business managers to review current and prior period metrics and discuss expectations for the upcoming quarter. The specific metrics reviewed include asset and liability size and composition, aged inventory, limit utilization, risk and performance measures, and capital usage.

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Our consolidated quarterly plan, including our balance sheet plans by business, funding and capital projections, and projected capital and liquidity metrics, is reviewed by the Firmwide Finance Committee. See Overview and Structure of Risk Management.

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Business-Specific Limits. The Firmwide Finance Committee sets asset and liability limits for each business and aged inventory limits for certain financial instruments as a disincentive to hold inventory over longer periods of time. These limits are set at levels which are close to actual operating levels in order to ensure prompt escalation and discussion among business managers and managers in our independent control and support functions on a routine basis. The Firmwide Finance Committee reviews and approves balance sheet limits on a quarterly basis and may also approve changes in limits on an ad hoc basis in response to changing business needs or market conditions.

Monitoring of Key Metrics. We monitor key balance sheet metrics daily both by business and on a consolidated basis, including asset and liability size and composition, aged inventory, limit utilization, risk measures and capital usage. We allocate assets to businesses and review and analyze movements resulting from new business activity as well as market fluctuations.

Scenario Analyses. We conduct scenario analyses to determine how we would manage the size and composition of our balance sheet and maintain appropriate funding, liquidity and capital positions in a variety of situations:

These scenarios cover short-term and long-term time horizons using various macro-economic and firm-specific assumptions. We use these analyses to assist us in developing longer-term funding plans, including the level of unsecured debt issuances, the size of our secured funding program and the amount and composition of our equity capital. We also consider any potential future constraints, such as limits on our ability to grow our asset base in the absence of appropriate funding.

Through our Internal Capital Adequacy Assessment Process (ICAAP) and our resolution and recovery planning, we further analyze how we would manage our balance sheet and risks through the duration of a severe crisis and we develop plans to access funding, generate liquidity, and/or redeploy or issue equity capital, as appropriate.

Balance Sheet Allocation

In addition to preparing our condensed consolidated statements of financial condition in accordance with U.S. GAAP, we prepare a balance sheet that generally allocates assets to our businesses, which is a non-GAAP presentation and may not be comparable to similar non-GAAP presentations used by other companies. We believe that presenting our assets on this basis is meaningful because it is consistent with the way management views and manages risks associated with the firm's assets and better enables investors to assess the liquidity of the firm's assets. The table below presents a summary of this balance sheet allocation.

	September	As of December
<i>in millions</i>	2012	2011
Excess liquidity (Global Core Excess)	\$170,210	\$171,581
Other cash	6,328	7,888
Excess liquidity and cash	176,538	179,469
Secured client financing	246,744	283,707
Inventory	325,960	273,640
Secured financing agreements	84,819	71,103
Receivables	37,142	35,769
Institutional Client Services	447,921	380,512
ICBC	1,733	4,713
Equity (excluding ICBC)	21,662	23,041
Debt	24,003	23,311
Receivables and other	6,882	5,320

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Investing & Lending	54,280	56,385
Total inventory and related assets	502,201	436,897
Other assets	23,724	23,152
Total assets	\$949,207	\$923,225

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The following is a description of the captions in the table above.

Excess Liquidity and Cash. We maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in the event of a stressed environment. See "Liquidity Risk Management" below for details on the composition and sizing of our excess liquidity pool or "Global Core Excess" (GCE). In addition to our excess liquidity, we maintain other operating cash balances, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.

Secured Client Financing. We provide collateralized financing for client positions, including margin loans secured by client collateral, securities borrowed, and resale agreements primarily collateralized by government obligations. As a result of client activities, we are required to segregate cash and securities to satisfy regulatory requirements. Our secured client financing arrangements, which are generally short-term, are accounted for at fair value or at amounts that approximate fair value, and include daily margin requirements to mitigate counterparty credit risk.

Institutional Client Services. In Institutional Client Services, we maintain inventory positions to facilitate market-making in fixed income, equity, currency and commodity products. Additionally, as part of client market-making activities, we enter into resale or securities borrowing arrangements to obtain securities which we can use to cover transactions in which we or our clients have sold securities that have not yet been purchased. The receivables in Institutional Client Services primarily relate to securities transactions.

Investing & Lending. In Investing & Lending, we make investments and originate loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds that we manage, in debt securities, loans, public and private equity securities, real estate and other investments.

Other Assets. Other assets are generally less liquid, non-financial assets, including property, leasehold improvements and equipment, goodwill and identifiable intangible assets, income tax-related receivables, equity-method investments and miscellaneous receivables.

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The tables below present the reconciliation of this balance sheet allocation to our U.S. GAAP balance sheet. In the tables below, total assets for Institutional Client Services and Investing & Lending represent the inventory and related assets. These amounts differ from total assets by

business segment disclosed in Note 25 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q because total assets disclosed in Note 25 include allocations of our excess liquidity and cash, secured client financing and other assets.

<i>in millions</i>	As of September 2012					
	Excess Liquidity and Cash ¹	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	Total Assets
Cash and cash equivalents	\$ 63,639	\$	\$	\$	\$	\$ 63,639
Cash and securities segregated for regulatory and other purposes		53,597				53,597
Securities purchased under agreements to resell and federal funds sold	47,051	68,071	32,055	184		147,361
Securities borrowed	24,905	87,581	52,764			165,250
Receivables from brokers, dealers and clearing organizations		3,282	12,253	21		15,556
Receivables from customers and counterparties		34,213	24,889	5,685		64,787
Financial instruments owned, at fair value	40,943		325,960	48,390		415,293
Other assets					23,724	23,724
Total assets	\$176,538	\$246,744	\$447,921	\$54,280	\$23,724	\$949,207

<i>in millions</i>	As of December 2011					
	Excess Liquidity and Cash ¹	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	Total Assets
Cash and cash equivalents	\$ 56,008	\$	\$	\$	\$	\$ 56,008
Cash and securities segregated for regulatory and other purposes		64,264				64,264
Securities purchased under agreements to resell and federal funds sold	70,220	98,445	18,671	453		187,789
Securities borrowed	14,919	85,990	52,432			153,341
Receivables from brokers, dealers and clearing organizations		3,252	10,612	340		14,204
Receivables from customers and counterparties		31,756	25,157	3,348		60,261
Financial instruments owned, at fair value	38,322		273,640	52,244		364,206
Other assets					23,152	23,152
Total assets	\$179,469	\$283,707	\$380,512	\$56,385	\$23,152	\$923,225

1. Includes unencumbered cash, U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), and German, French, Japanese and United Kingdom government obligations.

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Management's Discussion and Analysis**Less Liquid Inventory Composition**

We seek to maintain a liquid balance sheet comprised of assets that can be readily sold or funded on a secured basis. However, we do hold certain financial instruments that may be more difficult to sell, or fund on a secured basis, especially during times of market stress. We focus on funding these assets with liabilities that have longer-term contractual maturities to reduce the need to refinance in periods of market stress. The table below presents our aggregate holdings in these categories of financial instruments.

	September	As of December
<i>in millions</i>	2012	2011
Bank loans and bridge loans ¹	\$21,011	\$19,745
Mortgage and other asset-backed loans and securities	17,138	14,291
Private equity investments and restricted public equity securities ²	16,827	15,463
High-yield and other debt obligations	12,864	11,118
Emerging market debt securities	8,198	4,624
Emerging market equity securities	4,933	3,922
Other investments in funds ³	2,755	3,394
ICBC ordinary shares ⁴	1,733	4,713

1. Includes funded commitments and inventory held in connection with our origination, investing and market-making activities.

2. Includes interests in funds that we manage. Such amounts exclude assets for which the firm does not bear economic exposure of \$2.41 billion and \$2.38 billion as of September 2012 and December 2011, respectively, including assets related to consolidated investment funds and consolidated variable interest entities (VIEs).

3. Includes interests in other investment funds that we manage. We redeemed approximately \$300 million and \$800 million of these interests in hedge funds during the three and nine months ended September 2012, respectively. See Results of Operations Regulatory Developments for more information about our plans to redeem certain of our interests in hedge funds to comply with the Volcker Rule.

4. Includes interests of \$2.60 billion as of December 2011, held by investment funds managed by Goldman Sachs. These investment funds no longer have an interest in the ordinary shares of ICBC.

See Notes 4 through 6 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about the financial instruments we hold.

Balance Sheet Analysis and Metrics

As of September 2012, total assets on our condensed consolidated statements of financial condition were \$949.21 billion, an increase of \$25.98 billion from December 2011. This increase was primarily due to an increase in financial instruments owned, at fair value of \$51.09 billion, primarily due to increases in non-U.S. government and agency obligations and equities and convertible debentures. This increase was partially offset by decreases in collateralized agreements of \$28.52 billion, primarily due to client activity.

As of September 2012, total liabilities on our condensed consolidated statements of financial condition were \$875.52 billion, an increase of \$22.67 billion from December 2011. This increase was primarily due to an increase in deposits of \$15.42 billion, primarily due to increases in

client activity.

As of September 2012 and December 2011, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were \$166.19 billion and \$164.50 billion, respectively, which were both 7% higher than the daily average amount of repurchase agreements over the respective quarters. As of September 2012, the increase in our repurchase agreements relative to the daily average during the quarter was due to an increase in client activity and firm financing at the end of the quarter. The level of our repurchase agreements fluctuates between and within periods, primarily due to providing clients with access to highly liquid collateral, such as U.S. government and federal agency, and investment-grade sovereign obligations through collateralized financing activities.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

The table below presents information on our assets, unsecured long-term borrowings, shareholders' equity and leverage ratios.

	As of	
	September	December
<i>\$ in millions</i>	2012	2011
Total assets	\$ 949,207	\$ 923,225
Adjusted assets	\$ 675,407	\$ 604,391
Unsecured long-term borrowings	\$ 167,878	\$ 173,545
Total shareholders' equity	\$ 73,687	\$ 70,379
Leverage ratio	12.9x	13.1x
Adjusted leverage ratio	9.2x	8.6x
Debt to equity ratio	2.3x	2.5x

Adjusted assets. Adjusted assets equals total assets less (i) low-risk collateralized assets generally associated with our secured client financing transactions, federal funds sold and excess liquidity (which includes financial instruments sold, but not yet purchased, at fair value, less derivative liabilities) and (ii) cash and securities we segregate for regulatory and other purposes. Adjusted assets is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

The table below presents the reconciliation of total assets to adjusted assets.

	As of	
	September	December
<i>in millions</i>	2012	2011
Total assets	\$ 949,207	\$ 923,225
Deduct:		
Securities borrowed	(165,250)	(153,341)
Securities purchased under agreements to resell and federal funds sold	(147,361)	(187,789)
Add:		
Financial instruments sold, but not yet purchased, at fair value	144,179	145,013
Less derivative liabilities	(51,771)	(58,453)
Subtotal	(220,203)	(254,570)
Deduct: Cash and securities segregated for regulatory and other purposes	(53,597)	(64,264)
Adjusted assets	\$ 675,407	\$ 604,391

Leverage ratio. The leverage ratio equals total assets divided by total shareholders' equity and measures the proportion of equity and debt the firm is using to finance assets. This ratio is different from the Tier 1 leverage ratio included in Equity Capital Consolidated Regulatory Capital Ratios below, and further described in Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Adjusted leverage ratio. The adjusted leverage ratio equals adjusted assets divided by total shareholders' equity. We believe that the adjusted leverage ratio is a more meaningful measure of our capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital. The adjusted leverage ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Our adjusted leverage ratio increased to 9.2x as of September 2012 from 8.6x as of December 2011 as our adjusted assets increased.

Debt to equity ratio. The debt to equity ratio equals unsecured long-term borrowings divided by total shareholders' equity.

Funding Sources

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Our primary sources of funding are secured financings, unsecured long-term and short-term borrowings, and deposits. We seek to maintain broad and diversified funding sources globally.

We raise funding through a number of different products, including:

collateralized financings, such as repurchase agreements, securities loaned and other secured financings;

long-term unsecured debt (including structured notes) through syndicated U.S. registered offerings, U.S. registered and 144A medium-term note programs, offshore medium-term note offerings and other debt offerings;

demand and savings deposits through deposit sweep programs and time deposits through internal and third-party broker-dealers; and

short-term unsecured debt through U.S. and non-U.S. commercial paper and promissory note issuances and other methods.

We generally distribute our funding products through our own sales force and third-party distributors, to a large, diverse creditor base in a variety of markets in the Americas, Europe and Asia. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies, mutual funds and individuals. We have imposed various internal guidelines to monitor creditor concentration across our funding programs.

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Secured Funding. We fund a significant amount of our inventory on a secured basis. Secured funding is less sensitive to changes in our credit quality than unsecured funding due to the nature of the collateral we post to our lenders. However, because the terms or availability of secured funding, particularly short-dated funding, can deteriorate rapidly in a difficult environment, we generally do not rely on short-dated secured funding unless it is collateralized with highly liquid securities such as government obligations.

Substantially all of our other secured funding is executed for tenors of one month or greater. Additionally, we monitor counterparty concentration and hold a portion of our GCE for refinancing risk associated with our secured funding transactions. We seek longer terms for secured funding collateralized by lower-quality assets because these funding transactions may pose greater refinancing risk. In addition, we maintain secured funding capacity that is in excess of our existing requirements. This capacity is available to finance additional eligible inventory or to replace other secured liabilities.

The weighted average maturity of our secured funding, excluding funding collateralized by highly liquid securities eligible for inclusion in our GCE, exceeded 100 days as of September 2012.

A majority of our secured funding for securities not eligible for inclusion in the GCE is executed through term repurchase agreements and securities lending contracts. We also raise financing through other types of collateralized financings, such as secured loans and notes.

GS Bank USA has access to funding through the Federal Reserve Bank discount window. While we do not rely on this funding in our liquidity planning and stress testing, we maintain policies and procedures necessary to access this funding and test discount window borrowing procedures.

Unsecured Long-Term Borrowings. We issue unsecured long-term borrowings as a source of funding for inventory and other assets and to finance a portion of our GCE. We issue in different tenors, currencies, and products to maximize the diversification of our investor base. The table below presents our quarterly unsecured long-term borrowings maturity profile through the third quarter of 2018 as of September 2012.

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The weighted average maturity of our unsecured long-term borrowings as of September 2012 was approximately eight years. To mitigate refinancing risk, we seek to limit the principal amount of debt maturing on any one day or during any week or year. We enter into interest rate swaps to convert a substantial portion of our long-term borrowings into floating-rate obligations in order to manage our exposure to interest rates. See Note 16 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our unsecured long-term borrowings.

Temporary Liquidity Guarantee Program (TLGP). The remaining portion of our senior unsecured short-term debt guaranteed by the FDIC under the TLGP matured during the second quarter of 2012. As of September 2012, no borrowings guaranteed by the FDIC under the TLGP were outstanding and the program had expired for new issuances.

Deposits. As of September 2012, our bank depository institution subsidiaries had \$61.53 billion in customer deposits, including \$25.69 billion of deposits from private wealth management clients (substantially all from overnight deposit sweep programs), \$19.99 billion of long-term certificates of deposit and other long-term time deposits with a weighted average maturity of three years and \$15.85 billion of other deposits, primarily from overnight deposit sweep programs, which are administered under long-term agreements. Substantially all of our deposits from private wealth management clients and other overnight deposit sweep programs were sourced through our own sales force and third-party distributors. We utilize deposits to finance activities in our bank subsidiaries and to support potential outflows, such as draws on unfunded commitments.

Unsecured Short-Term Borrowings. A significant portion of our short-term borrowings were originally long-term debt that is scheduled to mature within one year of the reporting date. We use short-term borrowings to finance liquid assets and for other cash management purposes. We primarily issue commercial paper, promissory notes, and other hybrid instruments.

As of September 2012, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were \$47.27 billion. See Note 15 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our unsecured short-term borrowings.

Equity Capital

Capital adequacy is of critical importance to us. Our objective is to be conservatively capitalized in terms of the amount and composition of our equity base. Accordingly, we have in place a comprehensive capital management policy that serves as a guide to determine the amount and composition of equity capital we maintain.

The level and composition of our equity capital are determined by multiple factors including our current and future consolidated regulatory capital requirements, our ICAAP and results of stress tests, and may also be influenced by other factors such as rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments. In addition, we maintain a capital plan which projects sources and uses of capital given a range of business environments, and a contingency capital plan which provides a framework for analyzing and responding to an actual or perceived capital shortfall.

As part of the Federal Reserve Board's annual Comprehensive Capital Analysis and Review, U.S. bank holding companies with total consolidated assets of \$50 billion or greater, are required to submit annual capital plans for review by the Federal Reserve Board. The purpose of the Federal Reserve Board's review is to ensure that these institutions have robust, forward-looking capital planning processes that account for their unique risks and that permit continued operations during times of economic and financial stress. The Federal Reserve Board will evaluate a bank holding company based on whether it has the capital necessary to continue operating under the baseline and stressed scenarios provided by the Federal Reserve. As part of the capital plan review, the Federal Reserve Board evaluates an institution's plan to make capital distributions, such as increasing dividend payments or repurchasing or redeeming stock, across a range of macro-economic and firm-specific assumptions. The Federal Reserve informed us that it did not object to our proposed capital actions through the first quarter of 2013, including the repurchase of outstanding common stock and the 2012 increases in the quarterly common stock dividend.

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Our consolidated regulatory capital requirements are determined by the Federal Reserve Board, as described below. Our ICAAP incorporates an internal risk-based capital assessment designed to identify and measure material risks associated with our business activities, including market risk, credit risk and operational risk, in a manner that is closely aligned with our risk management practices. Our internal risk-based capital assessment is supplemented with the results of stress tests.

As of September 2012, our total shareholders' equity was \$73.69 billion (consisting of common shareholders' equity of \$68.34 billion and preferred stock of \$5.35 billion). As of December 2011, our total shareholders' equity was \$70.38 billion (consisting of common shareholders' equity of \$67.28 billion and preferred stock of \$3.10 billion). In addition, \$2.75 billion of our junior subordinated debt issued to trusts qualifies as equity capital for regulatory and certain rating agency purposes. See Consolidated Regulatory Capital Ratios below for information regarding the impact of regulatory developments.

Consolidated Regulatory Capital

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956. As a bank holding company, we are subject to consolidated regulatory capital requirements that are computed in accordance with the Federal Reserve Board's risk-based capital requirements (which are based on the Basel I Capital Accord of the Basel Committee on Banking Supervision (Basel Committee)). These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). See Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information regarding the firm's RWAs. The firm's capital levels are also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

Federal Reserve Board regulations require bank holding companies to maintain a minimum Tier 1 capital ratio of 4% and a minimum total capital ratio of 8%. The required minimum Tier 1 capital ratio and total capital ratio in order to be considered a well-capitalized bank holding company under the Federal Reserve Board guidelines are 6% and 10%, respectively. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending on their particular condition, risk profile and growth plans. The minimum Tier 1 leverage ratio is 3% for bank holding companies that have received the highest supervisory rating under Federal Reserve Board guidelines or that have implemented the Federal Reserve Board's risk-based capital measure for market risk. Other bank holding companies must have a minimum Tier 1 leverage ratio of 4%.

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Management's Discussion and Analysis**Consolidated Regulatory Capital Ratios**

The table below presents information about our regulatory capital ratios.

	September	As of December
<i>\$ in millions</i>	2012	2011
Common shareholders' equity	\$ 68,337	\$ 67,279
Less: Goodwill	(3,763)	(3,802)
Less: Disallowable intangible assets	(1,533)	(1,666)
Less: Other deductions ¹	(5,911)	(6,649)
Tier 1 Common Capital	57,130	55,162
Preferred stock	5,350	3,100
Junior subordinated debt issued to trusts ²	2,750	5,000
Tier 1 Capital	65,230	63,262
Qualifying subordinated debt ³	13,309	13,828
Other adjustments	116	53
Tier 2 Capital	\$ 13,425	\$ 13,881
Total Capital	\$ 78,655	\$ 77,143
Risk-Weighted Assets ⁴	\$435,331	\$457,027
Tier 1 Capital Ratio	15.0%	13.8%
Total Capital Ratio	18.1%	16.9%
Tier 1 Leverage Ratio ⁴	7.2%	7.0%
Tier 1 Common Ratio ⁵	13.1%	12.1%

1. Principally includes equity investments in non-financial companies and the cumulative change in the fair value of our unsecured borrowings attributable to the impact of changes in our own credit spreads, disallowed deferred tax assets, and investments in certain nonconsolidated entities.

2. See Note 16 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information about the junior subordinated debt issued to trusts.

3. Substantially all of our subordinated debt qualifies as Tier 2 capital for Basel 1 purposes.

4. See Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information about the firm's RWAs and Tier 1 leverage ratio.

5. The Tier 1 common ratio equals Tier 1 common capital divided by RWAs. We believe that the Tier 1 common ratio is meaningful because it is one of the measures that we and investors use to assess capital adequacy and, while not currently a formal regulatory capital ratio, this measure is of increasing importance to regulators. The Tier 1 common ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Our Tier 1 capital ratio increased to 15.0% as of September 2012 from 13.8% as of December 2011 primarily reflecting an increase in shareholders' equity and a decrease in RWAs.

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See Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information about our regulatory capital ratios and the related regulatory requirements, including pending and proposed regulatory changes.

Internal Capital Adequacy Assessment Process

We perform an ICAAP with the objective of ensuring that the firm is appropriately capitalized relative to the risks in our business.

As part of our ICAAP, we perform an internal risk-based capital assessment. This assessment incorporates market risk, credit risk and operational risk. Market risk is calculated by using Value-at-Risk (VaR) calculations supplemented by risk-based add-ons which include risks related to rare events (tail risks). Credit risk utilizes assumptions about our counterparties' probability of default, the size of our losses in the event of a default and the maturity of our counterparties' contractual obligations to us. Operational risk is calculated based on scenarios incorporating multiple types of operational failures. Backtesting is used to gauge the effectiveness of models at capturing and measuring relevant risks.

We evaluate capital adequacy based on the result of our internal risk-based capital assessment, supplemented with the results of stress tests which measure the firm's performance under various market conditions. Our goal is to hold sufficient capital, under our internal risk-based capital framework, to ensure we remain adequately capitalized after experiencing a severe stress event. Our assessment of capital adequacy is viewed in tandem with our assessment of liquidity adequacy and integrated into the overall risk management structure, governance and policy framework of the firm.

We attribute capital usage to each of our businesses based upon our internal risk-based capital and regulatory frameworks and manage the levels of usage based upon the balance sheet and risk limits established.

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Rating Agency Guidelines

The credit rating agencies assign credit ratings to the obligations of Group Inc., which directly issues or guarantees substantially all of the firm's senior unsecured obligations. Goldman, Sachs & Co. (GS&Co.) and Goldman Sachs International (GSI) have been assigned long- and short-term issuer ratings by certain credit rating agencies. GS Bank USA has also been assigned long-term issuer ratings as well as ratings on its long-term and short-term bank deposits. In addition, credit rating agencies have assigned ratings to debt obligations of certain other subsidiaries of Group Inc.

The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See Liquidity Risk Management Credit Ratings for further information about credit ratings of Group Inc., GS&Co., GSI and GS Bank USA.

Subsidiary Capital Requirements

Many of our subsidiaries, including GS Bank USA and our broker-dealer subsidiaries, are subject to separate regulation and capital requirements of the jurisdictions in which they operate. For purposes of assessing the adequacy of its capital, GS Bank USA has established an ICAAP which is similar to that used by Group Inc. GS Bank USA's capital levels and prompt corrective action classification are subject to qualitative judgments by its regulators about components, risk weightings and other factors.

We expect that the capital requirements of several of our subsidiaries will be impacted in the future by the various developments arising from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators.

See Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information about GS Bank USA's capital ratios under Basel 1 as implemented by the Federal Reserve Board, and for further information about the capital requirements of our other regulated subsidiaries and the potential impact of regulatory reform.

Subsidiaries not subject to separate regulatory capital requirements may hold capital to satisfy local tax and legal guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. In certain instances, Group Inc. may be limited in its ability to access capital held at certain subsidiaries as a result of regulatory, tax or other constraints. As of September 2012 and December 2011, Group Inc.'s equity investment in subsidiaries was \$71.09 billion and \$67.70 billion, respectively, compared with its total shareholders' equity of \$73.69 billion and \$70.38 billion, respectively.

Group Inc. has guaranteed the payment obligations of GS&Co., GS Bank USA, Goldman Sachs Bank (Europe) plc and Goldman Sachs Execution & Clearing, L.P. (GSEC) subject to certain exceptions. In November 2008, Group Inc. contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee certain losses, including credit-related losses, relating to assets held by the contributed entities. In connection with this guarantee, Group Inc. also agreed to pledge to GS Bank USA certain collateral, including interests in subsidiaries and other illiquid assets.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is managed through a combination of derivatives and non-U.S. denominated debt.

Contingency Capital Plan

Our contingency capital plan provides a framework for analyzing and responding to a perceived or actual capital deficiency, including, but not limited to, identification of drivers of a capital deficiency, as well as mitigants and potential actions. It outlines the appropriate communication procedures to follow during a crisis period, including internal dissemination of information as well as ensuring timely communication with external stakeholders.

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Equity Capital Management

Our objective is to maintain a sufficient level and optimal composition of equity capital. We principally manage our capital through issuances and repurchases of our common stock. We may also, from time to time, issue or repurchase our preferred stock, junior subordinated debt issued to trusts and other subordinated debt or other forms of capital as business conditions warrant and subject to any regulatory approvals. We manage our capital requirements principally by setting limits on balance sheet assets and/or limits on risk, in each case both at the consolidated and business levels. We attribute capital usage to each of our businesses based upon our internal risk-based capital and regulatory frameworks and manage the levels of usage based upon the balance sheet and risk limits established.

See Notes 16 and 19 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

Series G Preferred Stock. In March 2011, we provided notice to Berkshire Hathaway that we would redeem in full the 50,000 shares of our Series G Preferred Stock held by Berkshire Hathaway for the stated redemption price of \$5.50 billion (\$110,000 per share), plus accrued and unpaid dividends. In connection with this notice, we recognized a preferred dividend of \$1.64 billion (calculated as the difference between the carrying value and the redemption value of the preferred stock), which was recorded as a reduction to earnings applicable to common shareholders for the first quarter of 2011. The redemption also resulted in the acceleration of \$24 million of preferred dividends related to the period from April 1, 2011 to the redemption date, which was included in our results during the three months ended March 2011. The Series G Preferred Stock was redeemed on April 18, 2011. Berkshire Hathaway continues to hold a five-year warrant, issued in October 2008, to purchase up to 43.5 million shares of common stock at an exercise price of \$115.00 per share.

Share Repurchase Program. We seek to use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our current and projected capital positions (i.e., comparisons of our desired level and composition of capital to our actual level and composition of capital) and the issuance of shares resulting from employee share-based compensation, but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock.

As of September 2012, under the share repurchase program approved by the Board, we can repurchase up to 34.2 million additional shares of common stock; however, any such repurchases are subject to the approval of the Federal Reserve Board. See "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II, Item 2 and Note 19 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information on our repurchase program.

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Management's Discussion and Analysis**Other Capital Metrics**

The table below presents information on our shareholders' equity and book value per common share.

	September	As of December
<i>in millions, except per share amounts</i>	2012	2011
Total shareholders' equity	\$73,687	\$70,379
Common shareholders' equity	68,337	67,279
Tangible common shareholders' equity	63,041	61,811
Book value per common share	140.58	130.31
Tangible book value per common share	129.69	119.72

Tangible common shareholders' equity. Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and identifiable intangible assets. We believe that tangible common shareholders' equity is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible common shareholders' equity is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

The table below presents the reconciliation of total shareholders' equity to tangible common shareholders' equity.

	September	As of December
<i>in millions</i>	2012	2011
Total shareholders' equity	\$73,687	\$70,379
Deduct: Preferred stock	(5,350)	(3,100)
Common shareholders' equity	68,337	67,279
Deduct: Goodwill and identifiable intangible assets	(5,296)	(5,468)
Tangible common shareholders' equity	\$63,041	\$61,811

Book value and tangible book value per common share. Book value and tangible book value per common share are based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 486.1 million and 516.3 million as of September 2012 and December 2011, respectively. We believe that tangible book value per common share (tangible common shareholders' equity divided by common shares outstanding) is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Off-Balance-Sheet Arrangements and Contractual Obligations**Off-Balance-Sheet Arrangements**

We have various types of off-balance-sheet arrangements that we enter into in the ordinary course of business. Our involvement in these arrangements can take many different forms, including:

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purchasing or retaining residual and other interests in special purpose entities such as mortgage-backed and other asset-backed securitization vehicles;

holding senior and subordinated debt, interests in limited and general partnerships, and preferred and common stock in other nonconsolidated vehicles;

entering into interest rate, foreign currency, equity, commodity and credit derivatives, including total return swaps;

entering into operating leases; and

providing guarantees, indemnifications, loan commitments, letters of credit and representations and warranties.

We enter into these arrangements for a variety of business purposes, including securitizations. The securitization vehicles that purchase mortgages, corporate bonds, and other types of financial assets are critical to the functioning of several significant investor markets, including the mortgage-backed and other asset-backed securities markets, since they offer investors access to specific cash flows and risks created through the securitization process.

We also enter into these arrangements to underwrite client securitization transactions; provide secondary market liquidity; make investments in performing and nonperforming debt, equity, real estate and other assets; provide investors with credit-linked and asset-repackaged notes; and receive or provide letters of credit to satisfy margin requirements and to facilitate the clearance and settlement process.

Our financial