

GOLDMAN SACHS GROUP INC

Form 10-Q

May 09, 2014

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2014

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 April 25, 2014, there were 447,176,397 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 MARCH 31, 2014

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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 Ended March	
	2014	2013
Revenues		
Investment banking	\$1,779	\$ 1,568
Investment management	1,498	1,250
Commissions and fees	872	829
Market making	2,639	3,437
Other principal transactions	1,503	2,081
Total non-interest revenues	8,291	9,165
Interest income	2,594	2,608
Interest expense	1,557	1,683
Net interest income	1,037	925
Net revenues, including net interest income	9,328	10,090
Operating expenses		
Compensation and benefits	4,011	4,339
Brokerage, clearing, exchange and distribution fees	595	561
Market development	138	141
Communications and technology	200	188
Depreciation and amortization	390	302
Occupancy	210	218
Professional fees	212	246
Insurance reserves		127

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Other expenses	551	595
Total non-compensation expenses	2,296	2,378
Total operating expenses	6,307	6,717
Pre-tax earnings	3,021	3,373
Provision for taxes	988	1,113
Net earnings	2,033	2,260
Preferred stock dividends	84	72
Net earnings applicable to common shareholders	\$1,949	\$ 2,188
Earnings per common share		
Basic	\$ 4.15	\$ 4.53
Diluted	4.02	4.29
Dividends declared per common share	\$ 0.55	\$ 0.50
Average common shares outstanding		
Basic	468.6	482.1
Diluted	484.6	509.8

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 Ended March	
	2014	2013
Net earnings	\$2,033	\$2,260
Other comprehensive income/(loss) adjustments, net of tax:		
Currency translation	(29)	(26)
Pension and postretirement liabilities	(8)	(4)
Available-for-sale securities		15
Cash flow hedges	1	
Other comprehensive loss	(36)	(15)
Comprehensive income	\$1,997	\$2,245

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	
	March 2014	December 2013
<i>in millions, except share and per share amounts</i>		
Assets		
Cash and cash equivalents	\$ 58,858	\$ 61,133
Cash and securities segregated for regulatory and other purposes (includes \$40,478 and \$31,937 at fair value as of March 2014 and December 2013, respectively)	60,180	49,671
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$134,547 and \$161,297 at fair value as of March 2014 and December 2013, respectively)	135,033	161,732
Securities borrowed (includes \$71,243 and \$60,384 at fair value as of March 2014 and December 2013, respectively)	190,735	164,566
Receivables from:		
Brokers, dealers and clearing organizations	28,285	23,840
Customers and counterparties (includes \$7,060 and \$7,416 at fair value as of March 2014 and December 2013, respectively)	86,589	88,935
Financial instruments owned, at fair value (includes \$63,229 and \$62,348 pledged as collateral as of March 2014 and December 2013, respectively)	332,533	339,121
Other assets (includes \$18 at fair value as of December 2013)	23,452	22,509
Total assets	\$915,665	\$911,507
Liabilities and shareholders' equity		
Deposits (includes \$7,696 and \$7,255 at fair value as of March 2014 and December 2013, respectively)	\$ 71,457	\$ 70,807
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	138,744	164,782
Securities loaned (includes \$596 and \$973 at fair value as of March 2014 and December 2013, respectively)	18,342	18,745
Other secured financings (includes \$23,753 and \$23,591 at fair value as of March 2014 and December 2013, respectively)	24,985	24,814
Payables to:		
Brokers, dealers and clearing organizations	14,559	5,349
Customers and counterparties	213,855	199,416
Financial instruments sold, but not yet purchased, at fair value	130,487	127,426
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$19,593 and \$19,067 at fair value as of March 2014 and December 2013, respectively)	46,391	44,692
Unsecured long-term borrowings (includes \$12,444 and \$11,691 at fair value as of March 2014 and December 2013, respectively)	165,627	160,965

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Other liabilities and accrued expenses (includes \$382 and \$388 at fair value as of March 2014 and December 2013, respectively)	12,119	16,044
Total liabilities	836,566	833,040

Commitments, contingencies and guarantees

Shareholders' equity

Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$7,200 as of both March 2014 and December 2013	7,200	7,200
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Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 849,104,281 and 837,219,068 shares issued as of March 2014 and December 2013, respectively, and 448,032,463 and 446,359,012 shares outstanding as of March 2014 and December 2013, respectively	8	8
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Restricted stock units and employee stock options	3,572	3,839
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Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding

Additional paid-in capital	49,959	48,998
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Retained earnings	73,646	71,961
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Accumulated other comprehensive loss	(560)	(524)
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Stock held in treasury, at cost, par value \$0.01 per share; 401,071,820 and 390,860,058 shares as of March 2014 and December 2013, respectively	(54,726)	(53,015)
Total shareholders' equity	79,099	78,467

Total liabilities and shareholders' equity	\$915,665	\$911,507
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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)**

<i>in millions</i>	Three Months Ended March 2014	Year Ended December 2013
Preferred stock		
Balance, beginning of year	\$ 7,200	\$ 6,200
Issued		1,000
Balance, end of period	7,200	7,200
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	3,839	3,298
Issuance and amortization of restricted stock units and employee stock options	1,556	2,017
Delivery of common stock underlying restricted stock units	(1,629)	(1,378)
Forfeiture of restricted stock units and employee stock options	(17)	(79)
Exercise of employee stock options	(177)	(19)
Balance, end of period	3,572	3,839
Additional paid-in capital		
Balance, beginning of year	48,998	48,030
Delivery of common stock underlying share-based awards	1,893	1,483
Cancellation of restricted stock units and employee stock options in satisfaction of withholding tax requirements	(1,450)	(599)
Preferred stock issuance costs		(9)
Excess net tax benefit related to share-based awards	519	94
Cash settlement of share-based compensation	(1)	(1)
Balance, end of period	49,959	48,998
Retained earnings		
Balance, beginning of year	71,961	65,223
Net earnings	2,033	8,040
Dividends and dividend equivalents declared on common stock and restricted stock units	(264)	(988)

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Dividends declared on preferred stock	(84)	(314)
Balance, end of period	73,646	71,961
Accumulated other comprehensive loss		
Balance, beginning of year	(524)	(193)
Other comprehensive loss	(36)	(331)
Balance, end of period	(560)	(524)
Stock held in treasury, at cost		
Balance, beginning of year	(53,015)	(46,850)
Repurchased	(1,719)	(6,175)
Reissued	38	40
Other	(30)	(30)
Balance, end of period	(54,726)	(53,015)
Total shareholders' equity	\$ 79,099	\$ 78,467

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)**

	Three Months	
	Ended March	
<i>in millions</i>	2014	2013
Cash flows from operating activities		
Net earnings	\$ 2,033	\$ 2,260
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities		
Depreciation and amortization	390	302
Share-based compensation	1,611	1,509
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	(10,509)	8,527
Receivables and payables, net	24,591	3,017
Collateralized transactions (excluding other secured financings), net	(25,911)	(61,821)
Financial instruments owned, at fair value	6,645	20,028
Financial instruments sold, but not yet purchased, at fair value	3,046	27,227
Other, net	(6,117)	(6,747)
Net cash used for operating activities	(4,221)	(5,698)
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(164)	(171)
Proceeds from sales of property, leasehold improvements and equipment	5	17
Business acquisitions, net of cash acquired	(309)	(160)
Proceeds from sales of investments	306	526
Purchase of available-for-sale securities		(501)
Proceeds from sales of available-for-sale securities		709
Loans held for investment, net	(3,041)	(1,373)
Net cash used for investing activities	(3,203)	(953)
Cash flows from financing activities		
Unsecured short-term borrowings, net	921	(435)
Other secured financings (short-term), net	423	(4,824)
Proceeds from issuance of other secured financings (long-term)	1,582	1,829

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Repayment of other secured financings (long-term), including the current portion	(2,240)	(969)
Proceeds from issuance of unsecured long-term borrowings	14,949	13,069
Repayment of unsecured long-term borrowings, including the current portion	(9,661)	(12,530)
Derivative contracts with a financing element, net	19	380
Deposits, net	650	2,562
Common stock repurchased	(1,719)	(1,525)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(348)	(319)
Proceeds from issuance of common stock, including stock option exercises	54	14
Excess tax benefit related to share-based compensation	520	63
Cash settlement of share-based compensation	(1)	
Net cash provided by/(used for) financing activities	5,149	(2,685)
Net decrease in cash and cash equivalents	(2,275)	(9,336)
Cash and cash equivalents, beginning of year	61,133	72,669
Cash and cash equivalents, end of period	\$ 58,858	\$ 63,333
SUPPLEMENTAL DISCLOSURES:		

Cash payments for interest, net of capitalized interest, were \$2.26 billion and \$1.96 billion during the three months ended March 2014 and March 2013, respectively.

Cash payments for income taxes, net of refunds, were \$1.40 billion and \$464 million during the three months ended March 2014 and March 2013, respectively.

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)

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 strategic 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, including domestic and cross-border transactions, 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 in and clears client transactions on major stock, options and futures exchanges worldwide and provides financing, securities lending and other 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, some of which are consolidated, directly and indirectly through funds that the firm manages, in debt securities and loans, public and private equity securities and real estate entities.

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.

Note 2.

Basis of Presentation

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.

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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, 2013. References to the 2013 Form 10-K are to the firm's Annual Report on Form 10-K for the year ended December 31, 2013. The condensed consolidated financial information as of December 31, 2013 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 March 2014 and March 2013 refer to the firm's periods ended, or the dates, as the context requires, March 31, 2014 and March 31, 2013, respectively. All references to December 2013 refer to the date December 31, 2013. 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)

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
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
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Income Taxes	Note 24
Business Segments	Note 25
Credit Concentrations	Note 26
Legal Proceedings	Note 27
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.

In general, the firm accounts for investments acquired after 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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 provisions 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 for mutual funds are calculated as a percentage of daily net asset value and are received monthly. Management fees for hedge funds and separately managed accounts are calculated as a percentage of month-end net asset value and are generally received quarterly. Management fees for private equity funds are calculated as a percentage of monthly invested capital or commitments and are received quarterly, semi-annually or annually, depending on the fund. All management fees 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.

The firm makes payments to brokers and advisors related to the placement of the firm's investment funds. These payments are computed based on either a percentage of the management fee or the investment fund's net asset value. Where the firm is principal to the arrangement, such costs are recorded on a gross basis and included in Brokerage, clearing, exchange and distribution fees, and where the firm is agent to the arrangement, such costs are recorded on a net basis in Investment management revenues.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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.

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.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of March 2014 and December 2013, Cash and cash equivalents included \$5.03 billion and \$4.14 billion, respectively, of cash and due from banks, and \$53.83 billion and \$56.99 billion, respectively, of interest-bearing deposits with banks.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans, certain transfers of assets accounted for as secured loans rather than purchases at fair value, collateral posted in connection with certain derivative transactions, and loans held for investment. 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. Receivables from customers and counterparties not accounted for at fair value, including loans held for investment, 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. See Note 8 for further information about receivables from customers and counterparties.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables 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 receivables and payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2014 and December 2013.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm's prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables 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 payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2014 and December 2013.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

Offsetting Assets and Liabilities

To reduce credit exposures on derivatives and securities financing transactions, the firm may enter into master netting agreements or similar arrangements (collectively, netting agreements) with counterparties that permit it to offset receivables and payables with such counterparties. A netting agreement is a contract with a counterparty that permits net settlement of multiple transactions with that counterparty, including upon the exercise of termination rights by a non-defaulting party. Upon exercise of such termination rights, all transactions governed by the netting agreement are terminated and a net settlement amount is calculated. In addition, the firm receives and posts cash and securities collateral with respect to its derivatives and securities financing transactions, subject to the terms of the related credit support agreements or similar arrangements (collectively, credit support agreements). An enforceable credit support agreement grants the non-defaulting party exercising termination rights the right to liquidate the collateral and apply the proceeds to any amounts owed. In order to assess enforceability of the firm's right of setoff under netting and credit support agreements, the firm evaluates various factors including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement.

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) in the condensed consolidated statements of financial condition when a legal right of setoff exists under an enforceable netting agreement. Resale and repurchase agreements and securities borrowed and loaned transactions with the same term and currency are presented on a net-by-counterparty basis in the condensed consolidated statements of financial condition when such transactions meet certain settlement criteria and are subject to netting agreements.

In the condensed consolidated statements of financial condition, derivatives are reported net of cash collateral received and posted under enforceable credit support agreements, when transacted under an enforceable netting agreement. In the condensed consolidated statements of financial condition, resale and repurchase agreements, and securities borrowed and loaned, are not reported net of the related cash and securities received or posted as collateral. See Note 9 for further information about collateral received and pledged, including rights to deliver or repledge collateral. See Notes 7 and 9 for further information about offsetting.

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.

The firm generally issues new shares of common stock upon delivery of share-based awards. In certain cases, primarily related to conflicted employment (as outlined in the applicable award agreements), the firm may cash settle share-based compensation awards accounted for as equity instruments. For these awards, whose terms allow for cash settlement, additional paid-in capital is adjusted to the extent of the difference between the value of the award at the time of cash settlement and the grant-date value of the award.

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.

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Recent Accounting Developments

Investment Companies (ASC 946). In June 2013, the FASB issued ASU No. 2013-08, Financial Services Investment Companies (Topic 946) Amendments to the Scope, Measurement, and Disclosure Requirements. ASU No. 2013-08 clarifies the approach to be used for determining whether an entity is an investment company and provides new measurement and disclosure requirements. ASU No. 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. Adoption of ASU No. 2013-08 on January 1, 2014 did not affect the firm's financial condition, results of operations, or cash flows.

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (ASC 815). In July 2013, the FASB issued ASU No. 2013-10, Derivatives and Hedging (Topic 815) Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. ASU No. 2013-10 permits the use of the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes. The ASU also removes the restriction on using different benchmark rates for similar hedges. ASU No. 2013-10 was effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 and adoption did not materially 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)****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 other financial assets and

financial liabilities accounted for at fair value primarily under 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.

	As of March 2014		As of December 2013	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
<i>in millions</i>				
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 8,773	\$	\$ 8,608	\$
U.S. government and federal agency obligations	77,000	18,858	71,072	20,920
Non-U.S. government and agency obligations	39,767	24,133	40,944	26,999
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	5,536		6,596	1
Loans and securities backed by residential real estate	9,357	2	9,025	2
Bank loans and bridge loans	17,357	878 ¹	17,400	925 ¹
Corporate debt securities	20,630	5,444	17,412	5,253
State and municipal obligations	1,328		1,476	51
Other debt obligations	3,318	1	3,129	4
Equities and convertible debentures	87,320	31,182	101,024	22,583

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Commodities	4,301	1,852	4,556	966
Subtotal	274,687	82,350	281,242	77,704
Derivatives	57,846	48,137	57,879	49,722
Total	\$332,533	\$130,487	\$339,121	\$127,426

1. 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 Market making revenues by major product type, as well as 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 and client facilitation 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.

Product Type	Three Months	
	Ended March	
<i>in millions</i>	2014	2013
Interest rates	\$ (280)	\$(1,164)
Credit	1,180	1,459
Currencies	295	2,509
Equities	683	502
Commodities	761	388
Other		(257)
Market making	2,639	3,437
Other principal transactions ¹	1,503	2,081
Total	\$ 4,142	\$ 5,518

1. Other principal transactions are included in the firm's Investing & Lending segment. See Note 25 for net revenues, including net interest income, by product type for Investing & Lending, as well as the amount of net interest income included in Investing & Lending. The Other category in Note 25 relates to the firm's consolidated investment entities, and primarily includes commodities-related net revenues.

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).

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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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The fair value hierarchy is as follows:

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.

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, 7 and 8 for further information about fair value measurements of cash instruments, derivatives and other financial assets and financial liabilities accounted for at fair value primarily under the fair value option (including information about significant unrealized gains and losses related to level 3 financial assets and financial liabilities, and transfers in and out of level 3), respectively.

The table below presents financial assets and financial liabilities accounted for at fair value under the fair value option or in accordance with other U.S. GAAP. In the table below, counterparty and cash collateral netting represents the impact on derivatives of netting across levels of the fair value hierarchy. Netting among positions classified in the same level is included in that level.

<i>\$ in millions</i>	As of	
	March 2014	December 2013
Total level 1 financial assets	\$153,199	\$156,030
Total level 2 financial assets	484,573	499,480
Total level 3 financial assets	40,923	40,013
Counterparty and cash collateral netting	(92,834)	(95,350)
Total financial assets at fair value	\$585,861	\$600,173
Total assets ¹	\$915,665	\$911,507
Total level 3 financial assets as a percentage of Total assets	4.5%	4.4%
Total level 3 financial assets as a percentage of Total financial assets at fair value	7.0%	6.7%
Total level 1 financial liabilities	\$ 71,973	\$ 68,412

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Total level 2 financial liabilities	273,929	300,583
Total level 3 financial liabilities	13,208	12,046
Counterparty and cash collateral netting	(25,415)	(25,868)
Total financial liabilities at fair value	\$333,695	\$355,173
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	4.0%	3.4%

1. Includes approximately \$892 billion and \$890 billion as of March 2014 and December 2013, respectively, that is carried at fair value or at amounts that generally approximate fair value.

Level 3 financial assets as of March 2014 increased compared with December 2013, primarily reflecting an increase in private equity investments, principally due to net transfers from level 2 and net unrealized gains.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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(Unaudited)

Valuation Techniques and Significant Inputs

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

Level 3 Cash Instruments	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	Significant inputs are generally determined based on relative value analyses and include: Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices
May include tranches of varying levels of subordination	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) A measure of expected future cash flows in a default scenario (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. Recovery rates are expressed as a percentage of notional or face value of the instrument and reflect the benefit of credit enhancements on certain instruments Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds)
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	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:

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Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral

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

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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 (primarily EBITDA multiples) and public comparables

Transactions in similar instruments

Discounted cash flow techniques

Third-party appraisals

Net asset value per share (NAV)

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 tables below present 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. Weighted averages in the tables below are calculated by weighting each input by the relative fair value of the respective financial instruments. The ranges and weighted averages 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 tables below 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 Instruments	Level 3 Assets as of March 2014 <i>(in millions)</i>	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average) as of March 2014
Loans and securities backed by commercial real estate	\$2,626	Discounted cash flows:	
		Yield	2.5% to 29.6% (10.6%)
Collateralized by a single commercial real estate property or a portfolio of properties		Recovery rate	26.0% to 95.6% (71.1%)
May include tranches of varying levels of subordination		Duration (years)	0.2 to 4.9 (1.9)
		Basis	(5) points to 19 points (4 points)
Loans and securities backed by residential real estate	\$2,065	Discounted cash flows:	
		Yield	3.4% to 30.2% (9.8%)

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Collateralized by portfolios of residential real estate

Cumulative loss rate 0.0% to 89.7% (23.4%)

May include tranches of varying levels of subordination

Duration (years) 1.2 to 17.7 (3.6)

Bank loans and bridge loans

\$9,687

Discounted cash flows:

Yield 1.0% to 27.9% (8.5%)

Recovery rate 40.0% to 92.1% (55.9%)

Duration (years) 0.3 to 6.6 (1.9)

Non-U.S. government and agency obligations

\$3,559

Discounted cash flows:

Yield 1.7% to 32.5% (8.9%)

Corporate debt securities

Recovery rate 0.0% to 84.0% (64.1%)

State and municipal obligations

Duration (years) 0.7 to 16.8 (4.7)

Other debt obligations

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

\$15,807 ¹

Comparable multiples:

Multiples 0.7x to 22.7x (6.8x)

Discounted cash flows:

Discount rate/yield 5.0% to 34.5% (15.1%)

Long-term growth rate/compound annual growth rate (3.5)% to 19.0% (7.3%)

Capitalization rate	4.2% to 11.3% (7.3%)
---------------------	----------------------

1. 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.

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Level 3 Cash Instruments	Level 3 Assets	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average) as of December 2013
	as of December 2013 <i>(in millions)</i>		
Loans and securities backed by commercial real estate	\$2,692	Discounted cash flows:	
		Yield	2.7% to 29.1% (10.1%)
Collateralized by a single commercial real estate property or a portfolio of properties		Recovery rate	26.2% to 88.1% (74.4%)
May include tranches of varying levels of subordination		Duration (years)	0.6 to 5.7 (2.0)
		Basis	(9) points to 20 points (5 points)
Loans and securities backed by residential real estate			
	\$1,961	Discounted cash flows:	
Collateralized by portfolios of residential real estate		Yield	2.6% to 25.8% (10.1%)
May include tranches of varying levels of subordination		Cumulative loss rate	9.8% to 56.6% (24.9%)
		Duration (years)	1.4 to 16.7 (3.6)
Bank loans and bridge loans	\$9,324	Discounted cash flows:	
		Yield	1.0% to 39.6% (9.3%)

Recovery rate	40.0% to 85.0% (54.9%)
---------------	------------------------

Duration (years)	0.5 to 5.3 (2.1)
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Non-U.S. government and agency obligations

\$3,977

Discounted cash flows:

Yield	1.5% to 40.2% (8.9%)
-------	----------------------

Corporate debt securities

Recovery rate	0.0% to 70.0% (61.9%)
---------------	-----------------------

State and municipal obligations

Duration (years)	0.6 to 16.1 (4.2)
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Other debt obligations

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

\$14,685 ¹

Comparable multiples:

Multiples	0.6x to 18.8x (6.9x)
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Discounted cash flows:

Discount rate/yield	6.0% to 29.1% (14.6%)
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Long-term growth rate/compound annual growth rate	1.0% to 19.0% (8.1%)
---	----------------------

Capitalization rate	4.6% to 11.3% (7.1%)
---------------------	----------------------

1. 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, basis, 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 March 2014			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 216	\$ 8,557	\$	\$ 8,773
U.S. government and federal agency obligations	33,764	43,236		77,000
Non-U.S. government and agency obligations	30,760	8,962	45	39,767
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		2,910	2,626	5,536
Loans and securities backed by residential real estate		7,292	2,065	9,357
Bank loans and bridge loans		7,670	9,687	17,357
Corporate debt securities ²	202	17,796	2,632	20,630
State and municipal obligations		1,086	242	1,328
Other debt obligations ²		2,678	640	3,318
Equities and convertible debentures	62,488	9,025	15,807 ³	87,320
Commodities		4,301		4,301
Total	\$127,430	\$113,513	\$33,744	\$274,687

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of March 2014			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 18,841	\$ 17	\$	\$ 18,858
Non-U.S. government and agency obligations	22,305	1,828		24,133
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by residential real estate		2		2
Bank loans and bridge loans		685	193	878

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Corporate debt securities	1	5,442	1	5,444
Other debt obligations			1	1
Equities and convertible debentures	30,770	403	9	31,182
Commodities		1,852		1,852
Total	\$ 71,917	\$ 10,229	\$ 204	\$ 82,350

1. Includes \$187 million and \$482 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.

2. Includes \$417 million and \$1.42 billion of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations in level 2 and level 3, respectively.

3. Includes \$14.11 billion of private equity investments, \$1.35 billion of investments in real estate entities and \$348 million of convertible debentures.

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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 2013			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 216	\$ 8,392	\$	\$ 8,608
U.S. government and federal agency obligations	29,582	41,490		71,072
Non-U.S. government and agency obligations	29,451	11,453	40	40,944
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		3,904	2,692	6,596
Loans and securities backed by residential real estate		7,064	1,961	9,025
Bank loans and bridge loans		8,076	9,324	17,400
Corporate debt securities ²	240	14,299	2,873	17,412
State and municipal obligations		1,219	257	1,476
Other debt obligations ²		2,322	807	3,129
Equities and convertible debentures	76,945	9,394	14,685 ³	101,024
Commodities		4,556		4,556
Total	\$136,434	\$112,169	\$32,639	\$281,242

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of December 2013			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 20,871	\$ 49	\$	\$ 20,920
Non-U.S. government and agency obligations	25,325	1,674		26,999
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate			1	1
Loans and securities backed by residential real estate		2		2
Bank loans and bridge loans		641	284	925
Corporate debt securities	10	5,241	2	5,253
State and municipal obligations		50	1	51
Other debt obligations		3	1	4
Equities and convertible debentures	22,107	468	8	22,583

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Commodities		966		966
Total	\$ 68,313	\$ 9,094	\$ 297	\$ 77,704

1. Includes \$295 million and \$411 million of CDOs backed by real estate in level 2 and level 3, respectively.

2. Includes \$451 million and \$1.62 billion of CDOs and CLOs backed by corporate obligations in level 2 and level 3, respectively.

3. Includes \$12.82 billion of private equity investments, \$1.37 billion of investments in real estate entities and \$491 million of convertible debentures.

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. During the three months ended March 2014, transfers into level 2 from level 1 of cash instruments were \$37 million, reflecting transfers of public equity securities due to decreased market activity in these instruments.

During the three months ended March 2014, transfers into level 1 from level 2 of cash instruments were \$104 million, reflecting transfers of public equity securities, primarily due to increased market activity in these instruments.

During the three months ended March 2013, transfers into level 2 from level 1 of cash instruments were \$43 million, reflecting transfers of public equity securities due to decreased market activity in these securities.

See level 3 rollforward below for information about transfers between level 2 and level 3.

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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. Purchases in the tables below include both originations and secondary market purchases.

Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended March 2014**Net unrealized****gains/(losses)****Net relating to**

	Balance,	Net	relating to				Transfers	Transfers	Balance,
	beginning	realized	instruments				into	out of	end of
<i>in millions</i>	of period	(losses)	period-end	Purchases	Sales	Settlements	level 3	level 3	period
Non-U.S. government and agency obligations	\$ 40	\$	\$	\$ 13	\$ (15)	\$ (1)	\$ 8	\$	\$ 45
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	2,692	26	79	150	(58)	(264)	274	(273)	2,626
Loans and securities backed by residential real estate	1,961	29	84	121	(54)	(69)	161	(168)	2,065
Bank loans and bridge loans	9,324	95	140	1,342	(646)	(884)	658	(342)	9,687
Corporate debt securities	2,873	62	62	312	(296)	(297)	197	(281)	2,632
State and municipal obligations	257	1	2	36	(53)	(1)			242

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Other debt obligations	807	9	7	56	(101)	(72)	28	(94)	640
Equities and convertible debentures	14,685	22	457	624	(221)	(245)	1,501	(1,016)	15,807
Total	\$32,639	\$244¹	\$831¹	\$2,654	\$(1,444)	\$(1,833)	\$2,827	\$(2,174)	\$33,744

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 2014

Net unrealized									
(gains)/losses									
Net relating to									
	Balance,	realized	instruments				Transfers	Transfers	Balance,
	beginning	(gains)/	still held at				into	out of	end of
<i>in millions</i>	of period	losses	period-end	Purchases	Sales	Settlements	level 3	level 3	period
Total	\$ 297	\$ (3)	\$ (41)	\$ (54)	\$ 12	\$ 3	\$ 11	\$ (21)	\$ 204

1. The aggregate amounts include gains of approximately \$128 million, \$773 million and \$174 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain on level 3 cash instruments of \$872 million (reflecting \$831 million on cash instrument assets and \$41 million on cash instrument liabilities) for the three months ended March 2014 primarily consisted of gains on private equity investments principally driven by strong corporate performance and company-specific events and bank loans and bridge loans principally due to company-specific events.

Transfers into level 3 during the three months ended March 2014 primarily reflected transfers of certain private equity investments and bank loans and bridge loans from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including market transactions in these instruments.

Transfers out of level 3 during the three months ended March 2014 primarily reflected transfers of certain private equity investments and bank loans and bridge loans to level 2 primarily due to increased price transparency as a result of market evidence, including market transactions in these 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 Three Months Ended March 2013									
	Net unrealized								
	gains/(losses)								
	Net relating to								
	Balance,	realized	instruments				Transfers	Transfers	Balance,
	beginning	gains/	still held at				into	out of	end of
<i>in millions</i>	of period	(losses)	period-end	Purchases	Sales	Settlements	level 3	level 3	period
Non-U.S. government and agency obligations	\$ 26	\$ 3	\$ 2	\$ 28	\$ (9)	\$ (1)	\$ 1	\$ (3)	\$ 47
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,389	36	91	50	(249)	(277)	318	(194)	3,164
Loans and securities backed by residential real estate	1,619	38	25	268	(172)	(56)	104	(143)	1,683
Bank loans and bridge loans	11,235	153	97	1,460	(543)	(1,361)	1,688	(1,041)	11,688
Corporate debt securities	2,821	116	157	301	(728)	(141)	116	(200)	2,442
State and municipal obligations	619	2	1	19	(269)	(1)		(37)	334
Other debt obligations	1,185	19	21	192	(210)	(201)	61	(212)	855
Equities and convertible debentures	14,855	70	481	185	(378)	(543)	1,000	(446)	15,224
Total	\$35,749	\$437 ¹	\$875 ¹	\$2,503	\$(2,558)	\$(2,581)	\$3,288	\$(2,276)	\$35,437

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 2013									
	Net unrealized								
	(gains)/losses								
	Net relating to								
	Balance,	realized	instruments				Transfers	Transfers	Balance,
	beginning	(gains)/	still held at				into	out of	end of
<i>in millions</i>	of period	losses	period-end	Purchases	Sales	Settlements	level 3	level 3	period

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Total	\$ 642	\$ (4)	\$ (11)	\$ (147)	\$ 97	\$ 3	\$ 22	\$ (161)	\$ 441
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1. The aggregate amounts include gains of approximately \$317 million, \$687 million and \$308 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain on level 3 cash instruments of \$886 million (reflecting \$875 million on cash instrument assets and \$11 million on cash instrument liabilities) for the three months ended March 2013 primarily consisted of gains on private equity investments, corporate debt securities and mortgage and other asset-backed loans and securities. Unrealized gains during the three months ended March 2013 primarily reflected the impact of an increase in equity prices and generally tighter credit spreads.

Transfers into level 3 during the three months ended March 2013 primarily reflected transfers of certain bank loans and bridge loans and private equity investments from level 2, principally due to a lack of market transactions in these instruments.

Transfers out of level 3 during the three months ended March 2013 primarily reflected transfers of certain bank loans and bridge loans and private equity investments to level 2. Transfers of bank loans and bridge loans to level 2 were principally due to market transactions in certain loans and unobservable inputs no longer being significant to the valuation of other loans. Transfers of private equity investments to level 2 were principally due to market transactions in these 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 private equity, credit, real estate and hedge funds where the firm co-invests with third-party investors.

Private equity funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations, growth investments and distressed investments. Credit 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. Real estate funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and property. The private equity, credit 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.

The firm also invests in hedge funds, 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. These 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; however, these investments also include interests where the underlying assets are illiquid in nature, and proceeds from redemptions will not be distributed until the underlying assets are liquidated.

Many of the funds described above are "covered funds" as defined by the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) which has a conformance period that ends in July 2015 subject to possible extensions through 2017.

The firm continues to manage its existing funds, including the redemption of certain of its interests in hedge funds, taking into account the transition periods under the Volcker Rule. Since March 2012, the firm has redeemed approximately \$2.25 billion of these interests in hedge funds, including approximately \$39 million during the three months ended March 2014.

For certain of the firm's covered funds, in order to be compliant with the Volcker Rule by the prescribed compliance date, to the extent that the underlying investments of the particular funds are not sold, the firm may be required to sell its investments in such funds. If that occurs, the firm may receive a value for its investments that is less than the then carrying value, as there could be a limited secondary market for these investments and the firm may be unable to sell them in orderly transactions.

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

	As of March 2014	
	Fair Value of	Unfunded
<i>in millions</i>	Investments	Commitments
Private equity funds	\$ 7,707	\$2,378
Credit funds	3,388	1,683

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Hedge funds	1,426	
Real estate funds	1,644	408
Total	\$14,165	\$4,469

	As of December 2013	
	Fair Value of	Unfunded
<i>in millions</i>	Investments	Commitments
Private equity funds	\$ 7,446	\$2,575
Credit funds	3,624	2,515
Hedge funds	1,394	
Real estate funds	1,908	471
Total	\$14,372	\$5,561

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives. Certain of the firm's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

Market-Making. As a market maker, the firm enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. 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 its 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 interest rate exposure in certain fixed-rate unsecured long-term and short-term borrowings, and deposits, to manage foreign currency exposure on the net investment in certain non-U.S. operations, and to manage the exposure to the variability in cash flows associated with the forecasted sales of certain energy commodities by one of the firm's consolidated investments.

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 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 (counterparty netting). Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements (cash collateral netting). 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.

The tables below present the fair value of derivatives on a net-by-counterparty basis.

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<i>in millions</i>	As of March 2014	
	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 5,337	\$ 4,624
OTC	52,509	43,513
Total	\$57,846	\$48,137

<i>in millions</i>	As of December 2013	
	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 4,277	\$ 6,366
OTC	53,602	43,356
Total	\$57,879	\$49,722

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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The table below presents the fair value and the notional amount of derivative contracts by major product type on a gross basis. Gross fair values exclude the effects of both counterparty netting and collateral, and therefore are not representative of the firm's exposure. The table below also presents the amounts of counterparty and cash collateral netting in the condensed consolidated statements of financial condition, as well as cash and securities collateral posted and received under enforceable credit support

agreements that do not meet the criteria for netting under U.S. GAAP. Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted in the table below. Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the firm's derivative activity and do not represent anticipated losses.

<i>in millions</i>	As of March 2014			As of December 2013		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives not accounted for as hedges						
Interest rates	\$ 582,930	\$ 530,706	\$44,797,122	\$ 641,186	\$ 587,110	\$44,110,483
Exchange-traded	224	182	3,092,629	157	271	2,366,448
OTC-cleared	207,940	192,410	25,551,648	266,230	252,596	24,888,301
Bilateral OTC	374,766	338,114	16,152,845	374,799	334,243	16,855,734
Credit	58,549	55,000	2,906,144	60,751	56,340	2,946,376
OTC-cleared	5,314	5,755	413,691	3,943	4,482	348,848
Bilateral OTC	53,235	49,245	2,492,453	56,808	51,858	2,597,528
Currencies	62,037	55,119	4,800,101	70,757	63,659	4,311,971
Exchange-traded	22	36	14,932	98	122	23,908
OTC-cleared	139	100	14,083	88	97	11,319
Bilateral OTC	61,876	54,983	4,771,086	70,571	63,440	4,276,744
Commodities	20,318	19,537	725,457	18,007	18,228	701,101
Exchange-traded	4,905	3,657	362,893	4,323	3,661	346,057
OTC-cleared	646	748	4,257	11	12	135
Bilateral OTC	14,767	15,132	358,307	13,673	14,555	354,909

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Equities	52,906	50,690	1,425,736	56,719	55,472	1,406,499
Exchange-traded	9,787	10,350	510,907	10,544	13,157	534,840
Bilateral OTC	43,119	40,340	914,829	46,175	42,315	871,659
Subtotal	776,740	711,052	54,654,560	847,420	780,809	53,476,430
Derivatives accounted for as hedges						
Interest rates	11,920	426	129,786	11,403	429	132,879
OTC-cleared	2,435	53	32,098	1,327	27	10,637
Bilateral OTC	9,485	373	97,688	10,076	402	122,242
Currencies	29	122	9,756	74	56	9,296
OTC-cleared	2	24	1,453	1	10	869
Bilateral OTC	27	98	8,303	73	46	8,427
Commodities	39		147	36		335
Exchange-traded						23
Bilateral OTC	39		147	36		312
Subtotal	11,988	548	139,689	11,513	485	142,510
Gross fair value/notional amount of derivatives	\$ 788,728 ¹	\$ 711,600 ¹	\$54,794,249	\$ 858,933 ¹	\$ 781,294 ¹	\$53,618,940
Amounts that have been offset in the condensed consolidated statements of financial condition						
Counterparty netting	(640,075)	(640,075)		(707,411)	(707,411)	
Exchange-traded	(9,601)	(9,601)		(10,845)	(10,845)	
OTC-cleared	(197,093)	(197,093)		(254,756)	(254,756)	
Bilateral OTC	(433,381)	(433,381)		(441,810)	(441,810)	
Cash collateral netting	(90,807)	(23,388)		(93,643)	(24,161)	
OTC-cleared	(18,953)	(1,789)		(16,353)	(2,515)	
Bilateral OTC	(71,854)	(21,599)		(77,290)	(21,646)	
Fair value included in financial instruments owned/financial instruments sold, but not yet purchased	\$ 57,846	\$ 48,137		\$ 57,879	\$ 49,722	
Amounts that have not been offset in the condensed consolidated statements of financial condition						
Cash collateral received/posted	(622)	(2,696)		(636)	(2,806)	
Securities collateral received/posted	(11,685)	(10,460)		(13,225)	(10,521)	
Total	\$ 45,539	\$ 34,981		\$ 44,018	\$ 36,395	

1. Includes derivative assets and derivative liabilities of \$25.01 billion and \$23.16 billion, respectively, as of March 2014, and derivative assets and derivative liabilities of \$23.18 billion and \$23.46 billion, respectively, as of December 2013, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the firm has not yet determined to be enforceable.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

Valuation Techniques for Derivatives

The firm's level 2 and level 3 derivatives are valued using derivative pricing models (e.g., discounted cash flow models, correlation models, and models that incorporate option pricing methodologies, such as Monte Carlo simulations). 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

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Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence and exchange-traded derivatives that are not actively traded and/or that are valued using models that calibrate to market-clearing levels of OTC derivatives. In evaluating the significance of a valuation input, the firm considers, among other factors, a portfolio's net risk exposure to that input.

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(Unaudited)

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, such as contractual terms, market prices, yield curves, discount rates (including those derived from interest rates on collateral received and posted as specified in credit support agreements for collateralized derivatives), credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. Significant 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.

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) and specific interest rate volatilities.

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

For level 3 equity derivatives, significant unobservable 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 correlation inputs, such as 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 unobservable 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 significant unobservable inputs used in the valuation of level 3 derivatives.

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivative portfolios 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 and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralized portion of derivative portfolios. The firm also makes funding valuation adjustments to collateralized derivatives where the terms

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of the agreement do not permit the firm to deliver or repledge collateral received. 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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Notes to Condensed Consolidated Financial Statements**(Unaudited)****Significant Unobservable Inputs**

The tables below present the ranges of significant unobservable inputs used to value the firm's level 3 derivatives as well as averages and medians of these inputs. The ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average. The ranges, averages and medians 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 tables below 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			
Level 3 Derivative	Assets/(Liabilities)	Range of Significant Unobservable	
	as of March 2014	Valuation Techniques and	Inputs (Average / Median)
	(in millions)	Significant Unobservable Inputs	as of March 2014
Interest rates	\$(31)	Option pricing models:	
		Correlation ²	22% to 84% (58% / 60%)
		Volatility	36 basis points per annum (bpa) to 165 bpa (107 bpa / 130 bpa)
Credit	\$3,958 ¹	Option pricing models, correlation models and discounted cash flows models:	

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Correlation ²

5% to 89% (59% / 60%)

Credit spreads

3 basis points (bps) to 748 bps

(147 bps / 108 bps) ³

Upfront credit points

0 points to 99 points (43 points / 38 points)

Recovery rates

20% to 85% (47% / 40%)

Currencies

\$(143)

Option pricing models:

Correlation ²

65% to 79% (72% / 72%)

Commodities

\$43 ¹

Option pricing models and discounted cash flows models:

Volatility

13% to 47% (23% / 21%)

Spread per million British Thermal units (MMBTU) of natural gas

\$(2.27) to \$4.63 (\$(0.08) / \$(0.05))

Spread per Metric Tonne (MT) of coal

\$(15.35) to \$0.50 (\$(6.23) / \$(8.00))

Equities

\$(1,883)

Option pricing models:

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Correlation ²	16% to 99% (55% / 55%)
Volatility	6% to 76% (20% / 19%)

1. The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

2. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (40)% to 78% (Average: 27% / Median: 30%) as of March 2014.

3. The difference between the average and the median for the credit spreads input indicates that the majority of the inputs fall in the lower end of the range.

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

Net Level 3			
	Assets/(Liabilities)		Range of Significant Unobservable
Level 3 Derivative	as of December 2013	Valuation Techniques and	Inputs (Average / Median)
Product Type	(in millions)	Significant Unobservable Inputs	as of December 2013
Interest rates	\$(86)	Option pricing models:	
		Correlation ²	22% to 84% (58% / 60%)
		Volatility	36 bpa to 165 bpa (107 bpa / 112 bpa)
Credit	\$4,176 ¹	Option pricing models, correlation models and discounted cash flows models:	
		Correlation ²	5% to 93% (61% / 61%)
		Credit spreads	1 bps to 1,395 bps (153 bps / 116 bps) ³
		Upfront credit points	0 points to 100 points (46 points / 43 points)
		Recovery rates	

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20% to 85% (50% / 40%)

Currencies

\$(200)

Option pricing models:

Correlation ²

65% to 79% (72% / 72%)

Commodities

\$60 ¹

Option pricing models and discounted cash flows models:

Volatility

15% to 52% (23% / 21%)

Spread per MMBTU of natural gas

\$(1.74) to \$5.62 (\$(0.11) / \$(0.04))

Spread per MT of coal

\$(17.00) to \$0.50 (\$(6.54) / \$(5.00))

Equities

\$(959)

Option pricing models:

Correlation ²

23% to 99% (58% / 59%)

Volatility

6% to 63% (20% / 20%)

1. The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

2. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (42)% to 78% (Average: 25% / Median: 30%) as of December 2013.

3. The difference between the average and the median for the credit spreads input indicates that the majority of the inputs fall in the lower end of the range.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Range of Significant Unobservable Inputs

The following provides further information about the ranges of significant unobservable inputs used to value the firm's level 3 derivative instruments.

Correlation. Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of a commodity price and a foreign exchange rate), as well as across regions. Generally, cross-asset correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.

Volatility. Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.

Credit spreads, upfront credit points and recovery rates. The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

Commodity prices and spreads. The ranges for commodity prices and spreads cover variability in products, maturities and locations, as well as peak and off-peak prices.

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. In general, 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 results in a higher fair value measurement.

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

Credit spreads, upfront credit points and recovery rates. In general, the fair value of purchased credit protection increases as credit spreads or upfront credit points increase or recovery rates decrease. Credit spreads, upfront credit points and recovery rates 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 macroeconomic conditions.

Commodity prices and spreads. In general, 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 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 as well as the impact of netting. The gross fair values exclude the effects of both counterparty netting and collateral netting, and therefore are not representative of the firm's exposure.

Counterparty netting is reflected in each level to the extent that receivable and payable balances are netted within the same level. Where the counterparty netting is across levels, the netting is reflected in Cross-Level Netting.

Derivative Assets at Fair Value as of March 2014						
<i>in millions</i>	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$14	\$ 594,452	\$ 384	\$	\$	\$ 594,850
Credit		50,701	7,848			58,549
Currencies		61,747	319			62,066
Commodities		19,821	536			20,357
Equities	2	52,045	859			52,906
Gross fair value of derivative assets	16	778,766	9,946			788,728
Counterparty and cash collateral netting		(635,184)	(2,864)	(2,027)	(90,807)	(730,882)
Fair value included in financial instruments owned	\$16	\$ 143,582	\$ 7,082	\$(2,027)	\$(90,807)	\$ 57,846

Derivative Liabilities at Fair Value as of March 2014						
<i>in millions</i>	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$39	\$ 530,678	\$ 415	\$	\$	\$ 531,132
Credit		51,110	3,890			55,000
Currencies		54,779	462			55,241
Commodities		19,044	493			19,537
Equities	17	47,931	2,742			50,690
Gross fair value of derivative liabilities	56	703,542	8,002			711,600
Counterparty and cash collateral netting		(635,184)	(2,864)	(2,027)	(23,388)	(663,463)
Fair value included in financial instruments sold, but not yet purchased	\$56	\$ 68,358	\$ 5,138	\$(2,027)	\$(23,388)	\$ 48,137

Derivative Assets at Fair Value as of December 2013

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<i>in millions</i>	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$91	\$ 652,104	\$ 394	\$	\$	\$ 652,589
Credit		52,834	7,917			60,751
Currencies		70,481	350			70,831
Commodities		17,517	526			18,043
Equities	3	55,826	890			56,719
Gross fair value of derivative assets	94	848,762	10,077			858,933
Counterparty and cash collateral netting		(702,703)	(3,001)	(1,707)	(93,643)	(801,054)
Fair value included in financial instruments owned	\$94	\$ 146,059	\$ 7,076	\$(1,707)	\$(93,643)	\$ 57,879

Derivative Liabilities at Fair Value as of December 2013						
<i>in millions</i>	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$93	\$ 586,966	\$ 480	\$	\$	\$ 587,539
Credit		52,599	3,741			56,340
Currencies		63,165	550			63,715
Commodities		17,762	466			18,228
Equities	6	53,617	1,849			55,472
Gross fair value of derivative liabilities	99	774,109	7,086			781,294
Counterparty and cash collateral netting		(702,703)	(3,001)	(1,707)	(24,161)	(731,572)
Fair value included in financial instruments sold, but not yet purchased	\$99	\$ 71,406	\$ 4,085	\$(1,707)	\$(24,161)	\$ 49,722

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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. In the tables below, negative amounts for transfers into level 3 and positive amounts for transfers out of level 3 represent net transfers of derivative liabilities.

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 March 2014

		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	\$ (86)	\$(15)	\$ (35)	\$ 7	\$ (7)	\$ 54	\$ 24	\$ 27	\$ (31)
Credit	net	4,176	(23)	330	179	(40)	(491)	85	(258)	3,958
Currencies	net	(200)	(28)	5	4	(15)	49	(3)	45	(143)
Commodities	net	60	97	23	9	(83)	(69)	(15)	21	43
Equities	net	(959)	4	356	35	(1,453)	187	(46)	(7)	(1,883)
Total derivatives	net	\$2,991	\$ 35¹	\$679¹	\$234	\$(1,598)	\$(270)	\$ 45	\$(172)	\$ 1,944

1. The aggregate amounts include gains/(losses) of approximately \$747 million and \$(33) million reported in Market making and Other principal transactions, respectively.

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The net unrealized gain on level 3 derivatives of \$679 million for the three months ended March 2014 principally resulted from changes in level 2 inputs and was primarily attributable to the impact of an increase in equity prices on certain equity derivatives and tighter credit spreads on certain credit derivatives.

Transfers into level 3 derivatives during the three months ended March 2014 primarily reflected transfers of certain credit derivatives from level 2, principally due to unobservable inputs becoming significant to the net risk of certain portfolios.

Transfers out of level 3 derivatives during the three months ended March 2014 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable inputs no longer being significant to the net risk of certain portfolios.

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

Level 3 Derivative Assets and Liabilities at Fair Value for the Three Months Ended March 2013										
<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 into level 3	Transfers out of level 3	Asset/ (liability) balance, end of period
Interest rates	net	\$ (355)	\$ (6)	\$ 30	\$ 5	\$	\$ 51	\$ (14)	\$ (16)	\$ (305)
Credit	net	6,228	(3)	18	75	(46)	(527)	230	(93)	5,882
Currencies	net	35	(8)	(329)	2	(3)	26	40	(52)	(289)
Commodities	net	(304)	22	167	38	(21)	(22)	19	74	(27)
Equities	net	(1,248)	(32)	(170)	39	(488)	141	(51)	674	(1,135)
Total derivatives	net	\$ 4,356	\$(27) ¹	\$(284) ¹	\$159	\$(558)	\$(331)	\$224	\$587	\$ 4,126

1. The aggregate amounts include losses of approximately \$193 million and \$118 million reported in Market making and Other principal transactions, respectively.

The net unrealized loss on level 3 derivatives of \$284 million for the three months ended March 2013 principally resulted from changes in level 2 inputs and was primarily attributable to changes in foreign exchange rates on certain currency derivatives and increases in equity prices on certain equity derivatives, partially offset by the impact of a decline in volatility on certain commodity derivatives.

Transfers into level 3 derivatives during the three months ended March 2013 primarily reflected transfers of certain credit derivative assets from level 2, principally due to reduced transparency of credit spread inputs used to value these derivatives.

Transfers out of level 3 derivatives during the three months ended March 2013 primarily reflected transfers of certain equity derivative liabilities to level 2, principally due to unobservable inputs no longer being significant to the valuation of 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 \$93 million and \$(83) million for the three months ended March 2014 and March 2013, respectively.

Bifurcated Embedded Derivatives

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

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	As of	
<i>in millions</i>	March 2014	December 2013
Fair value of assets	\$ 278	\$ 285
Fair value of liabilities	381	373
Net liability	\$ 103	\$ 88
Notional amount	\$8,025	\$7,580

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OTC Derivatives

The tables below present the fair values of OTC derivative assets and liabilities by tenor and major product type. Tenor is based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives. Counterparty netting within the same product type and tenor category is included within

such product type and tenor category. Counterparty netting across product types within the same tenor category is included in Counterparty and cash collateral netting. Where the counterparty netting is across tenor categories, the netting is reflected in Cross-Tenor Netting.

<i>in millions</i>	OTC Derivative Assets as of March 2014					Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting	
Interest rates	\$ 5,714	\$25,404	\$78,654	\$	\$	\$ 109,772
Credit	1,621	7,278	5,836			14,735
Currencies	6,540	8,174	7,592			22,306
Commodities	3,870	3,424	159			7,453
Equities	6,002	9,090	5,115			20,207
Counterparty and cash collateral netting	(2,342)	(4,461)	(3,419)	(20,935)	(90,807)	(121,964)
Total	\$21,405	\$48,909	\$93,937	\$(20,935)	\$(90,807)	\$ 52,509

<i>in millions</i>	OTC Derivative Liabilities as of March 2014					Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting	
Interest rates	\$ 5,358	\$16,875	\$23,864	\$	\$	\$ 46,097
Credit	3,260	5,704	2,221			11,185
Currencies	6,642	4,284	4,541			15,467
Commodities	3,368	2,239	2,274			7,881
Equities	6,415	6,970	4,043			17,428
Counterparty and cash collateral netting	(2,342)	(4,461)	(3,419)	(20,935)	(23,388)	(54,545)
Total	\$22,701	\$31,611	\$33,524	\$(20,935)	\$(23,388)	\$ 43,513

<i>in millions</i>	OTC Derivative Assets as of December 2013					Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting	

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Interest rates	\$ 7,235	\$26,029	\$75,731	\$	\$	\$ 108,995
Credit	1,233	8,410	5,787			15,430
Currencies	9,499	8,478	7,361			25,338
Commodities	2,843	4,040	143			7,026
Equities	7,016	9,229	4,972			21,217
Counterparty and cash collateral netting	(2,559)	(5,063)	(3,395)	(19,744)	(93,643)	(124,404)
Total	\$25,267	\$51,123	\$90,599	\$(19,744)	\$(93,643)	\$ 53,602

<i>in millions</i>	OTC Derivative Liabilities as of December 2013					
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting	Total
Interest rates	\$ 5,019	\$16,910	\$21,903	\$	\$	\$ 43,832
Credit	2,339	6,778	1,901			11,018
Currencies	8,843	5,042	4,313			18,198
Commodities	3,062	2,424	2,387			7,873
Equities	6,325	6,964	4,068			17,357
Counterparty and cash collateral netting	(2,559)	(5,063)	(3,395)	(19,744)	(24,161)	(54,922)
Total	\$23,029	\$33,055	\$31,177	\$(19,744)	\$(24,161)	\$ 43,356

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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.

<i>in millions</i>	March 2014	As of December 2013
Net derivative liabilities under bilateral agreements	\$22,230	\$22,176
Collateral posted	18,280	18,178
Additional collateral or termination payments for a one-notch downgrade	930	911
Additional collateral or termination payments for a two-notch downgrade	2,755	2,989

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

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.

As of March 2014, written and purchased credit derivatives had total gross notional amounts of \$1.41 trillion and \$1.49 trillion, respectively, for total net notional purchased protection of \$79.56 billion. As of December 2013, written and purchased credit derivatives had total gross notional amounts of \$1.43 trillion and \$1.52 trillion, respectively, for total net notional purchased protection of \$81.55 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 enforceable 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 Offsetting		Fair Value of Written Credit Derivatives		
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Credit Derivatives ¹	Other Purchased Credit Derivatives ²	Asset	Liability	Net Asset/ (Liability)
<i>\$ in millions</i>									
As of March 2014									
Credit spread on underlying									
(basis points)									

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0-250	\$272,975	\$ 933,487	\$103,346	\$1,309,808	\$1,198,445	\$190,998	\$32,185	\$ 4,644	\$ 27,541
251-500	9,569	30,888	10,330	50,787	34,145	12,482	2,816	693	2,123
501-1,000	3,133	16,202	1,846	21,181	17,939	5,381	286	1,595	(1,309)
Greater than 1,000	5,593	25,374	1,302	32,269	30,011	4,201	293	11,165	(10,872)
Total	\$291,270	\$1,005,951	\$116,824	\$1,414,045	\$1,280,540	\$213,062	\$35,580	\$18,097	\$ 17,483

As of December 2013

**Credit spread on
underlying**

(basis points)

0-250	\$286,029	\$ 950,126	\$ 79,241	\$1,315,396	\$1,208,334	\$183,665	\$32,508	\$ 4,396	\$ 28,112
251-500	7,148	42,570	10,086	59,804	44,642	16,884	2,837	1,147	1,690
501-1,000	3,968	18,637	1,854	24,459	22,748	2,992	101	1,762	(1,661)
Greater than 1,000	5,600	27,911	1,226	34,737	30,510	6,169	514	12,436	(11,922)
Total	\$302,745	\$1,039,244	\$ 92,407	\$1,434,396	\$1,306,234	\$209,710	\$35,960	\$19,741	\$ 16,219

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

2. This purchased protection represents the notional amount of all other purchased credit derivatives not included in Offsetting Purchased Credit Derivatives.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****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, (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 and (iii) certain commodities-related swap and forward contracts used to manage the exposure to the variability in cash flows associated with the forecasted sales of certain energy commodities by one of the firm's consolidated investments.

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.

Fair Value Hedges

The firm designates certain interest rate swaps as fair value hedges. These interest rate swaps hedge changes in fair value attributable to the designated benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR) or OIS), 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, which primarily consists of amortization of prepaid credit spreads resulting from the passage of time.

<i>in millions</i>	Three Months Ended March	
	2014	2013
Interest rate hedges	\$ 495	\$(1,843)
Hedged borrowings and bank deposits	(621)	1,393
Hedge ineffectiveness	\$(126)	\$ (450)

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Notes to Condensed Consolidated Financial Statements**(Unaudited)****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 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 Ended March	
	2014	2013
Currency hedges	\$(112)	\$220
Foreign currency-denominated debt hedges	(39)	220

The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income were not material for the three months ended March 2014 and March 2013.

As of March 2014 and December 2013, the firm had designated \$2.01 billion and \$1.97 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.

Cash Flow Hedges

Beginning in the third quarter of 2013, the firm has designated certain commodities-related swap and forward contracts as cash flow hedges. These swap and forward contracts hedge the firm's exposure to the variability in cash flows associated with the forecasted sales of certain energy commodities by one of the firm's consolidated investments.

The firm applies a statistical method that utilizes regression analysis when assessing hedge effectiveness. A cash flow hedge is considered highly effective in offsetting changes in forecasted cash flows attributable to 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 cash flow hedges, the gains or losses on derivatives, to the extent effective, are included in Cash flow hedges within the condensed consolidated statements of comprehensive income. Such gains or losses are reclassified to Other principal transactions within the condensed consolidated statements of earnings when the hedged commodities are sold or it becomes probable that the hedged forecasted sales will not occur. Gains or losses resulting from hedge ineffectiveness are included in Other principal transactions.

The effective portion of the gains recognized on these cash flow hedges, gains reclassified to earnings from accumulated other comprehensive income and gains related to hedge ineffectiveness were not material for the three months ended March 2014. There were no gains/(losses) excluded from the assessment of hedge effectiveness for the three months ended March 2014. The firm does not expect that gains related to cash flow hedges that would be reclassified to earnings within the next twelve months will be material. The length of time over which the firm is hedging its exposure to the variability in future cash flows for forecasted transactions is approximately two years.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 accounts for certain of its other financial assets and financial liabilities at fair value primarily 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 bifurcable 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:

repurchase agreements and substantially all resale agreements;

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

substantially all other secured financings, including transfers of assets accounted for as financings rather than sales;

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certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;

certain unsecured long-term borrowings, including certain prepaid commodity transactions and certain hybrid financial instruments;

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

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; and

certain subordinated liabilities issued by consolidated VIEs.

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.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 and weighted averages 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 ranges 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.

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 funding spreads, the amount and timing of expected future cash flows and interest rates. As of both March 2014 and December 2013, there were no level 3 securities borrowed or securities loaned. The ranges of significant unobservable inputs used to value level 3 resale and repurchase agreements are as follows:

As of March 2014:

Yield: 1.2% to 3.9% (weighted average: 1.3%)

Duration: 0.4 to 2.5 years (weighted average: 2.3 years)

As of December 2013:

Yield: 1.3% to 3.9% (weighted average: 1.4%)

Duration: 0.2 to 2.7 years (weighted average: 2.5 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 and financings.

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, 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 are as follows:

As of March 2014:

Funding spreads: 120 bps to 325 bps (weighted average: 255 bps)

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Yield: 1.1% to 14.3% (weighted average: 5.2%)

Duration: 0.5 to 16.8 years (weighted average: 4.5 years)

As of December 2013:

Funding spreads: 40 bps to 250 bps (weighted average: 162 bps)

Yield: 0.9% to 14.3% (weighted average: 5.0%)

Duration: 0.8 to 16.1 years (weighted average: 3.7 years)

Generally, increases in funding spreads, 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 agreements and financings.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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.

Receivables from Customers and Counterparties. Receivables from customers and counterparties at fair value 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. As of March 2014, the firm's level 3 receivables from customers and counterparties were not material. The range of significant unobservable inputs used to value level 3 secured loans as of December 2013 is as follows:

Funding spreads: 40 bps to 477 bps (weighted average: 142 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 and collateral posted in connection with certain derivative transactions. While these items 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 items been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2014.

Receivables from customers and counterparties not accounted for at fair value also includes loans held for investment, which are primarily comprised of collateralized loans to private wealth management clients and corporate loans. As of March 2014 and December 2013, the carrying value of such loans was \$17.94 billion and \$14.90 billion, respectively, which generally approximated fair value. As of March 2014, had these loans been carried at fair value and included in the fair value hierarchy, \$7.55 billion and \$10.43 billion would have been classified in level 2 and level 3, respectively. As of December 2013, had these loans been carried at fair value and included in the fair value hierarchy, \$6.16 billion and \$8.75 billion would have been classified in level 2 and level 3, respectively.

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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****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 primarily under the fair value option.

<i>in millions</i>	Other Financial Assets at Fair Value as of March 2014			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$25,753	\$ 14,725	\$	\$ 40,478
Securities purchased under agreements to resell		134,484	63	134,547
Securities borrowed		71,243		71,243
Receivables from customers and counterparties		7,026	34	7,060
Total	\$25,753	\$227,478	\$ 97	\$253,328

<i>in millions</i>	Other Financial Liabilities at Fair Value as of March 2014			
	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 7,261	\$ 435	\$ 7,696
Securities sold under agreements to repurchase		137,959	785	138,744
Securities loaned		596		596
Other secured financings		22,621	1,132	23,753
Unsecured short-term borrowings		16,201	3,392	19,593
Unsecured long-term borrowings		10,655	1,789	12,444
Other liabilities and accrued expenses		49	333	382
Total	\$	\$195,342	\$7,866	\$203,208

<i>in millions</i>	Other Financial Assets at Fair Value as of December 2013			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$19,502	\$ 12,435	\$	\$ 31,937
Securities purchased under agreements to resell		161,234	63	161,297
Securities borrowed		60,384		60,384
Receivables from customers and counterparties		7,181	235	7,416

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Other assets		18		18
Total	\$19,502	\$241,252	\$ 298	\$261,052
Other Financial Liabilities at Fair Value as of December 2013				
<i>in millions</i>	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 6,870	\$ 385	\$ 7,255
Securities sold under agreements to repurchase		163,772	1,010	164,782
Securities loaned		973		973
Other secured financings		22,572	1,019	23,591
Unsecured short-term borrowings		15,680	3,387	19,067
Unsecured long-term borrowings		9,854	1,837	11,691
Other liabilities and accrued expenses		362	26	388
Total	\$	\$220,083	\$7,664	\$227,747

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. In addition, level 1 consists of securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.

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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 months ended March 2014 and March 2013. 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 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.

Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 2014**Net unrealized****gains/(losses)**

	Balance,	Net realized	relating to					Transfers	Transfers	Balance,
	beginning	gains/	instruments					into	out of	end of
<i>in millions</i>	of period	(losses)	period-end	Purchases	Sales	Issuances	Settlements	level 3	level 3	period
Securities purchased under agreements to resell	\$ 63	\$1	\$	\$	\$	\$	\$ (1)	\$	\$	\$63
Receivables from customers and counterparties	235	1	2				(24)		(180)	34
Total	\$298	\$2¹	\$ 2¹	\$	\$	\$	\$(25)	\$	\$(180)	\$97

1. The aggregate amounts include gains of approximately \$4 million reported in Market making.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2014**

Net unrealized										
(gains)/losses										
Net relating to										
	Balance, beginning	realized (gains)/ losses	instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
<i>in millions</i>	of period	losses	period-end	Purchases	Sales	Issuances	Settlements	level 3	level 3	period
Deposits	\$ 385	\$	\$ 6	\$	\$	\$ 45	\$ (1)	\$	\$	\$ 435
Securities sold under agreements to repurchase	1,010						(225)			785
Other secured financings	1,019	5				433	(174)	29	(180)	1,132
Unsecured short-term borrowings	3,387	5	(38)			1,042	(809)	104	(299)	3,392
Unsecured long-term borrowings	1,837	14	42			124	(128)	687	(787)	1,789
Other liabilities and accrued expenses	26		6					301		333
Total	\$7,664	\$24 ¹	\$16 ¹	\$	\$	\$1,644	\$(1,337)	\$1,121	\$(1,266)	\$7,866

1. The aggregate amounts include losses of approximately \$28 million, \$6 million and \$6 million reported in Market making, Other principal transactions and Interest expense, respectively.

The net unrealized loss on level 3 other financial assets and liabilities of \$14 million (reflecting \$2 million of gains on other financial assets and \$16 million of losses on other financial liabilities) for the three months ended March 2014 primarily reflected losses on certain hybrid financial instruments included in unsecured long-term borrowings, principally due to changes in interest rates, partially offset by gains on certain hybrid financial instruments included in unsecured short-term borrowings, principally due to changes in foreign exchange rates.

Transfers out of level 3 of other financial assets during the three months ended March 2014 primarily reflected transfers of certain secured loans included in receivables from customers and counterparties to level 2, principally due to unobservable inputs not being significant to the net risk of the portfolio.

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Transfers into level 3 of other financial liabilities during the three months ended March 2014 primarily reflected transfers of certain hybrid financial instruments included in unsecured long-term borrowings from level 2, principally due to unobservable inputs being significant to the valuation of these instruments, and transfers of certain subordinated liabilities included in other liabilities and accrued expenses from level 2, principally due to decreased market transactions in the related underlying investment.

Transfers out of level 3 of other financial liabilities during the three months ended March 2014 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments and transfers of certain other secured financings to level 2, principally due to unobservable inputs not being significant to the net risk of the portfolio.

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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 Three Months Ended March 2013

Net unrealized

gains/(losses)

	Balance,	Net	relating to					Transfers	Transfers	Balance,
	beginning	realized	instruments					into	out of	end of
<i>in millions</i>	of period	(losses)	at period-end	Purchases	Sales	Issuances	Settlements	level 3	level 3	period
Securities purchased under agreements to resell	\$ 278	\$ 1	\$	\$	\$	\$	\$ (16)	\$	\$(159)	\$ 104
Receivables from customers and counterparties	641		(8)							633
Other assets	507		4	7				47		565
Total	\$ 1,426	\$ 1 ¹	\$ (4) ¹	\$ 7	\$	\$	\$ (16)	\$ 47	\$(159)	\$ 1,302

1. The aggregate amounts include gains/(losses) of approximately \$(4) million and \$1 million reported in Market making and Interest income, respectively.

Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2013

Net unrealized

(gains)/losses

	Balance,	Net	relating to					Transfers	Transfers	Balance,
	beginning	(gains)/	instruments					into	out of	end of
<i>in millions</i>	of period	losses	at period-end	Purchases	Sales	Issuances	Settlements	level 3	level 3	period
Deposits	\$ 359	\$	\$ 4	\$	\$	\$ 36	\$ (1)	\$	\$	\$ 398
Securities sold under agreements to repurchase	1,927						(150)			1,777
Other secured financings	1,412	1	(19)			394	(750)	127		1,165

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Unsecured short-term borrowings	2,584	3	(11)		453	(491)	290	(93)	2,735	
Unsecured long-term borrowings	1,917	9	(42)	(3)	175	(214)	59	(93)	1,808	
Other liabilities and accrued expenses	11,274	(13)	(191)	304		(97)			11,277	
Total	\$19,473	\$	\$(259) ¹	\$301	\$	\$1,058	\$(1,703)	\$476	\$(186)	\$19,160

1. The aggregate amounts include gains/(losses) of approximately \$337 million, \$(77) million and \$(1) million reported in Market making, Other principal transactions and Interest expense, respectively.

The net unrealized gain on level 3 other financial assets and liabilities of \$255 million (reflecting \$4 million of losses on other financial assets and \$259 million of gains on other financial liabilities) for the three months ended March 2013 primarily reflected a net gain on certain insurance liabilities, principally due to changes in foreign exchange rates, partially offset by the impact of changes in inflation and tighter funding spreads.

Transfers out of level 3 of other financial assets during the three months ended March 2013 reflected transfers of certain resale agreements to level 2, principally due to increased price transparency as a result of market transactions in similar instruments.

Transfers into level 3 of other financial liabilities during the three months ended March 2013 primarily reflected transfers of certain hybrid financial instruments from level 2, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during the three months ended March 2013 primarily reflected transfers of certain hybrid financial instruments to level 2, principally due to increased transparency of certain 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)****Gains and Losses on Financial Assets and Financial Liabilities Accounted for at Fair Value Under the Fair Value Option**

The table below presents 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 table below also includes gains and losses on the embedded derivative component of hybrid financial instruments included in unsecured short-term borrowings, unsecured long-term borrowings and deposits. 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 financial instrument at fair value.

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.

	Gains/(Losses) on Financial Assets and Financial Liabilities at Fair Value	
	Under the Fair Value Option Three Months Ended March	
<i>in millions</i>	2014	2013
Receivables from customers and counterparties ¹	\$ 217	\$ (12)
Other secured financings	(145)	(110)
Unsecured short-term borrowings ²	157	(148)
Unsecured long-term borrowings ³	(276)	198
Other liabilities and accrued expenses ⁴	19	192
Other ⁵	(71)	(15)
Total	\$ (99)	\$ 105

1. Includes gains/(losses) on certain transfers accounted for as receivables rather than purchases. Gains/(losses) for the three months ended March 2013 also includes losses on certain insurance contracts.

2. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$166 million and \$(130) million for the three months ended March 2014 and March 2013, respectively.

3. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$(285) million and \$284 million for the three months ended March 2014 and March 2013, respectively.

4.

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Includes gains/(losses) on certain subordinated liabilities issued by consolidated VIEs. Gains/(losses) for the three months ended March 2013 also includes gains on certain insurance contracts.

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

Excluding the gains and losses on the instruments accounted for under the fair value option described above, Market making and Other principal transactions primarily represent gains and losses on Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value.

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.

	March	As of December
<i>in millions</i>	2014	2013
Performing loans and long-term receivables		
Aggregate contractual principal in excess of the related fair value	\$ 3,205	\$ 3,106
Loans on nonaccrual status and/or more than 90 days past due ¹		
Aggregate contractual principal in excess of the related fair value (excluding loans carried at zero fair value and considered uncollectible)	11,530	11,041
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	2,424	2,781

1. The aggregate contractual principal amount of these loans 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 March 2014 and December 2013, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$975 million and \$1.22 billion, respectively, and the related total contractual amount of these lending commitments was \$51.93 billion and \$51.54 billion, respectively. See Note 18 for further information about lending commitments.

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Notes to Condensed Consolidated Financial Statements**(Unaudited)****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 \$83 million and \$154 million as of March 2014 and December 2013, respectively. The aggregate contractual principal amount of unsecured long-term borrowings for which the fair value option was elected exceeded the related fair value by \$224 million and \$92 million as of March 2014 and December 2013, respectively. 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 attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was \$616 million and \$794 million for the three months ended March 2014 and March 2013, 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.

<i>in millions</i>	Three Months Ended March	
	2014	2013
Net gains/(losses) including hedges	\$15	\$ (77)
Net gains/(losses) excluding hedges	14	(109)

Note 9.**Collateralized Agreements and Financings**

Collateralized agreements are securities purchased under agreements to resell (resale 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.

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<i>in millions</i>	March 2014	As of December 2013
Securities purchased under agreements to resell ¹	\$135,033	\$161,732
Securities borrowed ²	190,735	164,566
Securities sold under agreements to repurchase ¹	138,744	164,782
Securities loaned ²	18,342	18,745

1. Substantially all resale agreements and all 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 March 2014 and December 2013, \$71.24 billion and \$60.38 billion of securities borrowed and \$596 million and \$973 million of securities loaned were at fair value, respectively.

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(Unaudited)

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.

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 March 2014 or December 2013.

Securities Borrowed and Loaned Transactions

In a securities borrowed transaction, the firm borrows securities from a counterparty in exchange for cash or securities. When the firm returns the securities, the counterparty returns the cash or securities. 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. 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. See Note 8 for further information about securities borrowed and loaned accounted for at fair value.

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 March 2014 and December 2013.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The tables below present the gross and net resale and repurchase agreements and securities borrowed and loaned transactions, and the related amount of netting with the same counterparty under enforceable netting agreements (i.e., counterparty netting) included in the condensed consolidated statements of financial condition. Substantially all of the gross carrying values of these arrangements are subject to enforceable netting agreements. The tables below also present the amounts not offset in the

condensed consolidated statements of financial condition including counterparty netting that does not meet the criteria for netting under U.S. GAAP and the fair value of cash or securities collateral received or posted subject to enforceable credit support agreements. Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted in the tables below.

	As of March 2014			
	Assets		Liabilities	
	Securities purchased under agreements to resell	Securities borrowed	Securities sold under agreements to repurchase	Securities loaned
<i>in millions</i>				
Amounts included in the condensed consolidated statements of financial condition				
Gross carrying value	\$ 170,534	\$ 207,943	\$ 167,532	\$ 27,538
Counterparty netting	(28,788)	(9,196)	(28,788)	(9,196)
Total	141,746 ¹	198,747 ¹	138,744	18,342
Amounts that have not been offset in the condensed consolidated statements of financial condition				
Counterparty netting	(10,734)	(968)	(10,734)	(968)
Collateral	(121,116)	(173,400)	(110,598)	(17,246)
Total	\$ 9,896	\$ 24,379	\$ 17,412	\$ 128

	As of December 2013			
	Assets		Liabilities	
	Securities purchased under agreements to resell	Securities borrowed	Securities sold under agreements to repurchase	Securities loaned
<i>in millions</i>				
Amounts included in the condensed consolidated statements of financial condition				
Gross carrying value	\$ 190,536	\$ 172,283	\$ 183,913	\$ 23,700
Counterparty netting	(19,131)	(4,955)	(19,131)	(4,955)
Total	171,405 ¹	167,328 ¹	164,782	18,745
Amounts that have not been offset in the condensed consolidated statements of financial condition				
Counterparty netting	(10,725)	(2,224)	(10,725)	(2,224)

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Collateral	(152,914)	(147,223)	(141,300)	(16,278)
Total	\$ 7,766	\$ 17,881	\$ 12,757	\$ 243

1. As of March 2014 and December 2013, the firm had \$6.72 billion and \$9.67 billion, respectively, of securities received under resale agreements and \$8.01 billion and \$2.77 billion, respectively, of 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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 March 2014 and December 2013, nonrecourse other secured financings were \$1.74 billion and \$1.54 billion, respectively.

The firm has elected to apply the fair value option to substantially all other secured financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. 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 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 March 2014 and December 2013.

The tables below present information about other secured financings. In the tables 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; 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; and

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.

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<i>\$ in millions</i>	As of March 2014		
	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):			
At fair value	\$ 8,461	\$ 9,613	\$18,074
At amortized cost	39		39
Weighted average interest rates	5.38%	%	
Other secured financings (long-term):			
At fair value	3,595	2,084	5,679
At amortized cost	450	743	1,193
Weighted average interest rates	3.30%	1.53%	
Total¹	\$12,545	\$12,440	\$24,985
Amount of other secured financings collateralized by:			
Financial instruments ²	\$12,343	\$11,811	\$24,154
Other assets	202	629	831
<i>\$ in millions</i>	As of December 2013		
	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):			
At fair value	\$ 9,374	\$ 7,828	\$17,202
At amortized cost	88		88
Weighted average interest rates	2.86%	%	
Other secured financings (long-term):			
At fair value	3,711	2,678	6,389
At amortized cost	372	763	1,135
Weighted average interest rates	3.78%	1.53%	
Total¹	\$13,545	\$11,269	\$24,814
Amount of other secured financings collateralized by:			
Financial instruments ²	\$13,366	\$10,880	\$24,246
Other assets	179	389	568

1. Includes \$2.68 billion and \$1.54 billion related to transfers of financial assets accounted for as financings rather than sales as of March 2014 and December 2013, respectively. Such financings were collateralized by financial assets included in Financial instruments owned, at fair value of \$2.76 billion and \$1.58 billion as of March 2014 and December 2013, respectively.

2. Includes \$13.00 billion and \$14.75 billion of other secured financings collateralized by financial instruments owned, at fair value as of March 2014 and December 2013, respectively, and includes \$11.15 billion and \$9.50 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of March 2014 and December 2013, respectively.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The table below presents other secured financings by maturity.

<i>in millions</i>	As of March 2014
Other secured financings (short-term)	\$18,113
Other secured financings (long-term):	
2015	2,593
2016	2,041
2017	397
2018	766
2019	376
2020-thereafter	699
Total other secured financings (long-term)	6,872
Total other secured financings	\$24,985
Collateral Received and Pledged	

The firm receives cash and securities (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. The firm obtains cash and securities as collateral on an upfront or contingent basis for derivative instruments and collateralized agreements to reduce its credit exposure to individual counterparties.

In many cases, the firm is permitted to deliver or repledge financial instruments received as collateral 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 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 financial instruments at fair value received as collateral that were available to be delivered or repledged and were delivered or repledged by the firm.

<i>in millions</i>	As of March 2014	December 2013
Collateral available to be delivered or repledged	\$638,169	\$608,390

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Collateral that was delivered or repledged

484,728

450,127

The table below presents information about assets pledged.

<i>in millions</i>	March 2014	As of December 2013
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	\$ 63,229	\$ 62,348
Did not have the right to deliver or repledge	73,607	84,799
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	980	769

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Note 10.****Securitization Activities**

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) or through a resecuritization. The firm 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 interests in 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.

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, are included in *Financial instruments owned, at fair value* and are substantially all 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.

	Three Months	
	Ended March	
<i>in millions</i>	2014	2013
Residential mortgages	\$6,421	\$7,387
Commercial mortgages		2,352

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Total	\$6,421	\$9,739
Cash flows on retained interests	\$ 81	\$ 165

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The tables below present 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 these tables:

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.

	Outstanding Principal Amount	As of March 2014 Fair Value of Retained Interests	Fair Value of Purchased Interests
<i>in millions</i>			
U.S. government agency-issued collateralized mortgage obligations	\$63,312	\$2,878	\$
Other residential mortgage-backed	1,954	34	17
Other commercial mortgage-backed	1,927	51	69
CDOs, CLOs and other	4,166	46	5
Total	\$71,359	\$3,009	\$ 91

	Outstanding Principal Amount	As of December 2013 Fair Value of Retained Interests	Fair Value of Purchased Interests
<i>in millions</i>			
U.S. government agency-issued collateralized mortgage obligations	\$61,543	\$3,455	\$
Other residential mortgage-backed	2,072	46	
Other commercial mortgage-backed	7,087	140	153
CDOs, CLOs and other	6,861	86	8
Total ¹	\$77,563	\$3,727	\$161

1. Outstanding principal amount includes \$418 million related to securitization entities in which the firm's only continuing involvement is retained servicing which is not a variable interest.

In addition, the outstanding principal and fair value of retained interests in the tables above relate to the following types of securitizations and vintage as described:

the outstanding principal amount and fair value of retained interests for U.S. government agency-issued collateralized mortgage obligations as of March 2014 primarily relate to securitizations during 2014, 2013 and 2012, and as of December 2013 primarily relate to securitizations during 2013 and 2012;

the outstanding principal amount and fair value of retained interests for other residential mortgage-backed obligations as of both March 2014 and December 2013 primarily relate to prime and Alt-A securitizations during 2007 and 2006;

the outstanding principal amount and fair value of retained interests for other commercial mortgage-backed obligations as of both March 2014 and December 2013 primarily relate to securitizations during 2013; and

the outstanding principal amount and fair value of retained interests for CDOs, CLOs and other as of both March 2014 and December 2013 primarily relate to CDO and CLO securitizations during 2007.

In addition to the interests in the tables above, the firm had other continuing involvement in the form of derivative transactions with certain nonconsolidated VIEs. The carrying value of these derivatives was a net asset of \$55 million and \$26 million as of March 2014 and December 2013, respectively. The notional amounts of these derivatives are included in maximum exposure to loss in the nonconsolidated VIE tables in Note 11.

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The tables below do 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 below tables is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed below.

The tables below present 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. In the tables below, the constant prepayment rate is included only for positions for which it is a key assumption in the determination of fair value. The discount rate for retained interests that relate to U.S. government agency-issued collateralized mortgage obligations does not include any credit loss. Expected credit loss assumptions are reflected in the discount rate for the remainder of retained interests.

	As of March 2014	
	Type of Retained Interests	
	Mortgage-Backed	Other ¹
<i>\$ in millions</i>		
Fair value of retained interests	\$2,963	\$ 46
Weighted average life (years)	7.6	4.3
Constant prepayment rate	9.5%	N.M.
Impact of 10% adverse change	\$ (29)	N.M.
Impact of 20% adverse change	(55)	N.M.
Discount rate	3.9%	N.M.
Impact of 10% adverse change	\$ (59)	N.M.
Impact of 20% adverse change	(115)	N.M.

	As of December 2013	
	Type of Retained Interests	
	Mortgage-Backed	Other ¹
<i>\$ in millions</i>		
Fair value of retained interests	\$3,641	\$ 86
Weighted average life (years)	8.3	1.9
Constant prepayment rate	7.5%	N.M.
Impact of 10% adverse change	\$ (36)	N.M.
Impact of 20% adverse change	(64)	N.M.
Discount rate	3.9%	N.M.

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Impact of 10% adverse change	\$ (85)	N.M.
Impact of 20% adverse change	(164)	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 March 2014 and December 2013. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$46 million and \$86 million as of March 2014 and December 2013, respectively.

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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. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

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 commitments to, VIEs that hold power-related assets. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

Investment Fund VIEs. The firm makes equity investments in, and is entitled to receive fees from, certain of the investment fund VIEs it manages. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

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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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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 condensed consolidated statement of financial condition as follows:

Substantially all assets held by the firm related to mortgage-backed, corporate CDO and CLO, other asset-backed, and investment fund VIEs 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.

Assets held by the firm related to real estate, credit-related and other investing VIEs are primarily included in Financial instruments owned, at fair value, Receivables from customers and counterparties, and Other assets. Substantially all liabilities held by the firm related to real estate, credit-related and other investing VIEs are included in Financial Instruments sold, but not yet purchased, at fair value.

Assets held by the firm related to power-related VIEs are primarily included in Financial instruments owned, at fair value and Other assets.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

<i>in millions</i>	Nonconsolidated VIEs As of March 2014						Total
	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Power-related	Investment funds	
Assets in VIE	\$81,477²	\$16,888	\$9,293	\$4,459	\$906	\$2,299	\$115,322
Carrying Value of the Firm's Variable Interests							
Assets	4,334	881	2,785	246	116	49	8,411
Liabilities		5	1	17			23
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	2,963	35		11			3,009
Purchased interests	1,371	573		119			2,063
Commitments and guarantees ¹			502	160	452	3	1,117
Derivatives ¹	518	4,877	62	1,819			7,276
Loans and investments			2,785		116	49	2,950
Total	\$ 4,852²	\$ 5,485	\$3,349	\$2,109	\$568	\$ 52	\$ 16,415

<i>in millions</i>	Nonconsolidated VIEs As of December 2013						Total
	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Power-related	Investment funds	
Assets in VIE	\$86,562²	\$19,761	\$8,599	\$4,401	\$593	\$2,332	\$122,248
Carrying Value of the Firm's Variable Interests							
Assets	5,269	1,063	2,756	284	116	49	9,537
Liabilities		3	2	40			45
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	3,641	80		6			3,727
Purchased interests	1,627	659		142			2,428
Commitments and guarantees ¹			485		278	3	766
Derivatives ¹	586	4,809		2,115			7,510
Loans and investments			2,756		116	49	2,921
Total	\$ 5,854²	\$ 5,548	\$3,241	\$2,263	\$394	\$ 52	\$ 17,352

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1. The aggregate amounts include \$1.67 billion and \$2.01 billion as of March 2014 and December 2013, respectively, related to derivative transactions with VIEs to which the firm transferred assets.
2. Assets in VIE and maximum exposure to loss include \$4.62 billion and \$860 million, respectively, as of March 2014, and \$4.55 billion and \$900 million, respectively, as of December 2013, 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 March 2014			Total
	Real estate, credit-related and other investing	CDOs, mortgage-backed and other asset-backed	Principal- protected notes	
Assets				
Cash and cash equivalents	\$ 77	\$	\$	\$ 77
Cash and securities segregated for regulatory and other purposes	72		63	135
Receivables from customers and counterparties	51			51
Financial instruments owned, at fair value	1,438	324	159	1,921
Other assets	640			640
Total	\$2,278	\$324	\$ 222	\$2,824
Liabilities				
Other secured financings	\$ 304	\$222	\$ 403	\$ 929
Financial Instruments sold, but not yet purchased, at fair value		15		15
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings			1,224	1,224
Unsecured long-term borrowings	42		176	218
Other liabilities and accrued expenses	349			349
Total	\$ 695	\$237	\$1,803	\$2,735

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<i>in millions</i>	Consolidated VIEs As of December 2013			Total
	Real estate, credit-related and other investing	CDOs, mortgage-backed and other asset-backed	Principal- protected notes	
Assets				
Cash and cash equivalents	\$ 183	\$	\$	\$ 183
Cash and securities segregated for regulatory and other purposes	84		63	147
Receivables from customers and counterparties	50			50
Financial instruments owned, at fair value	1,309	310	155	1,774
Other assets	921			921
Total	\$2,547	\$310	\$ 218	\$3,075
Liabilities				
Other secured financings	\$ 417	\$198	\$ 404	\$1,019
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings			1,258	1,258
Unsecured long-term borrowings	57		193	250
Other liabilities and accrued expenses	556			556
Total	\$1,030	\$198	\$1,855	\$3,083

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Note 12.****Other Assets**

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

<i>in millions</i>	March 2014	As of December 2013
Property, leasehold improvements and equipment	\$ 8,944	\$ 9,196
Goodwill and identifiable intangible assets	4,486	4,376
Income tax-related assets ¹	5,712	5,241
Equity-method investments ²	397	417
Miscellaneous receivables and other ³	3,913	3,279
Total	\$23,452	\$22,509

1. See Note 24 for information about income taxes.

2. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of \$5.96 billion and \$6.07 billion as of March 2014 and December 2013, 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.

3. Includes \$382 million related to investments in qualified affordable housing projects as of March 2014.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment in the table above is presented net of accumulated depreciation and amortization of \$9.29 billion and \$9.04 billion as of March 2014 and December 2013, respectively. Property, leasehold improvements and equipment included \$5.98 billion and \$6.02 billion as of March 2014 and December 2013, 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.

Impairments

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The firm tests property, leasehold improvements and equipment, identifiable intangible assets and other assets for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. To the extent the carrying value of an asset exceeds the projected undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group, the firm determines the asset is impaired and records an impairment loss equal to the difference between the estimated fair value and the carrying value of the asset or asset group. In addition, the firm will recognize an impairment loss prior to the sale of an asset if the carrying value of the asset exceeds its estimated fair value.

During the first quarter of 2014, as a result of continued deterioration in market and operating conditions, the firm determined that certain assets of a consolidated investment in Latin America were impaired and recorded impairment losses of \$150 million (\$136 million related to property, leasehold improvements and equipment and \$14 million related to identifiable intangible assets).

These impairment losses, all of which were included in Depreciation and amortization within the firm's Investing & Lending segment, represented the excess of the carrying values of these assets over their estimated fair values, which are calculated using level 3 measurements. These fair values were calculated using a combination of discounted cash flow analyses and relative value analyses, including the estimated cash flows expected to result from the use and eventual disposition of these assets.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

<i>in millions</i>	March 2014	Goodwill As of December 2013
Investment Banking:		
Financial Advisory	\$ 98	\$ 98
Underwriting	183	183
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	269	269
Equities Client Execution	2,404	2,404
Securities Services	105	105
Investing & Lending	60	60
Investment Management	587	586
Total	\$3,706	\$3,705
		Identifiable Intangible Assets As of
<i>in millions</i>	March 2014	December 2013
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution ¹	\$ 175	\$ 35
Equities Client Execution	334	348
Investing & Lending	152	180
Investment Management	119	108
Total	\$ 780	\$ 671

1. The increase from December 2013 to March 2014 is primarily related to the acquisition of commodities-related 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.

When assessing goodwill for impairment, first, 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 test would be 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 identifiable 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.

During the fourth quarter of 2013, the firm assessed goodwill for impairment. Multiple factors were assessed with respect to each of the firm's reporting units to determine whether it was more likely than not that the fair value of any of the reporting units was less than its carrying amount. The qualitative assessment considered changes since the quantitative goodwill impairment test performed during the fourth quarter of 2012 (2012 quantitative goodwill test).

In accordance with ASC 350, the firm considered the following factors in the 2013 qualitative assessment performed in the fourth quarter when evaluating whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount:

Macroeconomic conditions. Since the 2012 quantitative goodwill test was performed, the firm's general operating environment improved as credit spreads tightened, global equity prices increased significantly, levels of volatility were generally lower and industry-wide equity underwriting activity improved.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Industry and market considerations. Since the 2012 quantitative goodwill test was performed, industry-wide metrics have trended positively and many industry participants, including the firm, experienced increases in stock price, price-to-book multiples and price-to-earnings multiples. In addition, clarity was obtained on a number of regulations. It is early in the process of determining the impact of these regulations, the rules are highly complex and their full impact will not be known until market practices are fully developed. However, the firm does not expect compliance to have a significant negative impact on reporting unit results.

Cost factors. Although certain expenses increased, there were no significant negative changes to the firm's overall cost structure since the 2012 quantitative goodwill test was performed.

Overall financial performance. During 2013, the firm's net earnings, pre-tax margin, diluted earnings per share, return on average common shareholders' equity and book value per common share increased as compared with 2012.

Entity-specific events. There were no entity-specific events since the 2012 quantitative goodwill test was performed that would have had a significant negative impact on the valuation of the firm's reporting units.

Events affecting reporting units. There were no events since the 2012 quantitative goodwill test was performed that would have had a significant negative impact on the valuation of the firm's reporting units.

Sustained changes in stock price. Since the 2012 quantitative goodwill test was performed, the firm's stock price has increased significantly. In addition, the stock price exceeded book value per common share throughout most of 2013.

The firm also considered other factors in its qualitative assessment, including changes in the book value of reporting units, the estimated excess of the fair values as compared with the carrying values for the reporting units in the 2012 quantitative goodwill test, projected earnings and the cost of equity. The firm considered all of the above factors in the aggregate as part of its qualitative assessment. As a result of the 2013 qualitative assessment, the firm determined that it was more likely than not that the fair value of each of the reporting units exceeded its respective carrying amount. Therefore, the firm determined that goodwill was not impaired and that a quantitative goodwill impairment test was not required.

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. There were no events or changes in circumstances during the three months ended March 2014 that would indicate that it was more likely than not that the fair value of each of the reporting units did not exceed its respective carrying amount as of March 2014.

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>	March 2014	As of Weighted Average	December 2013
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	Remaining Lives		
	(years)		
Customer lists			
Gross carrying amount	\$ 1,117		\$ 1,102
Accumulated amortization	(723)		(706)
Net carrying amount	394	7	396
Commodities-related ¹			
Gross carrying amount	652		510
Accumulated amortization	(369)		(341)
Net carrying amount	283	8	169
Other ²			
Gross carrying amount	906		906
Accumulated amortization	(803)		(800)
Net carrying amount	103	11	106
Total			
Gross carrying amount	2,675		2,518
Accumulated amortization	(1,895)		(1,847)
Net carrying amount	\$ 780	8	\$ 671

1. Primarily includes commodities-related transportation rights, customer contracts and relationships and permits.

2. Primarily includes the firm's 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 over their estimated lives or based on economic usage for certain commodities-related intangibles. Substantially all of the amortization 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 for identifiable intangible assets for the three months ended March 2014 and March 2013, and the estimated future amortization through 2019 for identifiable intangible assets as of March 2014.

<i>in millions</i>	Three Months Ended March	
	2014	2013
Amortization	\$48	\$42

in millions

Estimated future amortization	As of March 2014
Remainder of 2014	\$116
2015	135
2016	123
2017	115
2018	96
2019	67

See Note 12 for information about impairment testing and impairments of the firm's identifiable intangible assets.

Note 14.**Deposits**

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

<i>in millions</i>	March 2014	As of December 2013
U.S. offices	\$61,335	\$61,016
Non-U.S. offices	10,122	9,791
Total	\$71,457	\$70,807

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

<i>in millions</i>	As of March 2014		Total
	U.S.	Non-U.S.	
Remainder of 2014	\$ 2,723	\$5,254	\$ 7,977
2015	4,265	249	4,514
2016	2,484		2,484
2017	3,160		3,160
2018	2,009		2,009
2019	1,674		1,674
2020 - thereafter	3,526		3,526
Total	\$19,841 ¹	\$5,503 ²	\$25,344 ³

1. Includes \$12 million greater than \$100,000, of which \$4 million matures within three months, \$4 million matures within three to six months, \$2 million matures within six to twelve months, and \$2 million matures after twelve months.

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

3. Includes \$7.70 billion of time deposits accounted for at fair value under the fair value option. See Note 8 for further information about deposits accounted for at fair value.

As of March 2014 and December 2013, savings and demand deposits, which represent deposits with no stated maturity, were \$46.11 billion and \$46.02 billion, respectively, 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, \$17.64 billion and \$17.53 billion as of March 2014 and December 2013, respectively, 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 savings and 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)****Note 15.****Short-Term Borrowings**

Short-term borrowings were comprised of the following:

<i>in millions</i>	March 2014	As of December 2013
Other secured financings (short-term)	\$18,113	\$17,290
Unsecured short-term borrowings	46,391	44,692
Total	\$64,504	\$61,982

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. The carrying value of unsecured short-term borrowings that are not recorded at fair value generally approximates fair value due to the short-term nature of the obligations. While these unsecured 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 March 2014 and December 2013.

The table below presents unsecured short-term borrowings.

<i>\$ in millions</i>	March 2014	As of December 2013
Current portion of unsecured long-term borrowings	\$26,532	\$25,312
Hybrid financial instruments	14,019	13,391
Promissory notes	313	292
Commercial paper	1,283	1,011
Other short-term borrowings	4,244	4,686

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Total	\$46,391	\$44,692
Weighted average interest rate ¹	1.55%	1.65%

1. 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)****Note 16.****Long-Term Borrowings**

Long-term borrowings were comprised of the following:

<i>in millions</i>	March 2014	As of December 2013
Other secured financings (long-term)	\$ 6,872	\$ 7,524
Unsecured long-term borrowings	165,627	160,965
Total	\$172,499	\$168,489

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

<i>in millions</i>	U.S. Dollar	As of March 2014 Non-U.S. Dollar	Total
Fixed-rate obligations ¹	\$ 88,951	\$37,116	\$126,067
Floating-rate obligations ²	22,848	16,712	39,560
Total	\$111,799	\$53,828	\$165,627

<i>in millions</i>	U.S. Dollar	As of December 2013 Non-U.S. Dollar	Total
Fixed-rate obligations ¹	\$ 85,515	\$35,351	\$120,866
Floating-rate obligations ²	22,590	17,509	40,099
Total	\$108,105	\$52,860	\$160,965

1. Interest rates on U.S. dollar-denominated debt ranged from 1.35% to 10.04% (with a weighted average rate of 5.07%) and 1.35% to 10.04% (with a weighted average rate of 5.19%) as of March 2014 and December 2013, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.02% to 13.00% (with a weighted average rate of 4.23%) and 0.33% to 13.00% (with a weighted average rate of 4.29%) as of March 2014 and December 2013, respectively.

2. Floating interest rates generally are based on LIBOR or OIS. Equity-linked and indexed instruments are included in floating-rate obligations. The table below presents unsecured long-term borrowings by maturity date.

<i>in millions</i>	As of March 2014
2015	\$ 14,099
2016	23,119
2017	20,876
2018	23,724
2019	9,886
2020 - thereafter	73,923
Total ¹	\$165,627

1. Includes \$7.35 billion of adjustments to the carrying value of certain unsecured long-term borrowings resulting from the application of hedge accounting by year of maturity as follows: \$141 million in 2015, \$774 million in 2016, \$999 million in 2017, \$970 million in 2018, \$398 million in 2019 and \$4.07 billion in 2020 and thereafter.

In the table above:

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 excluded from the table as they 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.

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 March 2014 and December 2013. See Note 7 for further information about hedging activities. 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 approximately 3% in the carrying value of total unsecured long-term borrowings as of both March 2014 and December 2013. As these borrowings 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 borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2014 and December 2013.

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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, after giving effect to hedging activities that converted a substantial portion of fixed-rate obligations to floating-rate obligations.

<i>in millions</i>	March 2014	As of December 2013
Fixed-rate obligations		
At fair value	\$ 405	\$ 471
At amortized cost ¹	36,577	33,700
Floating-rate obligations		
At fair value	12,039	11,220
At amortized cost ¹	116,606	115,574
Total	\$165,627	\$160,965

1. The weighted average interest rates on the aggregate amounts were 2.64% (4.85% related to fixed-rate obligations and 1.98% related to floating-rate obligations) and 2.73% (5.23% related to fixed-rate obligations and 2.04% related to floating-rate obligations) as of March 2014 and December 2013, respectively. These rates exclude financial instruments accounted for at fair value under the fair value option.

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 March 2014 and December 2013, subordinated debt had maturities ranging from 2017 to 2038, and 2015 to 2038, respectively. The tables below present subordinated borrowings.

<i>\$ in millions</i>	Par Amount	As of March 2014 Carrying Amount	Rate ¹
Subordinated debt	\$14,513	\$17,102	3.98%
Junior subordinated debt	2,835	3,786	4.79%
Total subordinated borrowings	\$17,348	\$20,888	4.11%

<i>\$ in millions</i>	Par Amount	As of December 2013 Carrying Amount	Rate ¹
Subordinated debt	\$14,508	\$16,982	4.16%
Junior subordinated debt	2,835	3,760	4.79%
Total subordinated borrowings	\$17,343	\$20,742	4.26%

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1. Weighted average interest rates 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 Held by 2012 Trusts. In 2012, the Vesey Street Investment Trust I and the Murray Street Investment Trust I (together, the 2012 Trusts) issued an aggregate of \$2.25 billion of senior guaranteed trust securities to third parties. The proceeds of that offering were used to fund purchases of \$1.75 billion of junior subordinated debt securities issued by Group Inc. that pay interest semi-annually at a fixed annual rate of 4.647% and mature on March 9, 2017, and \$500 million of junior subordinated debt securities issued by Group Inc. that pay interest semi-annually at a fixed annual rate of 4.404% and mature on September 1, 2016.

The 2012 Trusts purchased the junior subordinated debt from Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts). The APEX Trusts used the proceeds from such sales to purchase shares of Group Inc.'s Perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock) and Perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock). See Note 19 for more information about the Series E and Series F Preferred Stock.

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.

The firm has the right to defer payments on the junior subordinated debt, subject to limitations. During any such deferral period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. However, as Group Inc. fully and unconditionally guarantees the payment of the distribution and redemption amounts when due on a senior basis on the senior guaranteed trust securities issued by the 2012 Trusts, if the 2012 Trusts are 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. As such, the \$2.25 billion of junior subordinated debt held by the 2012 Trusts for the benefit of investors is not classified as junior subordinated debt.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The firm has covenanted in favor of the holders of Group Inc.'s 6.345% Junior Subordinated Debentures due February 15, 2034, that, subject to certain exceptions, the firm will not redeem or purchase the capital securities issued by the APEX Trusts or shares of Group Inc.'s Series E or Series F Preferred Stock prior to specified dates in 2022 for a price that exceeds a maximum amount determined by reference to the 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 deferral 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.

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

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

<i>in millions</i>	March 2014	As of December 2013
Compensation and benefits	\$ 4,695	\$ 7,874
Noncontrolling interests ¹	274	326
Income tax-related liabilities ²	1,378	1,974
Employee interests in consolidated funds	211	210
Subordinated liabilities issued by consolidated VIEs	459	477
Accrued expenses and other	5,102	5,183
Total	\$12,119	\$16,044

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1. Primarily relates to consolidated investment funds.
2. See Note 24 for information about income taxes.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Note 18.****Commitments, Contingencies and Guarantees****Commitments**

The table below presents the firm's commitments.

	Commitment Amount by Period				Total Commitments	
	of Expiration Remainder of 2014	as of 2015- 2016	as of 2017- 2018	as of 2019- Thereafter	as of March 2014	as of December 2013
<i>in millions</i>						
Commitments to extend credit						
Commercial lending:						
Investment-grade	\$ 8,296	\$15,942	\$30,254	\$ 5,656	\$ 60,148	\$ 60,499
Non-investment-grade	1,742	8,706	11,097	13,561	35,106	25,412
Warehouse financing	804	919	65	441	2,229	1,716
Total commitments to extend credit	10,842	25,567	41,416	19,658	97,483	87,627
Contingent and forward starting resale and securities borrowing agreements	59,016	3	36		59,055	34,410
Forward starting repurchase and secured lending agreements	12,822				12,822	8,256