**Non-collateralised Structured Products**

**Issuer**

# Goldman Sachs Structured Products (Asia) Limited

*(Incorporated in the Cayman Islands with limited liability)*

**Guarantor**

# The Goldman Sachs Group, Inc.

*(Incorporated in the State of Delaware, United States of America)*

**Sponsor**

# Goldman Sachs (Asia) L.L.C.

## Fourth Addendum to the base listing document

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the Stock Exchange) and Hong Kong Securities Clearing Company Limited (HKSCC) take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Stock Exchange's Listing Rules) for the purpose of giving information with regard to the issuer, the guarantor and the warrants, callable bull/bear contracts (CBBCs) and any other structured products (together, our structured products) referred to in this document. The issuer and the guarantor accept full responsibility for the accuracy of the information contained in our base listing document dated 20 March 2012 (the base listing document), the first addendum to the base listing document dated 9 May 2012 (the first addendum), the second addendum to the base listing document dated 4 June 2012 (the second addendum), the third addendum to the base listing document dated 21 September 2012 (the third addendum) and this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in these documents, when read together, misleading. This document should be read together with the base listing document, the first addendum, the second addendum and the third addendum.

We, the issuer of our structured products, are publishing this fourth addendum in order to obtain a listing on the Stock Exchange of our structured products to be issued by us from time to time.

**Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in the base listing document and the relevant supplemental listing document and, where necessary, seek professional advice, before they invest in the structured products.**

**The structured products constitute general unsecured contractual obligations of us as the issuer and of no other person and will rank equally among themselves and with all our and the guarantor's other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the structured products, you are relying upon the creditworthiness of us and the guarantor and have no rights under the structured products against (a) the company which has issued the underlying securities, (b) the trustee or the manager of the underlying trust, or (c) the index sponsor of any underlying index or any other person. If we become insolvent or default on our obligations under the structured products or our guarantor becomes insolvent or defaults on its obligations under the guarantee, you may not be able to recover all or even part of the amount due under the structured products (if any).**

The issuer and the guarantor are part of a large global financial institution and have many financial products and contracts outstanding at any given time. When purchasing the structured products, you will be relying upon the creditworthiness of the issuer and the guarantor and of no one else.

The structured products are not bank deposits and are not insured or guaranteed by the United States Federal Deposit Insurance Corporation (the FDIC), or any other governmental agency. The structured products are guaranteed by The Goldman Sachs Group, Inc. and the guarantees will rank pari passu with all other direct, unconditional, unsecured and unsubordinated indebtedness of The Goldman Sachs Group, Inc.

The distribution of this document, the base listing document, the first addendum, the second addendum, the third addendum, the relevant supplemental listing document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to inform yourselves about and to observe such restrictions. Please read Annex 3 "Purchase and Sale" section in our base listing document. The structured products have not been approved or disapproved by the SEC or any state securities commission in the United States or regulatory authority, nor has the SEC or any state securities commission or any regulatory authority passed upon the accuracy or the adequacy of this document. Any representation to the contrary is a criminal offence. **The structured products and the guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the Securities Act), and the structured products may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act).**

Fourth Addendum dated 24 December 2012

## IMPORTANT

If you are in doubt as to the contents of this fourth addendum, you should obtain independent professional advice.

This fourth addendum contains the current report on Form 10-Q dated 8 November 2012 for the quarterly period ended 30 September 2012 relating to the guarantor. You should read this fourth addendum as well as the base listing document dated 20 March 2012, the first addendum, the second addendum, the third addendum and the supplemental listing document published by us in relation to the particular series of structured products you are considering for investment to understand our structured products before deciding whether to buy our structured products.

Copies of the base listing document, the first addendum, the second addendum, the third addendum, this fourth addendum and the relevant supplemental listing document (together with a Chinese translation of each of these documents) and other documents listed under the section "Where can I read copies of the Issuer's documentation?" in the relevant supplemental listing document may be inspected at the offices of Goldman Sachs (Asia) L.L.C. at 68/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

基本上市文件、第一增編、第二增編、第三增編、本第四增編及有關補充上市文件(及以上各份文件的英文本)連同有關補充上市文件之「本人從何處可查閱發行人的文件副本?」一節所列的其他文件,可於高盛(亞洲)有限責任公司之辦事處(地址為香港皇后大道中2號長江集團中心68樓)查閱。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

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# EXTRACTS OF THE QUARTERLY REPORT* ON FORM 10-Q DATED 8 NOVEMBER 2012 FOR THE QUARTERLY PERIOD ENDED 30 SEPTEMBER 2012 RELATING TO THE GUARANTOR

The information set out in the following pages consists of the extracts of the guarantor's quarterly report on Form 10-Q dated 8 November 2012 as filed with the United States Securities and Exchange Commission (the "SEC"). The complete quarterly report on Form 10-Q is available on the SEC's website www.sec.gov. A copy of the complete quarterly report on Form 10-Q is available for inspection at the offices of Goldman Sachs (Asia) L.L.C. at 68/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

* Throughout the extracts of the quarterly report reproduced on pages 2 to 110 of this fourth addendum, references to page numbers refer to the original page numbers of the quarterly report.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# Form 10-Q

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

**For the quarterly period ended September 30, 2012**

**or**

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

**For the transition period from to**

**Commission File Number: 001-14965**

# The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 13-4019460<br>(I.R.S. Employer Identification No.) |
| 200 West Street, New York, N.Y.<br>(Address of principal executive offices) | 10282<br>(Zip Code) |

(212) 902-1000
**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
☒ Yes ☐ No

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

Large accelerated filer ☒ Accelerated filer ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
☐ Yes ☒ No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

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# PART I. FINANCIAL INFORMATION
## Item 1. Financial Statements (Unaudited)

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Earnings (Unaudited)

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

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

# Condensed Consolidated Statements of Comprehensive Income (Unaudited)

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

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

# Condensed Consolidated Statements of Financial Condition (Unaudited)

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

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

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

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

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

# Condensed Consolidated Statements of Cash Flows (Unaudited)

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

**SUPPLEMENTAL DISCLOSURES:**

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

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

*Non-cash activities:*

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

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

## Note 1.
## Description of Business

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

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

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

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

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

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

## 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.

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

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

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

**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:


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

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

### Use of Estimates

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

### Revenue Recognition

**Financial Assets and Financial Liabilities at Fair Value.** Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are generally included in "Market making" for positions in Institutional Client Services and "Other principal transactions" for positions in Investing & Lending. See Notes 5 through 8 for further information about fair value measurements.

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

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

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

### Transfers of Assets

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

### Receivables from Customers and Counterparties

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

### Insurance Activities

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

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

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

### Share-based Compensation

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

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

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

### Foreign Currency Translation

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

### Cash and Cash Equivalents

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

### Recent Accounting Developments

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

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

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

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

**Note 4.**

## Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about the fair value option. The table below presents the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value. Financial instruments owned, at fair value included $9.08 billion and $4.86 billion as of September 2012 and December 2011, respectively, of securities accounted for as available-for-sale, substantially all of which are held in the firm's insurance subsidiaries.

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

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

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

**Gains and Losses from Market Making and Other Principal Transactions**

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

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

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

**Note 5.**

## Fair Value Measurements

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

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

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

The fair value hierarchy is as follows:

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

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

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

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

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

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

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

## 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.

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

| Level 3 Cash Instrument | Valuation Techniques and Significant Inputs |
|---|---|
| Loans and securities backed by commercial real estate<br>• Collateralized by a single commercial real estate property or a portfolio of properties<br>• May include tranches of varying levels of subordination | Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.<br>Significant inputs are generally determined based on relative value analyses and include:<br>• Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral<br>• 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)<br>• 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<br>• Timing of expected future cash flows (duration) |
| Loans and securities backed by residential real estate<br>• Collateralized by portfolios of residential real estate<br>• May include tranches of varying levels of subordination | Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.<br>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:<br>• Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral<br>• Market yields implied by transactions of similar or related assets<br>• Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs<br>• 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.<br>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:<br>• 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)<br>• 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<br>• Duration |
| Non-U.S. government and agency obligations<br>Corporate debt securities<br>State and municipal obligations<br>Other debt obligations | Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.<br>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:<br>• 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)<br>• 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<br>• Duration |
| Equities and convertible debentures (including private equity investments and investments in real estate entities) | Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate:<br>• Industry multiples and public comparables<br>• Transactions in similar instruments<br>• Discounted cash flow techniques<br>• Third-party appraisals<br>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:<br>• Market and transaction multiples<br>• Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates<br>• For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration |

### Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. The ranges of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest multiple presented in the table for private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 cash instruments.

| Level 3 Cash Instrument | Level 3 Assets as of September 2012 *(in millions)* | Significant Unobservable Inputs by Valuation Technique | Range of Significant Unobservable Inputs as of September 2012 |
|---|---|---|---|
| Loans and securities backed by commercial real estate<br>• Collateralized by a single commercial real estate property or a portfolio of properties<br>• May include tranches of varying levels of subordination | **$3,318** | Discounted cash flows:<br>• Yield<br>• Recovery rate [1]<br>• Duration (years) [2] | <br>3.9% to 30.1%<br>39.0% to 100.0%<br>0.7 to 8.5 |
| Loans and securities backed by residential real estate<br>• Collateralized by portfolios of residential real estate<br>• May include tranches of varying levels of subordination | **$1,288** | Discounted cash flows:<br>• Yield<br>• Cumulative loss rate<br>• Duration (years) [2] | <br>4.3% to 19.4%<br>0.0% to 61.7%<br>1.3 to 4.1 |
| Bank loans and bridge loans | **$10,833** | Discounted cash flows:<br>• Yield<br>• Recovery rate [1]<br>• Duration (years) [2] | <br>0.4% to 32.7%<br>19.5% to 100.0%<br>0.4 to 4.7 |
| Non-U.S. government and agency obligations<br>Corporate debt securities<br>State and municipal obligations<br>Other debt obligations | **$5,325** | Discounted cash flows:<br>• Yield<br>• Recovery rate [1]<br>• Duration (years) [2] | <br>1.4% to 34.5%<br>0.0% to 100.0%<br>0.3 to 16.5 |
| Equities and convertible debentures (including private equity investments and investments in real estate entities) | **$15,126** [3] | Comparable multiples:<br>• Multiples<br>Discounted cash flows:<br>• Yield/discount rate<br>• Long-term growth rate/ compound annual growth rate<br>• Capitalization rate<br>• Recovery rate [1]<br>• Duration (years) [2] | <br>0.7x to 23.4x<br><br>10.0% to 25.0%<br>(3.2)% to 26.0%<br>5.4% to 11.0%<br>42.1% to 100.0%<br>0.7 to 8.3 |

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

Increases in yield, discount rate, capitalization rate, duration or cumulative loss rate used in the valuation of the firm's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, multiples, long-term growth rate or compound annual growth rate would result in a higher fair value measurement. Due to the distinctive nature of each of the firm's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.

## 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.

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

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

1. Includes $645 million and $518 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.
2. Includes $1.09 billion and $1.63 billion of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations in level 2 and level 3, respectively.
3. Consists of listed equity securities.
4. Principally consists of restricted or less liquid listed securities.
5. Includes $13.03 billion of private equity investments, $1.45 billion of investments in real estate entities and $645 million of convertible debentures.
6. Includes $3 million of CDOs and CLOs backed by corporate obligations in level 3.

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

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

1. Includes $213 million and $595 million of CDOs backed by real estate in level 2 and level 3, respectively.
2. Includes $403 million and $1.19 billion of CDOs and CLOs backed by corporate obligations in level 2 and level 3, respectively.
3. Consists of listed equity securities.
4. Principally consists of restricted or less liquid listed securities.
5. Includes $12.07 billion of private equity investments, $1.10 billion of investments in real estate entities and $497 million of convertible debentures.
6. Includes $27 million of CDOs and CLOs backed by corporate obligations in level 3.

### Transfers Between Levels of the Fair Value Hierarchy

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

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

### Level 3 Rollforward

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

Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

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

| | Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended September 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *in millions* | Balance, beginning of period | Net realized gains/ (losses) | Net unrealized gains/(losses) relating to instruments still held at period-end | Purchases [1] | Sales | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of period |
| Commercial paper, certificates of deposit, time deposits and other money market instruments | $ 7 | $ — | $ — | $ — | $ — | $ (7) | $ — | $ — | $ — |
| Non-U.S. government and agency obligations | 8 | — | 3 | 2 | — | — | — | — | 13 |
| Mortgage and other asset-backed loans and securities: | | | | | | | | | |
| Loans and securities backed by commercial real estate | 3,166 | 57 | 78 | 355 | (362) | (44) | 214 | (146) | 3,318 |
| Loans and securities backed by residential real estate | 1,632 | 65 | 44 | 81 | (266) | (351) | 98 | (15) | 1,288 |
| Bank loans and bridge loans | 10,461 | 151 | 150 | 1,535 | (906) | (805) | 691 | (444) | 10,833 |
| Corporate debt securities | 2,367 | 106 | 140 | 462 | (274) | (120) | 240 | (200) | 2,721 |
| State and municipal obligations | 547 | 4 | 5 | 36 | (27) | (2) | 20 | — | 583 |
| Other debt obligations | 1,757 | 5 | 51 | 197 | (88) | (25) | 118 | (7) | 2,008 |
| Equities and convertible debentures | 14,420 | 31 | 632 | 513 | (320) | (108) | 798 | (840) | 15,126 |
| **Total** | **$34,365** | **$419** [2] | **$1,103** [2] | **$3,181** | **$(2,243)** | **$(1,462)** | **$2,179** | **$(1,652)** | **$35,890** |

| | Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended September 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *in millions* | Balance, beginning of period | Net realized (gains)/ losses | Net unrealized (gains)/losses relating to instruments still held at period-end | Purchases [1] | Sales | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of period |
| **Total** | **$ 739** | **$ (2)** | **$ 3** | **$ (105)** | **$ 65** | **$ 16** | **$ 46** | **$ (89)** | **$ 673** |

1. Includes both originations and secondary market purchases.

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

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

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

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

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

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

1. Includes both originations and secondary market purchases.

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

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

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

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

| in millions | Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended September 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance, beginning of period | Net realized gains/ (losses) | Net unrealized gains/(losses) relating to instruments still held at period-end | Purchases [1] | Sales | Settlements | Net transfers in and/or (out) of level 3 | Balance, end of period |
| Mortgage and other asset-backed loans and securities: | | | | | | | | |
| Loans and securities backed by commercial real estate | $ 3,539 | $ 77 | $ (149) | $ 226 | $ (220) | $ (367) | $ 441 | $ 3,547 |
| Loans and securities backed by residential real estate | 2,829 | 38 | (25) | 234 | (226) | (178) | (989) | 1,683 |
| Bank loans and bridge loans | 10,183 | 162 | (595) | 2,655 | (413) | (571) | (410) | 11,011 |
| Corporate debt securities | 2,747 | 61 | (221) | 316 | (392) | (80) | 149 | 2,580 |
| State and municipal obligations | 643 | 2 | (6) | 17 | (18) | (2) | 52 | 688 |
| Other debt obligations | 1,472 | (2) | (27) | 153 | (167) | (68) | 260 | 1,621 |
| Equities and convertible debentures | 13,452 | 14 | (191) | 294 | (224) | (166) | 394 | 13,573 |
| Total | $34,865 | $352 [2] | $(1,214) [2] | $3,895 | $(1,660) | $(1,432) | $(103) | $34,703 |

| in millions | Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended September 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance, beginning of period | Net realized (gains)/ losses | Net unrealized (gains)/losses relating to instruments still held at period-end | Purchases [1] | Sales | Settlements | Net transfers in and/or (out) of level 3 | Balance, end of period |
| Total | $ 612 | $ (12) | $ 328 | $ (265) | $ 144 | $ 122 | $ 5 | $ 934 |

1. Includes both originations and secondary market purchases.

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

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

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

- Loans and securities backed by residential real estate: net transfer out of level 3 of $989 million, principally due to transfers to level 2 of certain loans due to improved transparency of market prices used to value these financial instruments, as well as unobservable inputs no longer being significant to the valuation of these instruments.
- Bank loans and bridge loans: net transfer out of level 3 of $410 million, principally due to transfers to level 2 of certain loans due to improved transparency of market prices as a result of market activity in these financial instruments, partially offset by transfers to level 3 of other loans due to reduced transparency of market prices as a result of less market activity in these financial instruments.
- Equities and convertible debentures: net transfer into level 3 of $394 million, principally due to transfers to level 3 of certain private equity investments due to reduced transparency of market prices as a result of less market activity in these financial instruments, partially offset by transfers to level 2 of other private equity investments due to improved transparency of market prices as a result of market activity and partial sales.

| in millions | Level 3 Cash Instrument Assets at Fair Value for the Nine Months Ended September 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance, beginning of period | Net realized gains/ (losses) | Net unrealized gains/(losses) relating to instruments still held at period-end | Purchases [1] | Sales | Settlements | Net transfers in and/or (out) of level 3 | Balance, end of period |
| Mortgage and other asset-backed loans and securities: | | | | | | | | |
| Loans and securities backed by commercial real estate | $ 3,976 | $ 139 | $ 92 | $ 1,049 | $ (915) | $ (726) | $ (68) | $ 3,547 |
| Loans and securities backed by residential real estate | 2,501 | 137 | 57 | 688 | (507) | (509) | (684) | 1,683 |
| Bank loans and bridge loans | 9,905 | 477 | (96) | 4,732 | (1,183) | (1,521) | (1,303) | 11,011 |
| Corporate debt securities | 2,737 | 164 | (99) | 1,467 | (1,002) | (192) | (495) | 2,580 |
| State and municipal obligations | 754 | 3 | (3) | 72 | (136) | (2) | — | 688 |
| Other debt obligations | 1,274 | 116 | (7) | 553 | (552) | (216) | 453 | 1,621 |
| Equities and convertible debentures | 11,060 | 160 | 473 | 2,658 | (904) | (657) | 783 | 13,573 |
| Total | $32,207 | $1,196 [2] | $417 [2] | $11,219 | $(5,199) | $(3,823) | $(1,314) | $34,703 |

| in millions | Level 3 Cash Instrument Liabilities at Fair Value for the Nine Months Ended September 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance, beginning of period | Net realized (gains)/ losses | Net unrealized (gains)/losses relating to instruments still held at period-end | Purchases [1] | Sales | Settlements | Net transfers in and/or (out) of level 3 | Balance, end of period |
| Total | $ 446 | $ (32) | $329 | $ (363) | $ 429 | $ 132 | $ (7) | $ 934 |

1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately $(87) million, $629 million and $1.07 billion reported in "Market making," "Other principal transactions" and "Interest income," respectively.

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

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

- Bank loans and bridge loans: net transfer out of level 3 of $1.30 billion, principally due to transfers to level 2 of certain loans due to improved transparency of market prices as a result of market transactions in these financial instruments, partially offset by transfers to level 3 of other loans due to reduced transparency of market prices as a result of less market activity in these financial instruments.
- Equities and convertible debentures: net transfer into level 3 of $783 million, principally due to transfers to level 3 of certain private equity investments due to reduced transparency of market prices as a result of less market activity in these financial instruments, partially offset by transfers to level 2 of other private equity investments due to improved transparency of market prices as a result of market transactions in these financial instruments.
- Loans and securities backed by residential real estate: net transfer out of level 3 of $684 million, principally due to transfers to level 2 of certain loans due to improved transparency of market prices used to value these financial instruments, as well as unobservable inputs no longer being significant to the valuation of these instruments.
- Corporate debt securities: net transfer out of level 3 of $495 million, principally due to transfers to level 2 of certain corporate debt securities due to increased transparency of market prices as a result of market transactions in these financial instruments.

### Investments in Funds That Calculate Net Asset Value Per Share

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

The firm's investments in funds that calculate NAV primarily consist of investments in firm-sponsored funds where the firm co-invests with third-party investors. The private equity, private debt and real estate funds are primarily closed-end funds in which the firm's investments are not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated and it is estimated that substantially all of the underlying assets of existing funds will be liquidated over the next seven years. The firm continues to manage its existing funds taking into account the transition periods under the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), although the rules have not yet been finalized.

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

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

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

1. These funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations and growth investments.
2. These funds generally invest in loans and other fixed income instruments and are focused on providing private high-yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.
3. These funds are primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage.
4. These funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and direct property.

## Note 7.

# Derivatives and Hedging Activities

### Derivative Activities

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

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

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

The firm enters into various types of derivatives, including:

- **Futures and Forwards.** Contracts that commit counterparties to purchase or sell financial instruments, commodities or currencies in the future.
- **Swaps.** Contracts that require counterparties to exchange cash flows such as currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, commodities, currencies or indices.
- **Options.** Contracts in which the option purchaser has the right, but not the obligation, to purchase from or sell to the option writer financial instruments, commodities or currencies within a defined time period for a specified price.

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

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

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

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

The table below presents the fair value and the number of derivative contracts by major product type on a gross basis. Gross fair values in the table below exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash collateral received or posted under credit support agreements, and therefore are not representative of the firm's exposure.

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

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

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

### Valuation Techniques for Derivatives

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

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

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

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

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

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

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

### Level 1 Derivatives

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

### Level 2 Derivatives

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

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

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

### Level 3 Derivatives

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

- For the majority of the firm's interest rate and currency derivatives classified within level 3, significant unobservable inputs include correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates), specific interest rate volatilities and the basis, or difference, between benchmark interest rates and related indices.
- For level 3 credit derivatives, significant level 3 inputs include illiquid credit spreads, which are unique to specific reference obligations and reference entities, recovery rates, certain correlations required to value credit and mortgage derivatives (e.g., the likelihood of default of the underlying reference obligation relative to one another) and the basis, or price difference, between certain reference obligations and benchmark indices.
- For level 3 equity derivatives, significant level 3 inputs generally include equity volatility inputs for options that are very long-dated and/or have strike prices that differ significantly from current market prices. In addition, the valuation of certain structured trades requires the use of level 3 inputs for the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class such as commodities.
- For level 3 commodity derivatives, significant level 3 inputs include volatilities for options with strike prices that differ significantly from current market prices and prices or spreads for certain products for which the product quality or physical location of the commodity is not aligned with benchmark indices.

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

### Valuation Adjustments

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

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

### Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 derivatives. These ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. The ranges of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation presented in the table for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 derivatives.

| Level 3 Derivative Product Type | Net Level 3 Assets/(Liabilities) as of September 2012 *(in millions)* | Significant Unobservable Inputs of Derivative Pricing Models | Range of Significant Unobservable Inputs as of September 2012 |
|---|---|---|---|
| Interest rates | **$(483)** | Correlation [1] | 49% to 87% |
| | | Volatility | 32% to 88% |
| | | Basis | 1 basis point to 39 basis points (bps) |
| Credit | **$6,979** | Correlation [1] | 5% to 94% |
| | | Credit spreads | 68 bps to 1,781 bps |
| | | Recovery rates | 0% to 95% |
| | | Basis | 1 point to 8 points |
| Currencies | **$351** | Correlation [1] | 65% to 87% |
| Commodities | **$(651)** | Volatility | 5% to 66% |
| | | Spread per million British Thermal units (MMBTU) of natural gas | $(0.86) to $4.50 |
| | | Price per megawatt hour of power | $13.37 to $71.65 |
| | | Price per barrel of oil | $87.00 to $101.00 |
| Equities | **$(577)** | Correlation [1] | 46% to 99% |
| | | Volatility | 11% to 65% |

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

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

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

- Correlation: For contracts where the holder benefits from the convergence of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation generally results in a higher fair value measurement.
- Volatility: In general, for purchased options an increase in volatility results in a higher fair value measurement.
- Interest rate basis: For contracts where the holder is receiving the interest rate basis, a wider basis generally results in a higher fair value measurement.
- Credit spreads, recovery rates and basis: In general, the fair value of purchased credit protection increases as credit spreads increase, recovery rates decrease or basis widens. Credit spreads, recovery rates and basis are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation, and macro-economic conditions.
- Commodity prices and spreads: For contracts where the holder is receiving a commodity, an increase in the spread (price difference from a benchmark index due to differences in quality or delivery location) or price generally results in a higher fair value measurement.

### Fair Value of Derivatives by Level

The tables below present the fair value of derivatives on a gross basis by level and major product type. Gross fair values in the tables below exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under credit support agreements both in and across levels of the fair value hierarchy, and therefore are not representative of the firm's exposure.

| | Derivative Assets at Fair Value as of September 2012 | | | | |
|---|---|---|---|---|---|
| *in millions* | Level 1 | Level 2 | Level 3 | Cross-Level Netting | Total |
| Interest rates | **$ 15** | **$ 638,393** | **$ 262** | **$ —** | **$ 638,670** |
| Credit | **—** | **83,310** | **11,660** | **—** | **94,970** |
| Currencies | **—** | **71,907** | **1,348** | **—** | **73,255** |
| Commodities | **—** | **27,617** | **703** | **—** | **28,320** |
| Equities | **62** | **57,781** | **1,043** | **—** | **58,886** |
| Gross fair value of derivative assets | **77** | **879,008** | **15,016** | **—** | **894,101** |
| Counterparty netting [1] | **—** | **(711,084)** | **(3,906)** | **(2,573)** [3] | **(717,563)** |
| Subtotal | **$ 77** | **$ 167,924** | **$11,110** | **$(2,573)** | **$ 176,538** |
| Cash collateral netting [2] | | | | | **(103,709)** |
| **Fair value included in financial instruments owned** | | | | | **$ 72,829** |

| | Derivative Liabilities at Fair Value as of September 2012 | | | | |
|---|---|---|---|---|---|
| *in millions* | Level 1 | Level 2 | Level 3 | Cross-Level Netting | Total |
| Interest rates | **$ 79** | **$ 573,172** | **$ 745** | **$ —** | **$ 573,996** |
| Credit | **—** | **77,148** | **4,681** | **—** | **81,829** |
| Currencies | **—** | **61,917** | **997** | **—** | **62,914** |
| Commodities | **—** | **27,771** | **1,354** | **—** | **29,125** |
| Equities | **60** | **49,417** | **1,620** | **—** | **51,097** |
| Gross fair value of derivative liabilities | **139** | **789,425** | **9,397** | **—** | **798,961** |
| Counterparty netting [1] | **—** | **(711,084)** | **(3,906)** | **(2,573)** [3] | **(717,563)** |
| Subtotal | **$139** | **$ 78,341** | **$ 5,491** | **$(2,573)** | **$ 81,398** |
| Cash collateral netting [2] | | | | | **(29,627)** |
| **Fair value included in financial instruments sold, but not yet purchased** | | | | | **$ 51,771** |

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

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

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

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

### Level 3 Rollforward

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

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

- A derivative with level 1 and/or level 2 inputs is classified in level 3 in its entirety if it has at least one significant level 3 input.
- If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified as level 3.
- Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to level 1 or level 2 derivatives and/or level 1, level 2 and level 3 cash instruments. As a result, gains/(losses) included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

The tables below present changes in fair value for all derivatives categorized as level 3 as of the end of the period.

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

| *in millions* | 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 | $ (353) | $(24) | $ 49 | $ 1 | $ — | $ (36) | $ (147) [3] | $ 27 [4] | $ (483) |
| Credit — net | 6,119 | 72 | (736) | 50 | (58) | (596) | 2,124 | 4 [4] | 6,979 |
| Currencies — net | 192 | (8) | 27 | 4 | (7) | 75 | 61 | 7 [4] | 351 |
| Commodities — net | (240) | (38) | 18 | 74 | (431) | 31 | (88) [3] | 23 [4] | (651) |
| Equities — net | (548) | (69) | (68) | 4 | (63) | 146 | (38) [3] | 59 [4] | (577) |
| **Total derivatives — net** | **$5,170** | **$(67) [1]** | **$(710) [1, 2]** | **$133** | **$(559)** | **$(380)** | **$1,912** | **$120** | **$5,619** |

1. The aggregate amounts include approximately $(625) million and $(152) million reported in "Market making" and "Other principal transactions," respectively.
2. Principally resulted from changes in level 2 inputs.
3. Reflects a net transfer to level 3 of derivative liabilities.
4. Reflects a net transfer to level 2 of derivative liabilities.

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

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

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

| *in millions* | 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 | **$ (371)** | **$ (58)** | **$ (4)** | **$ 2** | **$ (11)** | **$ (10)** | **$ (44) [3]** | **$ 13 [4]** | **$ (483)** |
| Credit — net | **6,300** | **273** | **(354)** | **151** | **(159)** | **(1,418)** | **2,265** | **(79)** | **6,979** |
| Currencies — net | **842** | **(18)** | **(208)** | **13** | **(10)** | **(100)** | **95** | **(263)** | **351** |
| Commodities — net | **(605)** | **(75)** | **135** | **266** | **(605)** | **396** | **(188) [3]** | **25 [4]** | **(651)** |
| Equities — net | **(432)** | **16** | **(276)** | **131** | **(240)** | **186** | **(15) [3]** | **53 [4]** | **(577)** |
| **Total derivatives — net** | **$5,734** | **$138 [1]** | **$(707) [1, 2]** | **$563** | **$(1,025)** | **$ (946)** | **$2,113** | **$(251)** | **$5,619** |

1. The aggregate amounts include approximately $(465) million and $(104) million reported in "Market making" and "Other principal transactions," respectively.
2. Principally resulted from changes in level 2 inputs.
3. Reflects a net transfer to level 3 of derivative liabilities.
4. Reflects a net transfer to level 2 of derivative liabilities.

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

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

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

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

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

1. The aggregate amounts include approximately $1.32 billion and $8 million reported in "Market making" and "Other principal transactions," respectively.
2. Principally resulted from changes in level 2 inputs.

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

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

- Credit — net: net transfer out of level 3 of $479 million, principally due to unobservable inputs no longer being significant to the valuation of certain credit derivatives.
- Commodities — net: net transfer out of level 3 of $507 million, primarily reflecting transfers to level 2, due to increased transparency of market prices used to value certain commodity derivative assets as a result of market activity in similar instruments, and unobservable inputs becoming less significant to the valuation of other commodity derivative assets. In addition, certain commodity derivative liabilities were transferred into level 3 due to reduced transparency of volatility inputs used to value these derivatives.

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

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

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

2. Principally resulted from changes in level 2 inputs.

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

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

- Credit — net: net transfer out of level 3 of $1.05 billion, principally due to unobservable inputs no longer being significant to the valuation of certain credit derivatives.
- Commodities — net: net transfer out of level 3 of $466 million, primarily reflecting transfers to level 2, due to increased transparency of market prices used to value certain commodity derivative assets as a result of market activity in similar instruments, and unobservable inputs becoming less significant to the valuation of other commodity derivative assets. In addition, certain commodity derivative liabilities were transferred into level 3 due to reduced transparency of volatility inputs used to value these derivatives.

### Impact of Credit Spreads on Derivatives

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

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

### Bifurcated Embedded Derivatives

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

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

## OTC Derivatives

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

*in millions*

| **Assets** **Product Type** | **OTC Derivatives as of September 2012** 0 - 12 Months | 1 - 5 Years | 5 Years or Greater | Total |
|---|---|---|---|---|
| Interest rates | $11,466 | $29,659 | $ 81,929 | $ 123,054 |
| Credit | 1,692 | 13,386 | 8,909 | 23,987 |
| Currencies | 8,116 | 8,432 | 13,026 | 29,574 |
| Commodities | 5,012 | 4,617 | 368 | 9,997 |
| Equities | 4,907 | 7,989 | 7,399 | 20,295 |
| Netting across product types [1] | (2,983) | (5,976) | (5,637) | (14,596) |
| Subtotal | $28,210 | $58,107 | $105,994 | 192,311 |
| Cross maturity netting [2] | | | | (20,401) |
| Cash collateral netting [3] | | | | (103,709) |
| **Total** | | | | $ 68,201 |

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

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.
2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.
3. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

| *in millions* | OTC Derivatives as of December 2011 | | | |
|---|---|---|---|---|
| **Assets**<br>**Product Type** | 0 - 12<br>Months | 1 - 5<br>Years | 5 Years or<br>Greater | Total |
| Interest rates | $10,931 | $32,194 | $ 82,480 | $ 125,605 |
| Credit | 3,054 | 15,468 | 13,687 | 32,209 |
| Currencies | 11,253 | 11,592 | 16,023 | 38,868 |
| Commodities | 5,286 | 5,931 | 147 | 11,364 |
| Equities | 6,663 | 7,768 | 7,468 | 21,899 |
| Netting across product types [1] | (3,071) | (6,033) | (6,027) | (15,131) |
| Subtotal | $34,116 | $66,920 | $113,778 | 214,814 |
| Cross maturity netting [2] | | | | (22,562) |
| Cash collateral netting [3] | | | | (118,104) |
| Total | | | | $ 74,148 |

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

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.
2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.
3. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

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

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

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

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

**Credit Default Swaps.** Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.

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

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

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

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

- fair values exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under credit support agreements, and therefore are not representative of the firm's credit exposure;
- tenor is based on expected duration for mortgage-related credit derivatives and on remaining contractual maturity for other credit derivatives; and
- the credit spread on the underlying, together with the tenor of the contract, are indicators of payment/performance risk. The firm is less likely to pay or otherwise be required to perform where the credit spread and the tenor are lower.

| | Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor | | | | Maximum Payout/Notional Amount of Purchased Credit Derivatives | | Fair Value of Written Credit Derivatives | | |
|---|---|---|---|---|---|---|---|---|---|
| *$ in millions* | 0 - 12 Months | 1 - 5 Years | 5 Years or Greater | Total | Offsetting Purchased Credit Derivatives [1] | Other Purchased Credit Derivatives [2] | Asset | Liability | Net Asset/ (Liability) |
| **As of September 2012** | | | | | | | | | |
| **Credit spread on underlying (basis points)** | | | | | | | | | |
| 0-250 | **$378,059** | **$ 919,259** | **$153,110** | **$1,450,428** | **$1,357,304** | **$197,320** | **$25,629** | **$ 10,001** | **$ 15,628** |
| 251-500 | **17,581** | **169,661** | **48,737** | **235,979** | **214,043** | **24,678** | **3,870** | **12,055** | **(8,185)** |
| 501-1,000 | **12,677** | **65,288** | **12,185** | **90,150** | **86,341** | **6,510** | **1,086** | **5,768** | **(4,682)** |
| Greater than 1,000 | **16,997** | **61,631** | **7,429** | **86,057** | **72,992** | **18,664** | **496** | **24,540** | **(24,044)** |
| **Total** | **$425,314** | **$1,215,839** | **$221,461** | **$1,862,614** | **$1,730,680** | **$247,172** | **$31,081** | **$ 52,364** | **$(21,283)** |
| **As of December 2011** | | | | | | | | | |
| **Credit spread on underlying (basis points)** | | | | | | | | | |
| 0-250 | $282,851 | $ 794,193 | $141,688 | $1,218,732 | $1,122,296 | $180,316 | $17,572 | $ 16,907 | $ 665 |
| 251-500 | 42,682 | 269,687 | 69,864 | 382,233 | 345,942 | 47,739 | 4,517 | 20,810 | (16,293) |
| 501-1,000 | 29,377 | 140,389 | 21,819 | 191,585 | 181,003 | 23,176 | 138 | 15,398 | (15,260) |
| Greater than 1,000 | 30,244 | 114,103 | 22,995 | 167,342 | 147,614 | 28,734 | 512 | 57,201 | (56,689) |
| Total | $385,154 | $1,318,372 | $256,366 | $1,959,892 | $1,796,855 | $279,965 | $22,739 | $110,316 | $(87,577) |

1. Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they economically hedge written credit derivatives with identical underlyings.
2. This purchased protection represents the notional amount of purchased credit derivatives in excess of the notional amount included in "Offsetting Purchased Credit Derivatives."

## Hedge Accounting

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

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

### Interest Rate Hedges

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

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

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

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions* | **2012** | 2011 | **2012** | 2011 |
| Interest rate hedges | **$(549)** | $ 6,654 | **$ (995)** | $ 4,832 |
| Hedged borrowings and bank deposits | **102** | (6,969) | **(280)** | (6,056) |
| Hedge ineffectiveness [1] | **(447)** | (315) | **(1,275)** | (1,224) |

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

### Net Investment Hedges

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

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

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions* | **2012** | 2011 | **2012** | 2011 |
| Currency hedges | **$(192)** | $ 513 | **$(195)** | $ 110 |
| Foreign currency-denominated debt | **(73)** | (130) | **40** | (142) |

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

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

**Note 8.**

## Fair Value Option

### Other Financial Assets and Financial Liabilities at Fair Value

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

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

- reflect economic events in earnings on a timely basis;
- mitigate volatility in earnings from using different measurement attributes (e.g., transfers of financial instruments owned accounted for as financings are recorded at fair value whereas the related secured financing would be recorded on an accrual basis absent electing the fair value option); and
- address simplification and cost-benefit considerations (e.g., accounting for hybrid financial instruments at fair value in their entirety versus bifurcation of embedded derivatives and hedge accounting for debt hosts).

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

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

- resale and repurchase agreements;
- securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;
- certain other secured financings, primarily transfers of assets accounted for as financings rather than sales and certain other nonrecourse financings;
- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;
- certain unsecured long-term borrowings, including prepaid commodity transactions and certain hybrid financial instruments;
- certain receivables from customers and counterparties, including certain margin loans and transfers of assets accounted for as secured loans rather than purchases;
- certain insurance and reinsurance contract assets and liabilities and certain guarantees;
- certain subordinated liabilities issued by consolidated VIEs; and
- certain time deposits issued by the firm's bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments.

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

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

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

- Yield: 1.9% to 5.3%
- Duration: 0.4 to 4.8 years

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

See Note 9 for further information about collateralized agreements.

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

- Yield: 0.4% to 20.1%
- Duration: 0.2 to 10.0 years

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

See Note 9 for further information about collateralized financings.

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

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

**Insurance and Reinsurance Contracts.** Insurance and reinsurance contracts at fair value are included in "Receivables from customers and counterparties" and "Other liabilities and accrued expenses." The insurance and reinsurance contracts for which the firm has elected the fair value option are contracts that can be settled only in cash and that qualify for the fair value option because they are recognized financial instruments. These contracts are valued using market transactions and other market evidence where possible, including market-based inputs to models, calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant level 2 inputs are interest rates, inflation rates, volatilities, and policy lapse and projected mortality assumptions. Significant level 3 inputs are funding spreads. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified in level 3. The range of significant unobservable inputs used to value level 3 insurance and reinsurance contracts as of September 2012 is as follows:

- Funding spreads: 92 bps to 128 bps

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

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

- Funding spreads: 112 bps to 157 bps

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

Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Such receivables are primarily comprised of customer margin loans. While these margin loans are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these margin loans been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of September 2012.

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

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

### Fair Value of Other Financial Assets and Financial Liabilities by Level

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

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

| | Other Financial Liabilities at Fair Value as of September 2012 | | | |
|---|---|---|---|---|
| *in millions* | Level 1 | Level 2 | Level 3 | Total |
| Deposits | $ — | $ 5,373 | $ 301 | $ 5,674 |
| Securities sold under agreements to repurchase | — | 164,067 | 2,119 | 166,186 |
| Securities loaned | — | 243 | — | 243 |
| Other secured financings | — | 23,926 | 1,253 | 25,179 |
| Unsecured short-term borrowings | — | 14,939 | 2,681 | 17,620 |
| Unsecured long-term borrowings | — | 10,877 | 2,001 | 12,878 |
| Other liabilities and accrued expenses | — | 492 | 9,483 | 9,975 |
| **Total** | $ — | $219,917 | $17,838 | $237,755 |

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

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

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

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

### Transfers Between Levels of the Fair Value Hierarchy

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

### Level 3 Rollforward

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

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

**Level 3 Other Financial Assets at Fair Value for the Three Months Ended September 2012**

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

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

**Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended September 2012**

| *in millions* | Balance, beginning of period | Net realized (gains)/ losses | Net unrealized (gains)/losses relating to instruments still held at period-end | Purchases | Sales | Issues | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of period |
|---|---|---|---|---|---|---|---|---|---|---|
| Deposits | $ 179 | $ — | $ 4 | $ — | $ — | $102 | $ — | $ 16 | $ — | $ 301 |
| Securities sold under agreements to repurchase, at fair value | 2,055 | — | — | — | — | 64 | — | — | — | 2,119 |
| Other secured financings | 1,182 | 3 | — | — | — | 117 | (200) | 151 | — | 1,253 |
| Unsecured short-term borrowings | 2,726 | 7 | 171 | — | — | 170 | (253) | 76 | (216) | 2,681 |
| Unsecured long-term borrowings | 1,946 | 7 | 80 | — | — | 47 | (108) | 33 | (4) | 2,001 |
| Other liabilities and accrued expenses | 8,969 | (15) | 608 | — | — | — | (79) | — | — | 9,483 |
| **Total** | **$17,057** | **$ 2** [1] | **$863** [1] | **$ —** | **$ —** | **$500** | **$(640)** | **$276** | **$(220)** | **$17,838** |

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

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

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

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

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

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

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

| | Level 3 Other Financial Liabilities at Fair Value for the Nine Months Ended September 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *in millions* | Balance, beginning of period | Net realized (gains)/ losses | Net unrealized (gains)/losses relating to instruments still held at period-end | Purchases | Sales | Issues | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of period |
| Deposits | $ 13 | $ — | $ — | $ — | $— | $ 272 | $ — | $ 16 | $ — | $ 301 |
| Securities sold under agreements to repurchase, at fair value | 2,181 | — | — | — | — | — | (62) | — | — | 2,119 |
| Other secured financings | 1,752 | 9 | — | — | — | 296 | (775) | — | (29) | 1,253 |
| Unsecured short-term borrowings | 3,294 | (33) | 204 | (13) | — | 550 | (817) | 194 | (698) | 2,681 |
| Unsecured long-term borrowings | 2,191 | 23 | 190 | — | — | 293 | (238) | 213 | (671) | 2,001 |
| Other liabilities and accrued expenses | 8,996 | (23) | 764 | — | — | — | (254) | — | — | 9,483 |
| **Total** | **$18,427** | **$(24)[1]** | **$1,158[1]** | **$ (13)** | **$—** | **$1,411** | **$(2,146)** | **$423** | **$(1,398)** | **$17,838** |

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

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

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

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

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

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

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

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

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

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

- Other secured financings: net transfer out of level 3 of $3.05 billion, principally due to transfers to level 2 of certain borrowings as unobservable inputs were no longer significant to the valuation of these borrowings as they neared maturity.
- Unsecured short-term borrowings: net transfer into level 3 of $1.01 billion, principally due to transfers to level 3 of certain borrowings due to less transparency of market prices as a result of less activity in these financial instruments.

| | Level 3 Other Financial Assets at Fair Value for the Nine Months Ended September 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *in millions* | Balance, beginning of period | Net realized gains/ (losses) | Net unrealized gains/(losses) relating to instruments still held at period-end | Purchases | Sales | Issues | Settlements | Net transfers in and/or (out) of level 3 | Balance, end of period |
| Securities purchased under agreements to resell | $ 100 | $ 2 | $ — | $ 477 | $ — | $ — | $ (94) | $ — | $ 485 |
| Receivables from customers and counterparties | 298 | — | 2 | 325 | — | — | (18) | 176 | 783 |
| Total | $ 398 | $ 2 [1] | $ 2 [1] | $ 802 | $ — | $ — | $ (112) | $ 176 | $ 1,268 |

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

| | Level 3 Other Financial Liabilities at Fair Value for the Nine Months Ended September 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *in millions* | Balance, beginning of period | Net realized (gains)/ losses | Net unrealized (gains)/losses relating to instruments still held at period-end | Purchases | Sales | Issues | Settlements | Net transfers in and/or (out) of level 3 | Balance, end of period |
| Securities sold under agreements to repurchase, at fair value | $ 2,060 | $ — | $ — | $ — | $ — | $ 246 | $ (178) | $ — | $ 2,128 |
| Other secured financings | 8,349 | 8 | 3 | — | — | 272 | (3,943) | (3,035) | 1,654 |
| Unsecured short-term borrowings | 3,476 | 69 | (652) | (3) | 7 | 933 | (781) | 385 | 3,434 |
| Unsecured long-term borrowings | 2,104 | 14 | (20) | (72) | — | 453 | (97) | 259 | 2,641 |
| Other liabilities and accrued expenses | 2,409 | — | 662 | 4,564 | (32) | — | (252) | — | 7,351 |
| Total | $18,398 | $ 91 [1] | $ (7) [1] | $4,489 | $(25) | $1,904 | $(5,251) | $(2,391) | $17,208 |

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

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

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

- Other secured financings: net transfer out of level 3 of $3.04 billion, principally due to transfers to level 2 of certain borrowings as unobservable inputs were no longer significant to the valuation of these borrowings as they neared maturity.
- Unsecured short-term borrowings: net transfer into level 3 of $385 million, principally due to transfers to level 3 of certain borrowings due to less transparency of market prices as a result of less activity in these financial instruments, partially offset by transfers from level 3 unsecured short-term borrowings to level 3 unsecured long-term borrowings related to an extension in the tenor of certain borrowings.

### Gains and Losses on Other Financial Assets and Financial Liabilities at Fair Value

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

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

Included in the "Other" columns in the table below are:

- Gains and losses on the embedded derivative component of hybrid financial instruments included in unsecured short-term borrowings and unsecured long-term borrowings. These gains and losses would have been recognized under other U.S. GAAP even if the firm had not elected to account for the entire hybrid instrument at fair value.
- Gains and losses on secured financings related to transfers of assets accounted for as financings rather than sales. These gains and losses are offset by gains and losses on the related instruments included in "Financial instruments owned, at fair value" and "Receivables from customers and counterparties."
- Gains and losses on receivables from customers and counterparties related to transfers of assets accounted for as receivables rather than purchases. These gains and losses are offset by gains and losses on the related financial instruments included in "Other secured financings."
- Gains and losses on subordinated liabilities issued by consolidated VIEs, which are included in "Other liabilities and accrued expenses." These gains and losses are offset by gains and losses on the financial assets held by the consolidated VIEs.

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

1. Primarily consists of gains/(losses) on certain transfers accounted for as receivables rather than purchases and certain reinsurance contracts.
2. Primarily consists of gains/(losses) on certain insurance contracts.
3. Primarily consists of gains/(losses) on resale and repurchase agreements, securities borrowed and loaned and deposits.

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

### 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.

| | As of | |
|---|---|---|
| *in millions* | **September 2012** | December 2011 |
| Aggregate contractual principal amount of performing loans and long-term receivables in excess of the related fair value | **$ 2,704** | $ 3,826 |
| Aggregate contractual principal amount of loans on nonaccrual status and/or more than 90 days past due in excess of the related fair value | **24,017** | 23,034 |
| **Total** [1] | **$26,721** | $26,860 |
| Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due | **$ 2,262** | $ 3,174 |

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

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

### Long-term Debt Instruments

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

### Impact of Credit Spreads on Loans and Lending Commitments

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

### Impact of Credit Spreads on Borrowings

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions* | **2012** | 2011 | **2012** | 2011 |
| Net gains/(losses) including hedges | **$(370)** | $450 | **$(588)** | $576 |
| Net gains/(losses) excluding hedges | **(396)** | 586 | **(628)** | 705 |

## Note 9.

## Collateralized Agreements and Financings

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

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

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

| | As of | |
|---|---|---|
| *in millions* | **September 2012** | December 2011 |
| Securities purchased under agreements to resell [1] | **$147,361** | $187,789 |
| Securities borrowed [2] | **165,250** | 153,341 |
| Securities sold under agreements to repurchase [1] | **166,186** | 164,502 |
| Securities loaned [2] | **13,640** | 7,182 |

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

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

### Resale and Repurchase Agreements

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

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

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

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

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

### Securities Borrowed and Loaned Transactions

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

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

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

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

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

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

### Other Secured Financings

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

- liabilities of consolidated VIEs;
- transfers of assets accounted for as financings rather than sales (primarily collateralized central bank financings, pledged commodities, bank loans and mortgage whole loans); and
- other structured financing arrangements.

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

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

- transfers of assets accounted for as financings rather than sales; and
- certain other nonrecourse financings.

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

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

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

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

1. The weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.
2. Includes $6.18 billion and $9.36 billion related to transfers of financial assets accounted for as financings rather than sales as of September 2012 and December 2011, respectively. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value" of $6.20 billion and $9.51 billion as of September 2012 and December 2011, respectively.
3. Includes $15.58 billion and $14.82 billion of other secured financings collateralized by financial instruments owned, at fair value as of September 2012 and December 2011, respectively, and includes $12.83 billion and $21.06 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of September 2012 and December 2011, respectively.
4. Primarily real estate and cash.

The table below presents other secured financings by maturity.

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

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

### Collateral Received and Pledged

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

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

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

| | As of | |
|---|---|---|
| *in millions* | **September 2012** | December 2011 |
| Collateral available to be delivered or repledged | **$573,711** | $622,926 |
| Collateral that was delivered or repledged | **431,090** | 454,604 |

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

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

### 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) and acts as underwriter of the beneficial interests that are sold to investors. The firm's residential mortgage securitizations are substantially all in connection with government agency securitizations.

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

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

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

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

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

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

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

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

- the outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities in which the firm has continuing involvement and is not representative of the firm's risk of loss;
- for retained or purchased interests, the firm's risk of loss is limited to the fair value of these interests; and
- purchased interests represent senior and subordinated interests, purchased in connection with secondary market-making activities, in securitization entities in which the firm also holds retained interests.

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

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

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

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

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

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

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

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

The preceding table does not give effect to the offsetting benefit of other financial instruments that are held to mitigate risks inherent in these retained interests. Changes in fair value based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In addition, the impact of a change in a particular assumption in the preceding table is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

## Note 11.
## Variable Interest Entities

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

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

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

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

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

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

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

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

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

### VIE Consolidation Analysis

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

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

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

- which variable interest holder has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance;
- which variable interest holder has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE;
- the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders;
- the VIE's capital structure;
- the terms between the VIE and its variable interest holders and other parties involved with the VIE; and
- related-party relationships.

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

### Nonconsolidated VIEs

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

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

- The maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.
- For retained and purchased interests and loans and investments, the maximum exposure to loss is the carrying value of these interests.
- For commitments and guarantees, and derivatives, the maximum exposure to loss is the notional amount, which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded. As a result, the maximum exposure to loss exceeds liabilities recorded for commitments and guarantees, and derivatives provided to VIEs.

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

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

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

| | Nonconsolidated VIEs | | | | | | |
|---|---|---|---|---|---|---|---|
| | As of September 2012 | | | | | | |
| *in millions* | **Mortgage-backed** | **Corporate CDOs and CLOs** | **Real estate, credit-related and other investing** | **Other asset-backed** | **Power-related** | **Investment funds** | **Total** |
| **Assets in VIE** | **$85,380** [2] | **$22,363** | **$9,522** | **$3,626** | **$537** | **$2,263** | **$123,691** |
| **Carrying Value of the Firm's Variable Interests** | | | | | | | |
| Assets | **5,533** | **1,206** | **1,736** | **249** | **287** | **5** | **9,016** |
| Liabilities | **—** | **34** | **—** | **30** | **—** | **—** | **64** |
| **Maximum Exposure to Loss in Nonconsolidated VIEs** | | | | | | | |
| Retained interests | **3,932** | **37** | **—** | **—** | **—** | **—** | **3,969** |
| Purchased interests | **1,317** | **680** | **—** | **230** | **—** | **—** | **2,227** |
| Commitments and guarantees [1] | **—** | **1** | **398** | **—** | **2** | **1** | **402** |
| Derivatives [1] | **1,994** | **6,382** | **—** | **1,081** | **—** | **—** | **9,457** |
| Loans and investments | **42** | **—** | **1,736** | **—** | **287** | **5** | **2,070** |
| **Total** | **$ 7,285** [2] | **$ 7,100** | **$2,134** | **$1,311** | **$289** | **$ 6** | **$ 18,125** |

| | Nonconsolidated VIEs | | | | | | |
|---|---|---|---|---|---|---|---|
| | As of December 2011 | | | | | | |
| *in millions* | Mortgage-backed | Corporate CDOs and CLOs | Real estate, credit-related and other investing | Other asset-backed | Power-related | Investment funds | Total |
| **Assets in VIE** | $94,047 [2] | $20,340 | $8,974 | $4,593 | $519 | $2,208 | $130,681 |
| **Carrying Value of the Firm's Variable Interests** | | | | | | | |
| Assets | 7,004 | 911 | 1,495 | 352 | 289 | 5 | 10,056 |
| Liabilities | — | 63 | 3 | 24 | 2 | — | 92 |
| **Maximum Exposure to Loss in Nonconsolidated VIEs** | | | | | | | |
| Retained interests | 5,745 | 32 | — | — | — | — | 5,777 |
| Purchased interests | 962 | 368 | — | 333 | — | — | 1,663 |
| Commitments and guarantees [1] | — | 1 | 373 | — | 46 | — | 420 |
| Derivatives [1] | 2,469 | 7,529 | — | 1,221 | — | — | 11,219 |
| Loans and investments | 82 | — | 1,495 | — | 288 | 5 | 1,870 |
| Total | $ 9,258 [2] | $ 7,930 | $1,868 | $1,554 | $334 | $ 5 | $ 20,949 |

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

### 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.

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

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

## Note 12.

# Other Assets

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

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

1. Net of accumulated depreciation and amortization of $9.02 billion and $8.46 billion as of September 2012 and December 2011, respectively.
2. See Note 13 for further information about goodwill and identifiable intangible assets.
3. See Note 24 for further information about income taxes.
4. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of $4.71 billion and $4.17 billion as of September 2012 and December 2011, respectively, which are included in "Financial instruments owned, at fair value." The firm has generally elected the fair value option for such investments acquired after the fair value option became available.
5. Includes $460 million of assets held for sale as of September 2012.

### Property, Leasehold Improvements and Equipment

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

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

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

### Impairments

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

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

## Note 13.

## Goodwill and Identifiable Intangible Assets

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

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

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

### Goodwill

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

Goodwill is assessed annually in the fourth quarter for impairment or more frequently if events occur or circumstances change that indicate an impairment may exist. Qualitative factors are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If results of the qualitative assessment are not conclusive, a quantitative goodwill impairment test is performed.

The quantitative goodwill impairment test consists of two steps.

- The first step compares the estimated fair value of each reporting unit with its estimated net book value (including goodwill and identified intangible assets). If the reporting unit's fair value exceeds its estimated net book value, goodwill is not impaired.
- If the estimated fair value of a reporting unit is less than its estimated net book value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. An impairment loss is equal to the excess of the carrying amount of goodwill over its fair value.

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

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

### 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.

| | | As of | | |
|---|---|---|---|---|
| *$ in millions* | | **September 2012** | Weighted Average Remaining Lives *(years)* | December 2011 |
| **Customer lists** | Gross carrying amount | **$ 1,147** | | $ 1,119 |
| | Accumulated amortization | **(650)** | | (593) |
| | Net carrying amount | **497** | **8** | 526 |
| **Commodities-related intangibles** [1] | Gross carrying amount | **491** | | 595 |
| | Accumulated amortization | **(204)** | | (237) |
| | Net carrying amount | **287** | **9** | 358 |
| **Television broadcast royalties** | Gross carrying amount | **560** | | 560 |
| | Accumulated amortization | **(170)** | | (123) |
| | Net carrying amount | **390** | **6** | 437 |
| **Insurance-related intangibles** [2] | Gross carrying amount | **339** | | 292 |
| | Accumulated amortization | **(197)** | | (146) |
| | Net carrying amount | **142** | **6** | 146 |
| **Other** [3] | Gross carrying amount | **992** | | 950 |
| | Accumulated amortization | **(775)** | | (751) |
| | Net carrying amount | **217** | **11** | 199 |
| **Total** | **Gross carrying amount** | **3,529** | | 3,516 |
| | **Accumulated amortization** | **(1,996)** | | (1,850) |
| | **Net carrying amount** | **$ 1,533** | **8** | $ 1,666 |

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

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

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

Substantially all of the firm's identifiable intangible assets are considered to have finite lives and are amortized (i) over their estimated lives, (ii) based on economic usage for certain commodity-related intangibles or (iii) in proportion to estimated gross profits or premium revenues. Amortization expense for identifiable intangible assets is included in "Depreciation and amortization."

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions* | **2012** | 2011 | **2012** | 2011 |
| Amortization expense | **$60** | $84 | **$206** | $207 |

| *in millions* | **As of September 2012** |
|---|---|
| **Estimated future amortization expense:** | |
| Remainder of 2012 | **$ 72** |
| 2013 | **247** |
| 2014 | **215** |
| 2015 | **181** |
| 2016 | **177** |
| 2017 | **173** |

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

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

- If the total of the undiscounted cash flows exceeds the carrying value, the asset or asset group is not impaired.
- If the total of the undiscounted cash flows is less than the carrying value, the asset or asset group is not fully recoverable and an impairment loss is recognized as the difference between the carrying amount of the asset or asset group and its estimated fair value.

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

**Note 14.**

## Deposits

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

| | As of | |
|---|---|---|
| *in millions* | **September 2012** | December 2011 |
| U.S. offices | **$53,643** | $38,477 |
| Non-U.S. offices | **7,883** | 7,632 |
| **Total** | **$61,526** [1] | $46,109 [1] |

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

| | **As of September 2012** | | |
|---|---|---|---|
| *in millions* | **U.S.** | **Non-U.S.** | **Total** |
| Remainder of 2012 | **$ 875** | **$1,649** | **$ 2,524** |
| 2013 | **5,069** | **602** | **5,671** |
| 2014 | **3,363** | **—** | **3,363** |
| 2015 | **2,784** | **—** | **2,784** |
| 2016 | **1,435** | **—** | **1,435** |
| 2017 | **2,002** | **—** | **2,002** |
| 2018 - thereafter | **4,483** | **—** | **4,483** |
| **Total** | **$20,011** [2] | **$2,251** [3] | **$22,262** [1] |

1. Includes $5.67 billion and $4.53 billion as of September 2012 and December 2011, respectively, of time deposits accounted for at fair value under the fair value option.
2. Includes $48 million greater than $100,000, of which $6 million matures within three months, $6 million matures within three to six months, $29 million matures within six to twelve months, and $7 million matures after twelve months.
3. Substantially all were greater than $100,000.

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

## Note 15.

## Short-Term Borrowings

Short-term borrowings were comprised of the following:

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

See Note 9 for further information about other secured financings.

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

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

The table below presents unsecured short-term borrowings.

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

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

## Note 16.

## Long-Term Borrowings

Long-term borrowings were comprised of the following:

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

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

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

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

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

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

- unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holders are included as unsecured short-term borrowings;
- unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates; and
- unsecured long-term borrowings that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.

| *in millions* | **As of September 2012** |
|---|---|
| 2013 | **$ 3,941** |
| 2014 | **21,653** |
| 2015 | **19,825** |
| 2016 | **21,929** |
| 2017 | **20,289** |
| 2018 - thereafter | **80,241** |
| **Total [1]** | **$167,878** |

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

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

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

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

| | As of | |
|---|---|---|
| *in millions* | **September 2012** | December 2011 |
| Fixed-rate obligations | | |
| At fair value | **$ 65** | $ 76 |
| At amortized cost [1] | **25,981** | 28,773 |
| Floating-rate obligations | | |
| At fair value | **12,813** | 17,086 |
| At amortized cost [1] | **129,019** | 127,610 |
| **Total** | **$167,878** | $173,545 |

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

### Subordinated Borrowings

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated borrowings, which are junior to senior borrowings. As of September 2012 and December 2011, subordinated debt had maturities ranging from 2015 to 2038 and 2017 to 2038, respectively. The table below presents subordinated borrowings.

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

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

### Junior Subordinated Debt

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

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

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

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

In connection with the remarketing of the junior subordinated debt to the Murray Street Trust and Vesey Street Trust (together, the 2012 Trusts), pursuant to the terms of the junior subordinated debt, the interest rate and other terms were modified. Following such sales, the firm pays interest semi-annually on the $1.75 billion of junior subordinated debt held by the Murray Street Trust at a fixed annual rate of 4.647% and the debt matures on March 9, 2017 and on the $500 million of junior subordinated debt held by the Vesey Street Trust at a fixed annual rate of 4.404% and the debt matures on September 1, 2016. To fund the purchase of the junior subordinated debt, the 2012 Trusts issued an aggregate of $2.25 billion of senior guaranteed trust securities. The 2012 Trusts are required to pay distributions on their senior guaranteed trust securities in the same amounts and on the same dates that they are scheduled to receive interest on the junior subordinated debt they hold, and are required to redeem their respective senior guaranteed trust securities upon the maturity or earlier redemption of the junior subordinated debt they hold. Group Inc. fully and unconditionally guarantees the payment of these distribution and redemption amounts when due on a senior basis and, as such, the $2.25 billion of junior subordinated debt held by the 2012 Trusts for the benefit of investors is no longer classified as junior subordinated debt.

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

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

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

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

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

## Note 17.

## Other Liabilities and Accrued Expenses

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

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

1. Includes $1.18 billion and $1.17 billion related to consolidated investment funds as of September 2012 and December 2011, respectively.
2. See Note 24 for further information about income taxes.

The table below presents insurance-related liabilities by type.

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

1. Increase primarily due to reinsurance transactions during 2012.

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

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

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

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

## Note 18.

# Commitments, Contingencies and Guarantees

### Commitments

The table below presents the firm's commitments.

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

1. Commitments to extend credit are presented net of amounts syndicated to third parties.
2. Includes commitments associated with the former William Street credit extension program.
3. These agreements generally settle within three business days.
4. Consists of commitments under letters of credit issued by various banks which the firm provides to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements.

### Commitments to Extend Credit

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

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

Certain lending commitments, entered into during 2012, were held for investment and therefore were accounted for on an accrual basis. As of September 2012, approximately $13.45 billion of the firm's lending commitments were held for investment. As of September 2012, the carrying value and the estimated fair value of such lending commitments were liabilities of $58 million and $406 million, respectively. As these lending commitments are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these commitments been included in the firm's fair value hierarchy, they would have primarily been classified in level 3 as of September 2012.

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

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

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

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

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

### Investment Commitments

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

### Leases

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

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

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

### Contingencies

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

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

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

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

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

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

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

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

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

  The firm further agreed to provide indemnities to Ocwen not subject to a cap, which primarily relate to potential liabilities constituting fines or civil monetary penalties which could be imposed in settlements with certain terms with U.S. states attorneys general or in consent orders with certain terms with the Federal Reserve, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the FDIC or the New York State Department of Financial Services, in each case relating to Litton's foreclosure and servicing practices while it was owned by the firm. Under the Litton sale agreement the firm also retained liabilities associated with claims related to Litton's failure to maintain lender-placed mortgage insurance, obligations to repurchase certain loans from government-sponsored enterprises, subpoenas from one of Litton's regulators, and fines or civil penalties imposed by the Federal Reserve or the New York State Department of Financial Services in connection with certain compliance matters. Management is unable to develop an estimate of the maximum potential amount of future payments under these indemnities because the firm has received no claims under these indemnities other than an immaterial amount with respect to government-sponsored enterprises. However, management does not believe, based on currently available information, that any payments under these indemnities will have a material adverse effect on the firm's financial condition.

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

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

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

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

### Guarantees

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Note 19.**

## Shareholders' Equity

### Common Equity

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

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

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

### Preferred Equity

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

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

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

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

In 2007, the Board authorized 17,500 shares of Series E Preferred Stock, and 5,000 shares of Series F Preferred Stock, in connection with the APEX Trusts. On June 1, 2012, Group Inc. issued 17,500 shares of Series E Preferred Stock to Goldman Sachs Capital II pursuant to the stock purchase contracts held by Goldman Sachs Capital II. On September 4, 2012, Group Inc. issued 5,000 shares of Series F Preferred Stock to Goldman Sachs Capital III pursuant to the stock purchase contracts held by Goldman Sachs Capital III. Each share of Series E and Series F Preferred Stock issued and outstanding has a par value of $0.01, has a liquidation preference of $100,000 and is redeemable at the option of the firm at any time subject to approval from the Federal Reserve Board and to certain covenant restrictions governing the firm's ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics. See Note 16 for further information about the APEX Trusts.

On October 24, 2012, Group Inc. issued 34,000 shares of perpetual 5.95% Non-Cumulative Preferred Stock, Series I, par value $0.01 per share (Series I Preferred Stock), out of a total of 34,500 shares of Series I Preferred Stock authorized for issuance. Each share of Series I Preferred Stock issued and outstanding has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at the firm's option beginning November 10, 2017, subject to the approval of the Federal Reserve Board, at a redemption price equal to $25,000 plus accrued and unpaid dividends.

In March 2011, the firm provided notice to Berkshire Hathaway Inc. and certain of its subsidiaries (collectively, Berkshire Hathaway) that it would redeem in full the 50,000 shares of the firm's 10% Cumulative Perpetual Preferred Stock, Series G (Series G Preferred Stock) held by Berkshire Hathaway for the stated redemption price of $5.50 billion ($110,000 per share), plus accrued and unpaid dividends. In connection with this notice, the firm recognized a preferred dividend of $1.64 billion (calculated as the difference between the carrying value and the redemption value of the preferred stock), which was recorded as a reduction to earnings applicable to common shareholders for the first quarter of 2011. The redemption also resulted in the acceleration of $24 million of preferred dividends related to the period from April 1, 2011 to the redemption date, which was included in the firm's results during the three months ended March 2011. The Series G Preferred Stock was redeemed on April 18, 2011. Berkshire Hathaway continues to hold a five-year warrant, issued in October 2008, to purchase up to 43.5 million shares of common stock at an exercise price of $115.00 per share.

The table below presents preferred dividends declared on preferred stock.

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

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

## Accumulated Other Comprehensive Income/(Loss)

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

| | **As of September 2012** | | | |
|---|---|---|---|---|
| *in millions* | **Currency translation adjustment, net of tax** | **Pension and postretirement liability adjustments, net of tax** | **Net unrealized gains/(losses) on available-for-sale securities, net of tax** | **Accumulated other comprehensive income/(loss), net of tax** |
| Balance, beginning of year | **$(225)** | **$(374)** | **$ 83** | **$(516)** |
| Other comprehensive income/(loss) | **(63)** | **13** | **184** | **134** |
| **Balance, end of period** | **$(288)** | **$(361)** | **$267 [1]** | **$(382)** |

| | As of December 2011 | | | |
|---|---|---|---|---|
| *in millions* | Currency translation adjustment, net of tax | Pension and postretirement liability adjustments, net of tax | Net unrealized gains/(losses) on available-for-sale securities, net of tax | Accumulated other comprehensive income/(loss), net of tax |
| Balance, beginning of year | $(170) | $(229) | $113 | $(286) |
| Other comprehensive loss | (55) | (145) | (30) | (230) |
| Balance, end of year | $(225) | $(374) | $ 83 [1] | $(516) |

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

**Note 20.**

## Regulation and Capital Adequacy

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956. As a bank holding company, the firm is subject to consolidated regulatory capital requirements that are computed in accordance with the Federal Reserve Board's risk-based capital requirements (which are based on the 'Basel 1' Capital Accord of the Basel Committee). These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). The firm's U.S. bank depository institution subsidiaries, including GS Bank USA, are subject to similar capital requirements.

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

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

### Group Inc.

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

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

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

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

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

**Regulatory Reform**

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

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

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

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

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

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

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

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

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

**Bank Subsidiaries**

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

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

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

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

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

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

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

### Broker-Dealer Subsidiaries

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

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

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

### Insurance Subsidiaries

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

### Other Non-U.S. Regulated Subsidiaries

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

### Restrictions on Payments

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

## Note 21.

## Earnings Per Common Share

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

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions, except per share amounts* | **2012** | 2011 | **2012** | 2011 |
| **Numerator for basic and diluted EPS — net earnings/(loss) applicable to common shareholders** | **$1,458** | $ (428) | **$4,459** | $1,532 |
| Denominator for basic EPS — weighted average number of common shares | **491.2** | 518.2 | **501.1** | 530.1 |
| Effect of dilutive securities: | | | | |
| RSUs | **12.0** | — | **10.8** | 14.0 |
| Stock options and warrants | **7.7** | — | **8.2** | 22.5 |
| Dilutive potential common shares | **19.7** | — | **19.0** | 36.5 |
| **Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares** | **510.9** | 518.2 | **520.1** | 566.6 |
| Basic EPS | **$ 2.95** | $ (0.84) | **$ 8.85** | $ 2.84 |
| Diluted EPS | **2.85** | (0.84) | **8.57** | 2.70 |

In the table above, unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of $0.02 for the three months ended September 2012 and an increase in basic and diluted loss per common share of $0.01 for the three months ended September 2011, and a reduction in basic EPS of $0.05 for both the nine months ended September 2012 and September 2011.

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions* | **2012** | 2011 | **2012** | 2011 |
| Number of antidilutive RSUs and common shares underlying antidilutive stock options and warrants | **52.4** | 123.4 | **52.4** | 6.4 |

## Note 22.

## Transactions with Affiliated Funds

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

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions* | **2012** | 2011 | **2012** | 2011 |
| Fees earned from affiliated funds | **$ 602** | $ 663 | **$1,947** | $2,104 |

| | As of | |
|---|---|---|
| *in millions* | **September 2012** | December 2011 |
| Fees receivable from funds | **$ 622** | $ 721 |
| Aggregate carrying value of interests in funds | **15,095** | 14,960 |

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

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

## Note 23.

## Interest Income and Interest Expense

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

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

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

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

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

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

## Note 24.

## Income Taxes

### Provision for Income Taxes

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

### Deferred Income Taxes

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

### Unrecognized Tax Benefits

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

### Regulatory Tax Examinations

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

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

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

1. IRS examination of fiscal 2008 through calendar 2010 began during 2011. IRS examination of fiscal 2005, 2006 and 2007 began during 2008. IRS examination of fiscal 2003 and 2004 has been completed, but the liabilities for those years are not yet final.
2. New York State and City examination of fiscal 2004, 2005 and 2006 began in 2008.
3. Japan National Tax Agency examination of fiscal 2005 through 2009 began during the first quarter of 2010. The examinations have been completed, but the liabilities for 2008 and 2009 are not yet final.

All years subsequent to the above remain open to examination by the taxing authorities. The firm believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

**Note 25.**

## Business Segments

### Basis of Presentation

In reporting segments, certain of the firm's business lines have been aggregated where they have similar economic characteristics and are similar in each of the following areas: (i) the nature of the services they provide, (ii) their methods of distribution, (iii) the types of clients they serve and (iv) the regulatory environments in which they operate.

The cost drivers of the firm taken as a whole — compensation, headcount and levels of business activity — are broadly similar in each of the firm's business segments. Compensation and benefits expenses in the firm's segments reflect, among other factors, the overall performance of the firm as well as the performance of individual businesses. Consequently, pre-tax margins in one segment of the firm's business may be significantly affected by the performance of the firm's other business segments.

The firm allocates assets (including allocations of excess liquidity and cash, secured client financing and other assets), revenues and expenses among the four reportable business segments. Due to the integrated nature of these segments, estimates and judgments are made in allocating certain assets, revenues and expenses. Transactions between segments are based on specific criteria or approximate third-party rates. Total operating expenses include corporate items that have not been allocated to individual business segments. The allocation process is based on the manner in which management views the business of the firm.

Management believes that the following information provides a reasonable representation of each segment's contribution to consolidated pre-tax earnings/(loss) and total assets.

| | | For the Three Months Ended or as of September | | For the Nine Months Ended or as of September | |
|---|---|---|---|---|---|
| *in millions* | | **2012** | 2011 | **2012** | 2011 |
| **Investment Banking** | Net revenues | **$ 1,164** | $ 781 | **$ 3,521** | $ 3,498 |
| | Operating expenses | **825** | 541 | **2,560** | 2,445 |
| | **Pre-tax earnings** | **$ 339** | $ 240 | **$ 961** | $ 1,053 |
| | **Segment assets** | **$ 1,765** | $ 2,136 | **$ 1,765** | $ 2,136 |
| **Institutional Client Services** | Net revenues [1] | **$ 4,184** | $ 4,062 | **$ 13,782** | $ 14,224 |
| | Operating expenses | **3,186** | 2,631 | **10,016** | 10,255 |
| | **Pre-tax earnings** | **$ 998** | $ 1,431 | **$ 3,766** | $ 3,969 |
| | **Segment assets** | **$842,950** | $845,055 | **$842,950** | $845,055 |
| **Investing & Lending** | Net revenues | **$ 1,804** | $ (2,479) | **$ 3,918** | $ 1,270 |
| | Operating expenses | **1,002** | 86 | **2,216** | 1,864 |
| | **Pre-tax earnings/(loss)** | **$ 802** | $ (2,565) | **$ 1,702** | $ (594) |
| | **Segment assets** | **$ 92,541** | $ 87,712 | **$ 92,541** | $ 87,712 |
| **Investment Management** | Net revenues | **$ 1,199** | $ 1,223 | **$ 3,706** | $ 3,770 |
| | Operating expenses | **977** | 989 | **3,037** | 3,112 |
| | **Pre-tax earnings** | **$ 222** | $ 234 | **$ 669** | $ 658 |
| | **Segment assets** | **$ 11,951** | $ 14,006 | **$ 11,951** | $ 14,006 |
| **Total** | **Net revenues** | **$ 8,351** | $ 3,587 | **$ 24,927** | $ 22,762 |
| | **Operating expenses** | **6,053** | 4,317 | **18,033** | 17,840 |
| | **Pre-tax earnings/(loss)** | **$ 2,298** | $ (730) | **$ 6,894** | $ 4,922 |
| | **Total assets** | **$949,207** | $948,909 | **$949,207** | $948,909 |

1. Includes $30 million and $31 million for the three months ended September 2012 and September 2011, respectively, and $81 million for both the nine months ended September 2012 and September 2011, of realized gains on available-for-sale securities held in the firm's insurance subsidiaries.

Total operating expenses in the table above include the following expenses that have not been allocated to the firm's segments:

- net provisions for a number of litigation and regulatory proceedings of $62 million and $59 million for the three months ended September 2012 and September 2011, respectively, and $188 million and $128 million for the nine months ended September 2012 and September 2011, respectively;
- charitable contributions of $12 million and $25 million for the nine months ended September 2012 and September 2011, respectively; and
- real estate-related exit costs of $1 million and $11 million for the three months ended September 2012 and September 2011, respectively, and $4 million and $11 million for the nine months ended September 2012 and September 2011, respectively. Real estate-related exit costs are included in "Depreciation and amortization" and "Occupancy" in the condensed consolidated statements of earnings.

The tables below present the amounts of net interest income or interest expense included in net revenues, and the amounts of depreciation and amortization expense included in pre-tax earnings.

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions* | **2012** | 2011 | **2012** | 2011 |
| Investment Banking | **$ (4)** | $ — | **$ (13)** | $ — |
| Institutional Client Services | **813** | 1,243 | **2,799** | 3,375 |
| Investing & Lending | **2** | 60 | **9** | 595 |
| Investment Management | **25** | 53 | **112** | 157 |
| **Total net interest** | **$836** | $1,356 | **$2,907** | $4,127 |

| | Three Months Ended September | | Nine Months Ended September | |
|---|---|---|---|---|
| *in millions* | **2012** | 2011 | **2012** | 2011 |
| Investment Banking | **$ 36** | $ 44 | **$ 117** | $ 133 |
| Institutional Client Services | **188** | 230 | **559** | 753 |
| Investing & Lending | **119** | 56 | **406** | 318 |
| Investment Management | **52** | 59 | **155** | 151 |
| **Total depreciation and amortization** | **$396** [1] | $ 389 | **$1,238** [1] | $1,355 |

1. Includes real estate-related exit costs of $1 million for both the three and nine months ended September 2012 that have not been allocated to the firm's segments.

## Geographic Information

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. The methodology for allocating profitability to geographic regions is dependent on estimates and management judgment because a significant portion of the firm's activities require cross-border coordination in order to facilitate the needs of the firm's clients.

Geographic results are generally allocated as follows:

- Investment Banking: location of the client and investment banking team.
- Institutional Client Services: Fixed Income, Currency and Commodities Client Execution, and Equities (excluding Securities Services): location of the market-making desk; Securities Services: location of the primary market for the underlying security.
- Investing & Lending: Investing: location of the investment; Lending: location of the client.
- Investment Management: location of the sales team.

The table below presents the total net revenues and pre-tax earnings/(loss) of the firm by geographic region allocated based on the methodology referred to above, as well as the percentage of total net revenues and pre-tax earnings/(loss) (excluding Corporate) for each geographic region.

| | Three Months Ended September | | | | Nine Months Ended September | | | |
|---|---|---|---|---|---|---|---|---|
| *$ in millions* | **2012** | | 2011 | | **2012** | | 2011 | |
| **Net revenues** | | | | | | | | |
| Americas [1] | **$5,114** | **61%** | $2,485 | 69% | **$14,807** | **59%** | $14,149 | 62% |
| EMEA [2] | **2,160** | **26** | 1,349 | 38 | **6,660** | **27** | 5,974 | 26 |
| Asia [3] | **1,077** | **13** | (247) | (7) | **3,460** | **14** | 2,639 | 12 |
| **Total net revenues** | **$8,351** | **100%** | $3,587 | 100% | **$24,927** | **100%** | $22,762 | 100% |
| **Pre-tax earnings/(loss)** | | | | | | | | |
| Americas [1] | **$1,401** | **59%** | $ 92 | N.M. | **$ 3,943** | **56%** | $ 3,567 | 70% |
| EMEA [2] | **709** | **30** | 107 | N.M. | **2,279** | **32** | 1,678 | 33 |
| Asia [3] | **251** | **11** | (859) | N.M. | **876** | **12** | (159) | (3) |
| Subtotal | **2,361** | **100%** | (660) | 100% | **7,098** | **100%** | 5,086 | 100% |
| Corporate [4] | **(63)** | | (70) | | **(204)** | | (164) | |
| **Total pre-tax earnings/(loss)** | **$2,298** | | $ (730) | | **$ 6,894** | | $ 4,922 | |

1. Substantially all relates to the U.S.
2. EMEA (Europe, Middle East and Africa).
3. Asia also includes Australia and New Zealand.
4. Consists of net provisions for a number of litigation and regulatory proceedings of $62 million and $59 million for the three months ended September 2012 and September 2011, respectively, and $188 million and $128 million for the nine months ended September 2012 and September 2011, respectively; charitable contributions of $12 million and $25 million for the nine months ended September 2012 and September 2011, respectively; and real estate-related exit costs of $1 million and $11 million for the three months ended September 2012 and September 2011, respectively, and $4 million and $11 million for the nine months ended September 2012 and September 2011, respectively.

## Note 26.
## Credit Concentrations

Credit concentrations may arise from market making, client facilitation, investing, underwriting, lending and collateralized transactions and may be impacted by changes in economic, industry or political factors. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the firm's activities expose it to many different industries and counterparties, the firm routinely executes a high volume of transactions with asset managers, investment funds, commercial banks, brokers and dealers, clearing houses and exchanges, which results in significant credit concentrations.

In the ordinary course of business, the firm may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, or to a particular clearing house or exchange.

The table below presents the credit concentrations in assets held by the firm. As of September 2012 and December 2011, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

| | As of | |
|---|---|---|
| *$ in millions* | **September 2012** | December 2011 |
| U.S. government and federal agency obligations [1] | **$116,426** | $103,468 |
| % of total assets | **12.3%** | 11.2% |
| Non-U.S. government and agency obligations [1, 2] | **$ 62,952** | $ 49,025 |
| % of total assets | **6.6%** | 5.3% |

1. Included in "Financial instruments owned, at fair value" and "Cash and securities segregated for regulatory and other purposes."
2. Principally related to Germany, Japan and the United Kingdom as of both September 2012 and December 2011.

To reduce credit exposures, the firm may enter into agreements with counterparties that permit the firm to offset receivables and payables with such counterparties and/or enable the firm to obtain collateral on an upfront or contingent basis. Collateral obtained by the firm related to derivative assets is principally cash and is held by the firm or a third-party custodian. Collateral obtained by the firm related to resale agreements and securities borrowed transactions is primarily U.S. government and federal agency obligations and Non-U.S. government and agency obligations. See Note 9 for further information about collateralized agreements and financings.

The table below presents U.S. government and federal agency obligations, and Non-U.S. government and agency obligations that collateralize resale agreements and securities borrowed transactions (including those in "Cash and securities segregated for regulatory and other purposes"). Because the firm's primary credit exposure on such transactions is to the counterparty to the transaction, the firm would be exposed to the collateral issuer only in the event of counterparty default.

| | As of | |
|---|---|---|
| *in millions* | **September 2012** | December 2011 |
| U.S. government and federal agency obligations | **$69,330** | $ 94,603 |
| Non-U.S. government and agency obligations [1] | **90,930** | 110,178 |

1. Principally consisting of securities issued by the governments of Germany and France.

**Note 27.**

## Legal Proceedings

The firm is involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the firm's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages.

Under ASC 450 an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." Thus, references to the upper end of the range of reasonably possible loss for cases in which the firm is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which the firm believes the risk of loss is more than slight. The amounts reserved against such matters are not significant as compared to the upper end of the range of reasonably possible loss.

With respect to proceedings described below for which management has been able to estimate a range of reasonably possible loss where (i) plaintiffs have claimed an amount of money damages, (ii) the firm is being sued by purchasers in an underwriting and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the amount of securities that the firm sold in the underwritings and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of September 2012 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any factors believed to be relevant to the particular proceeding or proceedings of that type. As of the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such proceedings and for any other proceedings described below where management has been able to estimate a range of reasonably possible aggregate loss to be approximately $3.6 billion.

Management is generally unable to estimate a range of reasonably possible loss for proceedings other than those included in the estimate above, including where (i) plaintiffs have not claimed an amount of money damages, unless management can otherwise determine an appropriate amount, (ii) the proceedings are in early stages, (iii) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) there are novel legal issues presented. However, for these cases, management does not believe, based on currently available information, that the outcomes of such proceedings will have a material adverse effect on the firm's financial condition, though the outcomes could be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period.

**IPO Process Matters.** Group Inc. and GS&Co. are among the numerous financial services companies that have been named as defendants in a variety of lawsuits alleging improprieties in the process by which those companies participated in the underwriting of public offerings.

GS&Co. has been named as a defendant in an action commenced on May 15, 2002 in New York Supreme Court, New York County, by an official committee of unsecured creditors on behalf of eToys, Inc., alleging that the firm intentionally underpriced eToys, Inc.'s initial public offering. The action seeks, among other things, unspecified compensatory damages resulting from the alleged lower amount of offering proceeds. On appeal from rulings on GS&Co.'s motion to dismiss, the New York Court of Appeals dismissed claims for breach of contract, professional malpractice and unjust enrichment, but permitted claims for breach of fiduciary duty and fraud to continue. On remand, the lower court granted GS&Co.'s motion for summary judgment and, on December 8, 2011, the appellate court affirmed the lower court's decision. On September 6, 2012, the New York Court of Appeals granted the creditors' motion for leave to appeal.

Group Inc. and certain of its affiliates have, together with various underwriters in certain offerings, received subpoenas and requests for documents and information from various governmental agencies and self-regulatory organizations in connection with investigations relating to the public offering process. Goldman Sachs has cooperated with these investigations.

**World Online Litigation.** In March 2001, a Dutch shareholders' association initiated legal proceedings for an unspecified amount of damages against GSI and others in Amsterdam District Court in connection with the initial public offering of World Online in March 2000, alleging misstatements and omissions in the offering materials and that the market was artificially inflated by improper public statements and stabilization activities. Goldman Sachs and ABN AMRO Rothschild served as joint global coordinators of the approximately €2.9 billion offering. GSI underwrote 20,268,846 shares and GS&Co. underwrote 6,756,282 shares for a total offering price of approximately €1.16 billion.

The district court rejected the claims against GSI and ABN AMRO, but found World Online liable in an amount to be determined. On appeal, the Netherlands Court of Appeals affirmed in part and reversed in part the decision of the district court, holding that certain of the alleged disclosure deficiencies were actionable as to GSI and ABN AMRO. On further appeal, the Netherlands Supreme Court affirmed the rulings of the Court of Appeals, except that it found certain additional aspects of the offering materials actionable and held that individual investors could potentially hold GSI and ABN AMRO responsible for certain public statements and press releases by World Online and its former CEO. The parties entered into a definitive settlement agreement, dated July 15, 2011, and GSI has paid the full amount of its proposed contribution. In the first quarter of 2012, GSI entered into a settlement agreement, subject to certain conditions, with respect to a claim filed by another shareholders' association relating to approximately €4 million of World Online shares. Other shareholders have made demands for compensation of alleged damages, and GSI and other syndicate members are discussing the possibility of settlement with certain of these shareholders.

**Research Matters.** Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations relating to research practices, including, among other things, research analysts' methods for obtaining receipt and distribution of information and communications among research analysts, sales and trading personnel and clients.

**Adelphia Communications Fraudulent Conveyance Litigation.** GS&Co. is named as a defendant in two proceedings commenced in the U.S. Bankruptcy Court for the Southern District of New York, one on July 6, 2003 by a creditors committee, and the second on or about July 31, 2003 by an equity committee of Adelphia Communications, Inc. Those proceedings were consolidated in a single amended complaint filed by the Adelphia Recovery Trust on October 31, 2007. The complaint seeks, among other things, to recover, as fraudulent conveyances, approximately $62.9 million allegedly paid to GS&Co. by Adelphia Communications, Inc. and its affiliates in respect of margin calls made in the ordinary course of business on accounts owned by members of the family that formerly controlled Adelphia Communications, Inc. The district court assumed jurisdiction over the action and, on April 8, 2011, granted GS&Co.'s motion for summary judgment. The plaintiff appealed on May 6, 2011.

**Specialist Matters.** Spear, Leeds & Kellogg Specialists LLC (SLKS) and certain affiliates have received requests for information from various governmental agencies and self-regulatory organizations as part of an industry-wide investigation relating to activities of floor specialists in recent years. Goldman Sachs has cooperated with the requests.

On March 30, 2004, certain specialist firms on the NYSE, including SLKS, without admitting or denying the allegations, entered into a final global settlement with the SEC and the NYSE covering certain activities during the years 1999 through 2003. The SLKS settlement involves, among other things, (i) findings by the SEC and the NYSE that SLKS violated certain federal securities laws and NYSE rules, and in some cases failed to supervise certain individual specialists, in connection with trades that allegedly disadvantaged customer orders, (ii) a cease and desist order against SLKS, (iii) a censure of SLKS, (iv) SLKS' agreement to pay an aggregate of $45.3 million in disgorgement and a penalty to be used to compensate customers, (v) certain undertakings with respect to SLKS' systems and procedures, and (vi) SLKS' retention of an independent consultant to review and evaluate certain of SLKS' compliance systems, policies and procedures. Comparable findings were made and sanctions imposed in the settlements with other specialist firms. The settlement did not resolve the related private civil actions against SLKS and other firms or regulatory investigations involving individuals or conduct on other exchanges. On May 26, 2011, the SEC issued an order directing the undistributed settlement funds to be transferred to the U.S. Treasury; the funds will accordingly not be allocated to any settlement fund for the civil actions described below.

SLKS, Spear, Leeds & Kellogg, L.P. and Group Inc. are among numerous defendants named in purported class actions brought beginning in October 2003 on behalf of investors in the U.S. District Court for the Southern District of New York alleging violations of the federal securities laws and state common law in connection with NYSE floor specialist activities. The actions, which have been consolidated, seek unspecified compensatory damages, restitution and disgorgement on behalf of purchasers and sellers of unspecified securities between October 17, 1998 and October 15, 2003. By a decision dated March 14, 2009, the district court granted plaintiffs' motion for class certification. The defendants' petition with the U.S. Court of Appeals for the Second Circuit seeking review of the certification ruling was denied, and the specialist defendants' petition for a rehearing and/or rehearing en banc was denied on February 24, 2010. On October 24, 2012, the parties entered into a definitive settlement agreement, subject to court approval. The firm has reserved the full amount of its proposed contribution to the settlement.

**Fannie Mae Litigation.** GS&Co. was added as a defendant in an amended complaint filed on August 14, 2006 in a purported class action pending in the U.S. District Court for the District of Columbia. The complaint asserts violations of the federal securities laws generally arising from allegations concerning Fannie Mae's accounting practices in connection with certain Fannie Mae-sponsored REMIC transactions that were allegedly arranged by GS&Co. The complaint does not specify a dollar amount of damages. The other defendants include Fannie Mae, certain of its past and present officers and directors, and accountants. By a decision dated May 8, 2007, the district court granted GS&Co.'s motion to dismiss the claim against it. The time for an appeal will not begin to run until disposition of the claims against other defendants. A motion to stay the action filed by the Federal Housing Finance Agency (FHFA), which took control of the foregoing action following Fannie Mae's conservatorship, was denied on November 14, 2011.

**Compensation-Related Litigation.** On January 17, 2008, Group Inc., its Board, executive officers and members of its management committee were named as defendants in a purported shareholder derivative action in the U.S. District Court for the Eastern District of New York predicting that the firm's 2008 Proxy Statement would violate the federal securities laws by undervaluing certain stock option awards and alleging that senior management received excessive compensation for 2007. The complaint seeks, among other things, an equitable accounting for the allegedly excessive compensation. Plaintiff's motion for a preliminary injunction to prevent the 2008 Proxy Statement from using options valuations that the plaintiff alleges are incorrect and to require the amendment of SEC Form 4s filed by certain of the executive officers named in the complaint to reflect the stock option valuations alleged by the plaintiff was denied, and plaintiff's appeal from this denial was dismissed. On February 13, 2009, the plaintiff filed an amended complaint, which added purported direct (i.e., non-derivative) claims based on substantially the same theory. The plaintiff filed a further amended complaint on March 24, 2010, and the defendants' motion to dismiss this further amended complaint was granted on the ground that dismissal of the shareholder plaintiff's prior action relating to the firm's 2007 Proxy Statement based on the failure to make a demand to the Board precluded relitigation of demand futility. On December 19, 2011, the appellate court vacated the order of dismissal, holding only that preclusion principles did not mandate dismissal and remanding for consideration of the alternative grounds for dismissal. On April 18, 2012, plaintiff disclosed that he no longer is a Group Inc. shareholder and thus lacks standing to continue to prosecute the action, as well as the New York state action described below.

On March 24, 2009, the same plaintiff filed an action in New York Supreme Court, New York County against Group Inc., its directors and certain senior executives alleging violation of Delaware statutory and common law in connection with substantively similar allegations regarding stock option awards. On January 7, 2011, the plaintiff filed an amended complaint. Defendants moved to dismiss the amended complaint, and the parties subsequently agreed to stay the state court action pending the final resolution of the appeal from the dismissal of the federal court action in respect of the firm's 2008 Proxy Statement described above, as well as any remanded proceedings further adjudicating defendants' motion to dismiss.

**Mortgage-Related Matters.** On April 16, 2010, the SEC brought an action (SEC Action) under the U.S. federal securities laws in the U.S. District Court for the Southern District of New York against GS&Co. and Fabrice Tourre, one of its employees, in connection with a CDO offering made in early 2007 (ABACUS 2007-AC1 transaction), alleging that the defendants made materially false and misleading statements to investors and seeking, among other things, unspecified monetary penalties. Investigations of GS&Co. by FINRA and of GSI by the FSA were subsequently initiated, and Group Inc. and certain of its affiliates have received subpoenas and requests for information from other regulators, regarding CDO offerings, including the ABACUS 2007-AC1 transaction, and related matters.

On July 14, 2010, GS&Co. entered into a consent agreement with the SEC, settling all claims made against GS&Co. in the SEC Action (SEC Settlement), pursuant to which GS&Co. paid $550 million of disgorgement and civil penalties, and which was approved by the U.S. District Court for the Southern District of New York on July 20, 2010.

On January 6, 2011, ACA Financial Guaranty Corp. filed an action against GS&Co. in respect of the ABACUS 2007-AC1 transaction in New York Supreme Court, New York County. The complaint includes allegations of fraudulent inducement, fraudulent concealment and unjust enrichment and seeks at least $30 million in compensatory damages, at least $90 million in punitive damages and unspecified disgorgement. On April 25, 2011, the plaintiff filed an amended complaint and, on June 3, 2011, GS&Co. moved to dismiss the amended complaint. By a decision dated April 23, 2012, the court granted the motion to dismiss as to the unjust enrichment claim and denied the motion as to the other claims, and on May 29, 2012, GS&Co. appealed the decision to the extent that its motion was denied and filed counterclaims for breach of contract and fraudulent inducement, and third-party claims against ACA Management, LLC for breach of contract, unjust enrichment and indemnification. ACA Financial Guaranty Corp. and ACA Management, LLC moved to dismiss GS&Co.'s counterclaims and third-party claims on August 31, 2012.

Since July 1, 2011, two putative shareholder derivative actions have been filed in the U.S. District Court for the Southern District of New York against Group Inc., the Board and certain officers and employees of Group Inc. and Litton in connection with the servicing of residential mortgage loans and other mortgage-related activities beginning in January 2009. The complaints generally include allegations of breach of fiduciary duty, waste, abuse of control, and mismanagement and seek, among other things, declaratory relief, unspecified damages and certain governance reforms. The district court consolidated the actions, and, on December 20, 2011, the plaintiffs filed a consolidated amended complaint. On August 14, 2012, the district court dismissed all of the plaintiffs' claims and the time to appeal has run.

In addition, the Board has received books and records demands from several shareholders for materials relating to, among other subjects, the firm's mortgage servicing and foreclosure activities, participation in federal programs providing assistance to financial institutions and homeowners, loan sales to Fannie Mae and Freddie Mac, mortgage-related activities and conflicts management.

Since April 23, 2010, the Board has received letters from shareholders demanding that the Board take action to address alleged misconduct by GS&Co., the Board and certain officers and employees of Group Inc. and its affiliates. These demands, which the Board has rejected, generally alleged misconduct in connection with the firm's securitization practices, including the ABACUS 2007-AC1 transaction, the alleged failure by Group Inc. to adequately disclose the SEC investigation that led to the SEC Action, and Group Inc.'s 2009 compensation practices. An additional demand that the Board investigate and take action was received from another shareholder in June 2012, relating to the firm's mortgage-related activities and to stock sales by certain directors and executives of the firm.

In addition, beginning April 26, 2010, a number of purported securities law class actions have been filed in the U.S. District Court for the Southern District of New York challenging the adequacy of Group Inc.'s public disclosure of, among other things, the firm's activities in the CDO market and the SEC investigation that led to the SEC Action. The purported class action complaints, which name as defendants Group Inc. and certain officers and employees of Group Inc. and its affiliates, have been consolidated, generally allege violations of Sections 10(b) and 20(a) of the Exchange Act and seek unspecified damages. Plaintiffs filed a consolidated amended complaint on July 25, 2011. On October 6, 2011, the defendants moved to dismiss, and by a decision dated June 21, 2012, the district court dismissed the claims based on Group Inc.'s not disclosing that it had received a "Wells" notice from the staff of the SEC related to the ABACUS 2007-AC1 transaction, but permitted the plaintiffs' other claims to proceed.

GS&Co., Goldman Sachs Mortgage Company (GSMC) and GS Mortgage Securities Corp. (GSMSC) and three current or former Goldman Sachs employees are defendants in a putative class action commenced on December 11, 2008 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2007. The complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory damages and rescission or rescissionary damages. The defendants' motion to dismiss the second amended complaint was granted with leave to replead certain claims. On March 31, 2010, the plaintiff filed a third amended complaint relating to two offerings, which the defendants moved to dismiss. This motion to dismiss was denied as to the plaintiff's Section 12(a)(2) claims and granted as to the plaintiff's Section 11 claims, and the plaintiff's motion for reconsideration was denied. The plaintiff filed a motion for entry of final judgment or certification of an interlocutory appeal as to plaintiff's Section 11 claims, which was denied. The plaintiff then filed a motion for leave to amend to reinstate the damages claims based on allegations that it had sold its securities, which was denied. On May 5, 2011, the court granted plaintiff's motion for entry of a final judgment dismissing all its claims. The plaintiff appealed from the dismissal with respect to all 17 of the offerings included in its original complaint. By a decision dated September 6, 2012, the U.S. Court of Appeals for the Second Circuit affirmed the district court's dismissal of plaintiff's claims with respect to 10 of the offerings included in plaintiff's original complaint but vacated the dismissal and remanded the case to the district court with instructions to reinstate the plaintiff's claims with respect to the other seven offerings. On October 26, 2012, the defendants filed a petition for certiorari with the U.S. Supreme Court seeking review of the Second Circuit decision. On October 31, 2012, the plaintiff served defendants with a fourth amended complaint relating to those seven offerings, plus seven additional offerings. On June 3, 2010, another investor (who had unsuccessfully sought to intervene in the action) filed a separate putative class action asserting substantively similar allegations relating to an additional offering pursuant to the 2007 registration statement. The district court twice granted defendants' motions to dismiss this separate action, both times with leave to replead. On July 9, 2012, that separate plaintiff filed a second amended complaint, and the defendants moved to dismiss on September 21, 2012. The securitization trusts issued, and GS&Co. underwrote, approximately $11 billion principal amount of certificates to all purchasers in the fourteen offerings at issue in the initial plaintiff's fourth amended complaint and the one offering at issue in the separate plaintiff's second amended complaint.

Group Inc., GS&Co., GSMC and GSMSC are among the defendants in a separate putative class action commenced on February 6, 2009 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2006. The other original defendants include three current or former Goldman Sachs employees and various rating agencies. The second amended complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory and rescissionary damages. Defendants moved to dismiss the second amended complaint. On January 12, 2011, the district court granted the motion to dismiss with respect to offerings in which plaintiff had not purchased securities as well as all claims against the rating agencies, but denied the motion to dismiss with respect to a single offering in which the plaintiff allegedly purchased securities. These trusts issued, and GS&Co. underwrote, approximately $698 million principal amount of certificates to all purchasers in the offerings at issue in the complaint (excluding those offerings for which the claims have been dismissed). On February 2, 2012, the district court granted the plaintiff's motion for class certification and on June 13, 2012, the U.S. Court of Appeals for the Second Circuit granted defendants' petition to review that ruling. On July 31, 2012, the parties reached a settlement, subject to court approval. The firm has paid the full amount of the proposed settlement into an escrow account.

On September 30, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York against GS&Co., Group Inc. and two former GS&Co. employees on behalf of investors in $821 million of notes issued in 2006 and 2007 by two synthetic CDOs (Hudson Mezzanine 2006-1 and 2006-2). The complaint, which was amended on February 4, 2011, asserts federal securities law and common law claims, and seeks unspecified compensatory, punitive and other damages. The defendants moved to dismiss on April 5, 2011, and the motion was granted as to plaintiff's claim of market manipulation and denied as to the remainder of plaintiff's claims by a decision dated March 21, 2012. On May 21, 2012, the defendants counterclaimed for breach of contract and fraud.

GS&Co., GSMC and GSMSC are among the defendants in a lawsuit filed in August 2011 by CIFG Assurance of North America, Inc. (CIFG) in the New York Supreme Court. The complaint alleges that CIFG was fraudulently induced to provide credit enhancement for a 2007 securitization sponsored by GSMC, and seeks, among other things, the repurchase of $24.7 million in aggregate principal amount of mortgages that CIFG had previously stated to be non-conforming, an accounting for any proceeds associated with mortgages discharged from the securitization and unspecified compensatory damages. On October 17, 2011, the Goldman Sachs defendants moved to dismiss. By a decision dated May 1, 2012, the court dismissed the fraud and accounting claims but denied the motion as to certain breach of contract claims that were also alleged. On June 6, 2012, the Goldman Sachs defendants filed counterclaims for breach of contract. In addition, the parties have each appealed the court's May 1, 2012 decision to the extent adverse. The parties have been ordered to mediate, and proceedings in the trial court have been stayed pending mediation.

Various alleged purchasers of, and counterparties involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including certain Allstate affiliates, Basis Yield Alpha Fund (Master), Bayerische Landesbank, Cambridge Place Investment Management Inc., the Charles Schwab Corporation, Deutsche Zentral-Genossenschaftbank, the FDIC (as receiver for Guaranty Bank), the Federal Home Loan Banks of Boston, Chicago, Indianapolis and Seattle, the FHFA (as conservator for Fannie Mae and Freddie Mac), Heungkuk Life Insurance Co. Limited (Heungkuk), HSH Nordbank, IKB Deutsche Industriebank AG, Landesbank Baden-Württemberg, Massachusetts Mutual Life Insurance Company, MoneyGram Payment Systems, Inc., the National Credit Union Administration, Phoenix Light SF Limited and related parties, Prudential Insurance Company of America and related parties, Sealink Funding Limited, Stichting Pensioenfonds ABP, The Union Central Life Insurance Company, Ameritas Life Insurance Corp., Acacia Life Insurance Company, Watertown Savings Bank, The Western and Southern Life Insurance Co., John Hancock and related parties, and Royal Park Investments SA/NV) have filed complaints in state and federal court or initiated arbitration proceedings against firm affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material facts and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages. Certain of these complaints also name other firms as defendants.

A number of other entities (including American International Group, Inc. (AIG), Deutsche Bank National Trust Company, John Hancock and related parties, M&T Bank and Norges Bank Investment Management) have threatened to assert claims of various types against the firm in connection with various mortgage-related transactions, and the firm has entered into agreements with a number of these entities to toll the relevant statute of limitations.

As of the date hereof, the aggregate notional amount of mortgage-related securities sold to plaintiffs in active cases brought against the firm where those plaintiffs are seeking rescission of such securities was approximately $20.1 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities, statutory interest or any other adjustments that may be claimed). This amount does not include the threatened claims noted above, potential claims by these or other purchasers in the same or other mortgage-related offerings that have not actually been brought against the firm, or claims that have been dismissed.

In June 2011, Heungkuk filed a criminal complaint against certain past and present employees of the firm in South Korea relating to its purchase of a CDO securitization from Goldman Sachs. The filing does not represent any judgment by a governmental entity, but starts a process whereby the prosecutor investigates the complaint and determines whether to take action.

On September 1, 2011, Group Inc. and GS Bank USA entered into a Consent Order with the Federal Reserve Board relating to the servicing of residential mortgage loans. In addition, on September 1, 2011, GS Bank USA entered into an Agreement on Mortgage Servicing Practices with the New York State Department of Financial Services, Litton and Ocwen, in connection with which Group Inc. agreed to forgive 25% of the unpaid principal balance on certain delinquent first lien residential mortgage loans owned by Group Inc. or a subsidiary, totaling approximately $13 million in principal forgiveness. See Note 18 for further information about these settlements.

Group Inc., GS&Co. and GSMC are among the numerous financial services firms named as defendants in a *qui tam* action originally filed by a relator on April 7, 2010 purportedly on behalf of the City of Chicago and State of Illinois in Cook County, Illinois Circuit Court asserting claims under the Illinois Whistleblower Reward and Protection Act and Chicago False Claims Act, based on allegations that defendants had falsely certified compliance with various Illinois laws, which were purportedly violated in connection with mortgage origination and servicing activities. The complaint, which was originally filed under seal, seeks treble damages and civil penalties. Plaintiff filed an amended complaint on December 28, 2011, naming GS&Co. and GSMC, among others, as additional defendants and a second amended complaint on February 8, 2012. On March 12, 2012, the action was removed to the U.S. District Court for the Northern District of Illinois, and on September 17, 2012 the district court granted the plaintiff's motion to remand the action to state court.

The firm has also received, and continues to receive, requests for information and/or subpoenas from federal, state and local regulators and law enforcement authorities, relating to the mortgage-related securitization process, subprime mortgages, CDOs, synthetic mortgage-related products, particular transactions involving these products, and servicing and foreclosure activities, and is cooperating with these regulators and other authorities, including in some cases agreeing to the tolling of the relevant statute of limitations. See also "Financial Crisis-Related Matters" below.

The firm expects to be the subject of additional putative shareholder derivative actions, purported class actions, rescission and "put back" claims and other litigation, additional investor and shareholder demands, and additional regulatory and other investigations and actions with respect to mortgage-related offerings, loan sales, CDOs, and servicing and foreclosure activities. See Note 18 for further information regarding mortgage-related contingencies.

**Private Equity-Sponsored Acquisitions Litigation.** Group Inc. and "GS Capital Partners" are among numerous private equity firms and investment banks named as defendants in a federal antitrust action filed in the U.S. District Court for the District of Massachusetts in December 2007. As amended, the complaint generally alleges that the defendants have colluded to limit competition in bidding for private equity-sponsored acquisitions of public companies, thereby resulting in lower prevailing bids and, by extension, less consideration for shareholders of those companies in violation of Section 1 of the U.S. Sherman Antitrust Act and common law. The complaint seeks, among other things, treble damages in an unspecified amount. Defendants moved to dismiss on August 27, 2008. The district court dismissed claims relating to certain transactions that were the subject of releases as part of the settlement of shareholder actions challenging such transactions, and by an order dated December 15, 2008 otherwise denied the motion to dismiss. On April 26, 2010, the plaintiffs moved for leave to proceed with a second phase of discovery encompassing additional transactions. On August 18, 2010, the court permitted discovery on eight additional transactions, and the plaintiffs filed a fourth amended complaint on October 7, 2010. On January 13, 2011, the court granted defendants' motion to dismiss certain aspects of the fourth amended complaint. On March 1, 2011, the court granted the motion filed by certain defendants, including Group Inc., to dismiss another claim of the fourth amended complaint on the grounds that the transaction was the subject of a release as part of the settlement of a shareholder action challenging the transaction. On June 14, 2012, the plaintiffs filed a fifth amended complaint encompassing additional transactions. On July 18, 2012, the court granted defendants' motion to dismiss certain newly asserted claims on the grounds that certain transactions are subject to releases as part of settlements of shareholder actions challenging those transactions, and denied defendants' motion to dismiss certain additional claims as time-barred. On July 23, 2012, the defendants filed motions for summary judgment.

**IndyMac Pass-Through Certificates Litigation.** GS&Co. is among numerous underwriters named as defendants in a putative securities class action filed on May 14, 2009 in the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various securitizations of mortgage-related assets violated the disclosure requirements of the federal securities laws. The defendants include IndyMac-related entities formed in connection with the securitizations, the underwriters of the offerings, certain ratings agencies which evaluated the credit quality of the securities, and certain former officers and directors of IndyMac affiliates. On November 2, 2009, the underwriters moved to dismiss the complaint. The motion was granted in part on February 17, 2010 to the extent of dismissing claims based on offerings in which no plaintiff purchased, and the court reserved judgment as to the other aspects of the motion. By a decision dated June 21, 2010, the district court formally dismissed all claims relating to offerings in which no named plaintiff purchased certificates (including all offerings underwritten by GS&Co.), and both granted and denied the defendants' motions to dismiss in various other respects. On October 12, 2012, the plaintiffs filed a motion seeking reinstatement of claims relating to 42 offerings previously dismissed for lack of standing. GS&Co. was a co-underwriter for one of the 42 offerings; however, the plaintiffs' motion does not seek to add GS&Co. as a defendant. On May 17, 2010, four additional investors filed a motion seeking to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). The defendants opposed the motion on the ground that the putative intervenors' claims were time-barred and, on June 21, 2011, the court denied the motion to intervene with respect to, among others, the claims based on the offerings underwritten by GS&Co. Certain of the putative intervenors (including those seeking to assert claims based on two offerings underwritten by GS&Co.) have appealed.

GS&Co. underwrote approximately $751 million principal amount of securities to all purchasers in the offerings at issue in the May 2010 motion to intervene. On July 11, 2008, IndyMac Bank was placed under an FDIC receivership, and on July 31, 2008, IndyMac Bancorp, Inc. filed for Chapter 7 bankruptcy in the U.S. Bankruptcy Court in Los Angeles, California.

**RALI Pass-Through Certificates Litigation.** GS&Co. is among numerous underwriters named as defendants in a putative securities class action initially filed in September 2008 in New York Supreme Court, and subsequently removed to the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various offerings of mortgage-backed pass-through certificates violated the disclosure requirements of the federal securities laws. In addition to the underwriters, the defendants include Residential Capital, LLC (ResCap), Residential Accredit Loans, Inc. (RALI), Residential Funding Corporation (RFC), Residential Funding Securities Corporation (RFSC), and certain of their officers and directors. On March 31, 2010, the defendants' motion to dismiss was granted in part and denied in part by the district court, resulting in dismissal on the basis of standing of all claims relating to offerings in which no plaintiff purchased securities. In June and July 2010, the lead plaintiff and five additional investors moved to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). On April 28, 2011, the court granted defendants' motion to dismiss as to certain of these claims (including those relating to one offering underwritten by GS&Co. based on a release in an unrelated settlement), but otherwise permitted the intervenor case to proceed. Class certification of the claims based on the pre-intervention offerings was initially denied by the district court, and that denial was upheld on appeal; however, following remand, on October 15, 2012, the district court certified a class in connection with the pre-intervention offerings. The certified class consists of investors "who bought the securities on the date of offering directly from the issuers." On November 5, 2012, the defendants sought leave from the U.S. Court of Appeals to appeal the certification order.

GS&Co. underwrote approximately $1.28 billion principal amount of securities to all purchasers in the offerings for which claims have not been dismissed. On May 14, 2012, ResCap, RALI and RFC filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York and the action has been stayed with respect to them, RFSC and certain of their officers and directors.

**MF Global Securities Litigation.** GS&Co. is among numerous underwriters named as defendants in class action complaints filed in the U.S. District Court for the Southern District of New York commencing November 18, 2011. These complaints generally allege that the offering materials for two offerings of MF Global Holdings Ltd. convertible notes (aggregating approximately $575 million in principal amount) in February 2011 and July 2011, among other things, failed to describe adequately the nature, scope and risks of MF Global's exposure to European sovereign debt, in violation of the disclosure requirements of the federal securities laws. On August 20, 2012, the plaintiffs filed a consolidated amended complaint and on October 19, 2012, the defendants filed a motion to dismiss the amended complaint. GS&Co. underwrote an aggregate principal amount of approximately $214 million of the notes. On October 31, 2011, MF Global Holdings Ltd. filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Manhattan, New York.

GS&Co. has also received inquiries from various governmental and regulatory bodies and self-regulatory organizations concerning certain transactions with MF Global prior to its bankruptcy filing. Goldman Sachs is cooperating with all such inquiries.

**Employment-Related Matters.** On September 15, 2010, a putative class action was filed in the U.S. District for the Southern District of New York by three former female employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. Group Inc. and GS&Co. filed a motion to stay the claims of one of the named plaintiffs and to compel individual arbitration with that individual, based on an arbitration provision contained in an employment agreement between Group Inc. and the individual. On April 28, 2011, the magistrate judge to whom the district judge assigned the motion denied the motion. On July 7, 2011, the magistrate judge denied Group Inc.'s and GS&Co.'s motion for reconsideration of the magistrate judge's decision, and on July 21, 2011 Group Inc. and GS&Co. appealed the magistrate judge's decision to the district court, which affirmed the decision on November 15, 2011. Group Inc. and GS&Co. have appealed that decision to the U.S. Court of Appeals for the Second Circuit. On June 13, 2011, Group Inc. and GS&Co. moved to strike the class allegations of one of the three named plaintiffs based on her failure to exhaust administrative remedies. On September 29, 2011, the magistrate judge recommended denial of the motion to strike and Group Inc. and GS&Co. filed their objections to that recommendation with the district judge presiding over the case on October 11, 2011. By a decision dated January 10, 2012, the district court denied the motion to strike. On July 22, 2011, Group Inc. and GS&Co. moved to strike all of the plaintiffs' class allegations, and for partial summary judgment as to plaintiffs' disparate impact claims. By a decision dated January 19, 2012, the magistrate judge recommended that defendants' motion be denied as premature. The defendants filed objections to that recommendation with the district judge and on July 17, 2012, the district court issued a decision granting in part Group Inc.'s and GS&Co.'s motion to strike plaintiffs' class allegations on the ground that plaintiffs lacked standing to pursue certain equitable remedies and denying in part Group Inc.'s and GS&Co.'s motion to strike plaintiffs' class allegations in their entirety as premature.

**Hellenic Republic (Greece) Matters.** Group Inc. and certain of its affiliates have been subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with the firm's transactions with the Hellenic Republic (Greece), including financing and swap transactions, as well as trading and research activities with respect to Greek sovereign debt. Goldman Sachs has cooperated with the investigations and reviews.

**Investment Management Services.** Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients relating to losses allegedly sustained as a result of the firm's investment management services. These claims generally seek, among other things, restitution or other compensatory damages and, in some cases, punitive damages. In addition, Group Inc. and its affiliates are subject from time to time to investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with the firm's investment management services. Goldman Sachs is cooperating with all such investigations and reviews.

Goldman Sachs Asset Management International (GSAMI) is the defendant in an action filed on July 9, 2012 with the High Court of Justice in London by certain entities representing Vervoer, a Dutch pension fund, alleging that GSAMI was negligent in performing its duties as investment manager in connection with the allocation of the plaintiffs' funds among asset managers in accordance with asset allocations provided by plaintiffs and that GSAMI breached its contractual and common law duties to the plaintiffs. Specifically, plaintiffs allege that GSAMI provided inadequate disclosure, caused their assets to be invested in unsuitable products for an extended period, thereby causing in excess of €81 million in losses, and caused them to be under-exposed for a period of time to certain other investments that performed well, thereby resulting in foregone potential gains. The plaintiffs are seeking unspecified monetary damages. On November 2, 2012, GSAMI served its defense to the allegations.

**Financial Advisory Services.** Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients and third parties relating to the firm's financial advisory activities. These claims generally seek, among other things, compensatory damages and, in some cases, punitive damages, and in certain cases allege that the firm did not appropriately disclose or deal with conflicts of interest. In addition, Group Inc. and its affiliates are subject from time to time to investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with conflicts of interest. Goldman Sachs is cooperating with all such investigations and reviews.

Group Inc., GS&Co. and The Goldman, Sachs & Co. L.L.C. are defendants in an action brought by the founders and former majority shareholders of Dragon Systems, Inc. (Dragon) on November 18, 2008, alleging that the plaintiffs incurred losses due to GS&Co.'s financial advisory services provided in connection with the plaintiffs' exchange of their purported $300 million interest in Dragon for stock of Lernout & Hauspie Speech Products, N.V. (L&H) in 2000. L&H filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Wilmington, Delaware on November 29, 2000. The action is pending in the United States District Court for the District of Massachusetts. The complaint, which was amended in November 2011 following the 2009 dismissal of certain of the plaintiffs' initial claims, seeks unspecified compensatory, punitive and other damages, and alleges breach of fiduciary duty, breach of contract, breach of implied covenant of good faith and fair dealing, violation of state unfair trade practices laws, negligence, negligent and intentional misrepresentation, gross negligence, willful misconduct and bad faith. Former minority shareholders of Dragon have brought a similar action against GS&Co. with respect to their purported $49 million interest in Dragon, and this action has been consolidated with the action described above. All parties moved for summary judgment. By an order dated October 31, 2012, the court granted summary judgment with respect to certain counterclaims and an indemnification claim brought by the Goldman Sachs defendants against one of the shareholders, but denied summary judgment with respect to all other claims.

**Sales, Trading and Clearance Practices.** Group Inc. and certain of its affiliates are subject to a number of investigations and reviews, certain of which are industry-wide, by various governmental and regulatory bodies and self-regulatory organizations relating to the sales, trading and clearance of corporate and government securities and other financial products, including compliance with the SEC's short sale rule, algorithmic and quantitative trading, futures trading, transaction reporting, securities lending practices, trading and clearance of credit derivative instruments, commodities trading, private placement practices and compliance with the U.S. Foreign Corrupt Practices Act.

The European Commission announced in April 2011 that it is initiating proceedings to investigate further numerous financial services companies, including Group Inc., in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anti-competitive practices. The proceedings in connection with the supply of data related to credit default swaps are ongoing but the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely. The firm has received civil investigative demands from the U.S. Department of Justice (DOJ) for information on similar matters. Goldman Sachs is cooperating with the investigations and reviews.

**Insider Trading Investigations.** From time to time, the firm and its employees are the subject of or otherwise involved in regulatory investigations relating to insider trading, the potential misuse of material nonpublic information and the effectiveness of the firm's insider trading controls and information barriers. It is the firm's practice to cooperate fully with any such investigations.

**EU Price-Fixing Matter.** On July 5, 2011, the European Commission issued a Statement of Objections to Group Inc. raising allegations of an industry-wide conspiracy to fix prices for power cables including by an Italian cable company in which certain Goldman Sachs-affiliated investment funds held ownership interests from 2005 to 2009. The Statement of Objections proposes to hold Group Inc. jointly and severally liable for some or all of any fine levied against the cable company under the concept of parental liability under EU competition law.

**Municipal Securities Matters.** Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations relating to transactions involving municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, underwriting of Build America Bonds and the possible impact of credit default swap transactions on municipal issuers. Goldman Sachs is cooperating with the investigations and reviews.

Group Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) and GS Bank USA are among numerous financial services firms that have been named as defendants in numerous substantially identical individual antitrust actions filed beginning on November 12, 2009 that have been coordinated with related antitrust class action litigation and individual actions, in which no Goldman Sachs affiliate is named, for pre-trial proceedings in the U.S. District Court for the Southern District of New York. The plaintiffs include individual California municipal entities and three New York non-profit entities. All of these complaints against Group Inc., GSMMDP and GS Bank USA generally allege that the Goldman Sachs defendants participated in a conspiracy to arrange bids, fix prices and divide up the market for derivatives used by municipalities in refinancing and hedging transactions from 1992 to 2008. The complaints assert claims under the federal antitrust laws and either California's Cartwright Act or New York's Donnelly Act, and seek, among other things, treble damages under the antitrust laws in an unspecified amount and injunctive relief. On April 26, 2010, the Goldman Sachs defendants' motion to dismiss complaints filed by several individual California municipal plaintiffs was denied. On August 19, 2011, Group Inc., GSMMDP and GS Bank USA were voluntarily dismissed without prejudice from all actions except one brought by a California municipal entity.

On August 21, 2008, GS&Co. entered into a settlement in principle with the Office of the Attorney General of the State of New York and the Illinois Securities Department (on behalf of the North American Securities Administrators Association) regarding auction rate securities. Under the agreement, Goldman Sachs agreed, among other things, (i) to offer to repurchase at par the outstanding auction rate securities that its private wealth management clients purchased through the firm prior to February 11, 2008, with the exception of those auction rate securities where auctions were clearing, (ii) to continue to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors, and (iii) to pay a $22.5 million fine. The settlement is subject to approval by the various states. GS&Co. has entered into consent orders with New York, Illinois and most other states and is in the process of doing so with the remaining states.

On September 4, 2008, Group Inc. was named as a defendant, together with numerous other financial services firms, in two complaints filed in the U.S. District Court for the Southern District of New York alleging that the defendants engaged in a conspiracy to manipulate the auction securities market in violation of federal antitrust laws. The actions were filed, respectively, on behalf of putative classes of issuers of and investors in auction rate securities and seek, among other things, treble damages in an unspecified amount. Defendants' motion to dismiss was granted on January 26, 2010. On March 1, 2010, the plaintiffs appealed from the dismissal of their complaints.

Beginning in February 2012, GS&Co. was named as respondent in three FINRA arbitrations filed, respectively, by the cities of Houston, Texas and Reno, Nevada and a California school district, based on GS&Co.'s role as underwriter and broker-dealer of the claimants' issuances of an aggregate of over $1.7 billion of auction rate securities from 2004 through 2007 (in the Houston arbitration, two other financial services firms were named as respondents as well). Each claimant alleges that GS&Co. failed to disclose that it had a practice of placing cover bids on auctions, and failed to offer the claimant the option of a formulaic maximum rate (rather than a fixed maximum rate), and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market (at an estimated cost, in the case of Houston, of approximately $90 million). Houston and Reno also allege that GS&Co. advised them to enter into interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses (including, in the case of Reno, a swap termination obligation of over $8 million). The claimants assert claims for breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD, and seek unspecified damages. GS&Co. has moved in federal court to enjoin the Reno and California school district arbitrations pursuant to an exclusive forum selection clause in the transaction documents.

**Financial Crisis-Related Matters.** Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations and litigation relating to the 2008 financial crisis, including the establishment and unwind of credit default swaps between Goldman Sachs and AIG and other transactions with, and in the securities of, AIG, The Bear Stearns Companies Inc., Lehman Brothers Holdings Inc. and other firms. Goldman Sachs is cooperating with the investigations and reviews.

In the second quarter of 2011, a Staff Report of the Senate Permanent Subcommittee on Investigations concerning the key causes of the financial crisis was issued. Goldman Sachs and another financial institution were used as case studies with respect to the role of investment banks. The report was referred to the DOJ and the SEC for review. The firm has cooperated with the investigations arising from this referral. On August 9, 2012, the DOJ announced that it had concluded its investigation and would not be bringing criminal charges against the firm or any of its current or former employees in connection with this matter.

**Note 28.**

## Subsequent Event

On October 15, 2012, the firm completed the sale of its hedge fund administration business to State Street Corporation for approximately $515 million and will recognize a pre-tax gain of approximately $500 million during the fourth quarter of 2012. The historical operating results of the hedge fund administration business were not material to the firm.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our businesses. Many of these proceedings are at preliminary stages, and many of these cases seek an indeterminate amount of damages. However, we believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition, but may be material to our operating results for any particular period, depending, in part, upon the operating results for such period. Given the range of litigation and investigations presently under way, our litigation expenses can be expected to remain high. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Use of Estimates" in Part I, Item 2 of this Form 10-Q. See Note 27 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information on certain judicial, regulatory and legal proceedings.

# SUPPLEMENTAL GENERAL INFORMATION

## IS THE ISSUER OR GUARANTOR REGULATED BY ANY BODIES UNDER THE STOCK EXCHANGE'S LISTING RULES?

Neither we nor the guarantor are regulated by any of the bodies referred to in Rule 15A.13(2) or (3) of the Stock Exchange's Listing Rules. The guarantor is a corporation organised under the laws of the State of Delaware, and is a bank holding company regulated by the Board of Governors of the Federal Reserve System, and many of its subsidiaries are regulated by various regulatory bodies throughout the world, including broker dealer and investment advisor subsidiaries registered with the SEC and subsidiaries regulated by the U.S. Commodity Futures Trading Commission with respect to certain futures-related activities.

## WHAT ARE OUR AND THE GUARANTOR'S CREDIT RATINGS?

Neither we nor our structured products are rated. The guarantor's long-term debt ratings (as of the day immediately preceding the date of this fourth addendum) are A- by Standard and Poor's Ratings Services and A3 by Moody's Investors Service, Inc.. You may visit www.goldmansachs.com/investor-relations/creditor-information/index.html to obtain information about the guarantor's credit ratings. Rating agencies usually receive a fee from the companies that they rate.

## NO MATERIAL ADVERSE CHANGE AND LITIGATION

Save as disclosed in our base listing document, the first addendum, the second addendum, the third addendum and this fourth addendum, there has been no material adverse change in the guarantor's financial or trading position since the end of the period reported on in the auditor's report on the most recently published audited financial statements of the guarantor on a consolidated basis, that would have a material adverse effect on the guarantor's ability to perform its obligations in the context of the guarantee in respect of the structured products.

Save as disclosed in our base listing document, the first addendum, the second addendum, the third addendum and this fourth addendum, we and the guarantor are not aware, to the best of our and the guarantor's knowledge and belief, of any litigation or claims of material importance in the context of any issue of structured products pending or threatened against us or the guarantor.

# PARTIES

**Issuer**

Goldman Sachs Structured Products (Asia) Limited
P.O. Box 309
Ugland House
South Church Street
Grand Cayman
Cayman Islands

**Guarantor**

The Goldman Sachs Group, Inc.
200 West Street
New York
New York 10282
United States of America

**Sponsor**

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

**Liquidity Provider**

Goldman Sachs (Asia) Securities Limited
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

**Legal Advisers**

*to the Issuer and the Guarantor*

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

**Guarantor's Auditor**

PricewaterhouseCoopers LLP
300 Madison Avenue
New York
New York 10017
United States of America