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 March 31, 2012

or

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

For the transition period from to

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	13-4019460 **(I.R.S. Employer Identification No.)**
200 West Street, New York, N.Y. **(Address of principal executive offices)**	10282 **(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 April 27, 2012, there were 491,877,148 shares of the registrant's common stock outstanding.

INDEX

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings (Unaudited)

in millions, except per share amounts	Three Months Ended March 2012	2011
Revenues		
Investment banking	**$1,160**	$ 1,269
Investment management	**1,105**	1,174
Commissions and fees	**860**	1,019
Market making	**3,905**	4,462
Other principal transactions	**1,938**	2,612
Total non-interest revenues	**8,968**	10,536
Interest income	**2,833**	3,107
Interest expense	**1,852**	1,749
Net interest income	**981**	1,358
Net revenues, including net interest income	**9,949**	11,894
Operating expenses		
Compensation and benefits	**4,378**	5,233
Brokerage, clearing, exchange and distribution fees	**567**	620
Market development	**117**	179
Communications and technology	**196**	198
Depreciation and amortization	**433**	590
Occupancy	**212**	267
Professional fees	**234**	233
Insurance reserves	**157**	88
Other expenses	**474**	446
Total non-compensation expenses	**2,390**	2,621
Total operating expenses	**6,768**	7,854
Pre-tax earnings	**3,181**	4,040
Provision for taxes	**1,072**	1,305
Net earnings	**2,109**	2,735
Preferred stock dividends	**35**	1,827
Net earnings applicable to common shareholders	**$2,074**	$ 908
Earnings per common share		
Basic	**$ 4.05**	$ 1.66
Diluted	**3.92**	1.56
Dividends declared per common share	**$ 0.35**	$ 0.35
Average common shares outstanding		
Basic	**510.8**	540.6
Diluted	**529.2**	583.0

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

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March	
in millions	**2012**	2011
Net earnings	**$2,109**	$2,735
Other comprehensive income/(loss), net of tax:		
Currency translation adjustment, net of tax	**(28)**	(22)
Pension and postretirement liability adjustments, net of tax	**7**	1
Net unrealized gains/(losses) on available-for-sale securities, net of tax	**30**	(23)
Other comprehensive income/(loss)	**9**	(44)
Comprehensive income	**$2,118**	$2,691

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 March 2012	As of December 2011
Assets		
Cash and cash equivalents	**$ 57,138**	$ 56,008
Cash and securities segregated for regulatory and other purposes (includes $33,679 and $42,014 at fair value as of March 2012 and December 2011, respectively)	**53,099**	64,264
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes $181,050 and $187,789 at fair value as of March 2012 and December 2011, respectively)	**181,050**	187,789
Securities borrowed (includes $57,062 and $47,621 at fair value as of March 2012 and December 2011, respectively)	**169,092**	153,341
Receivables from brokers, dealers and clearing organizations	**16,886**	14,204
Receivables from customers and counterparties (includes $8,328 and $9,682 at fair value as of March 2012 and December 2011, respectively)	**65,211**	60,261
Financial instruments owned, at fair value (includes $67,404 and $53,989 pledged as collateral as of March 2012 and December 2011, respectively)	**385,506**	364,206
Other assets	**22,950**	23,152
Total assets	**$950,932**	$923,225
Liabilities and shareholders' equity		
Deposits (includes $5,524 and $4,526 at fair value as of March 2012 and December 2011, respectively)	**$ 50,874**	$ 46,109
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	**173,092**	164,502
Securities loaned (includes $550 and $107 at fair value as of March 2012 and December 2011, respectively)	**8,121**	7,182
Other secured financings (includes $28,367 and $30,019 at fair value as of March 2012 and December 2011, respectively)	**33,139**	37,364
Payables to brokers, dealers and clearing organizations	**3,678**	3,667
Payables to customers and counterparties	**206,627**	194,625
Financial instruments sold, but not yet purchased, at fair value	**151,251**	145,013
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes $17,772 and $17,854 at fair value as of March 2012 and December 2011, respectively)	**48,721**	49,038
Unsecured long-term borrowings (includes $17,509 and $17,162 at fair value as of March 2012 and December 2011, respectively)	**171,592**	173,545
Other liabilities and accrued expenses (includes $9,451 and $9,486 at fair value as of March 2012 and December 2011, respectively)	**32,181**	31,801
Total liabilities	**879,276**	852,846
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value $0.01 per share; aggregate liquidation preference of $3,100 as of both March 2012 and December 2011	**3,100**	3,100
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 808,213,029 and 795,555,310 shares issued as of March 2012 and December 2011, respectively, and 495,210,854 and 485,467,565 shares outstanding as of March 2012 and December 2011, respectively	**8**	8
Restricted stock units and employee stock options	**3,889**	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	**47,035**	45,553
Retained earnings	**60,723**	58,834
Accumulated other comprehensive loss	**(507)**	(516)
Stock held in treasury, at cost, par value $0.01 per share; 313,002,177 and 310,087,747 shares as of March 2012 and December 2011, respectively	**(42,592)**	(42,281)
Total shareholders' equity	**71,656**	70,379
Total liabilities and shareholders' equity	**$950,932**	$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	Three Months Ended March 2012	Year Ended December 2011
Preferred stock		
Balance, beginning of year	**$ 3,100**	$ 6,957
Repurchased	**—**	(3,857)
Balance, end of period	**3,100**	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	**640**	2,863
Delivery of common stock underlying restricted stock units	**(2,415)**	(4,791)
Forfeiture of restricted stock units and employee stock options	**(16)**	(93)
Exercise of employee stock options	**(1)**	(4)
Balance, end of period	**3,889**	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	**2,419**	5,160
Cancellation of restricted stock units in satisfaction of withholding tax requirements	**(872)**	(1,911)
Excess net tax benefit/(provision) related to share-based awards	**(64)**	138
Cash settlement of share-based compensation	**(1)**	(40)
Balance, end of period	**47,035**	45,553
Retained earnings		
Balance, beginning of year	**58,834**	57,163
Net earnings	**2,109**	4,442
Dividends and dividend equivalents declared on common stock and restricted stock units	**(185)**	(769)
Dividends on preferred stock	**(35)**	(2,002)
Balance, end of period	**60,723**	58,834
Accumulated other comprehensive income/(loss)		
Balance, beginning of year	**(516)**	(286)
Other comprehensive income/(loss)	**9**	(230)
Balance, end of period	**(507)**	(516)
Stock held in treasury, at cost		
Balance, beginning of year	**(42,281)**	(36,295)
Repurchased	**(368)**	(6,051)
Reissued	**57**	65
Balance, end of period	**(42,592)**	(42,281)
Total shareholders' equity	**$ 71,656**	$ 70,379

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

in millions	Three Months Ended March 2012	2011
Cash flows from operating activities		
Net earnings	**$ 2,109**	$ 2,735
Non-cash items included in net earnings		
Depreciation and amortization	**433**	594
Share-based compensation	**643**	1,512
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	**11,165**	219
Net receivables from brokers, dealers and clearing organizations	**(2,671)**	568
Net payables to customers and counterparties	**7,052**	(9,671)
Securities borrowed, net of securities loaned	**(14,813)**	(16,901)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	**15,328**	29,391
Financial instruments owned, at fair value	**(22,023)**	(14,701)
Financial instruments sold, but not yet purchased, at fair value	**6,304**	10,278
Other, net	**11**	(2,124)
Net cash provided by operating activities	**3,538**	1,900
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	**(390)**	(277)
Proceeds from sales of property, leasehold improvements and equipment	**13**	9
Business acquisitions, net of cash acquired	**(39)**	(5)
Proceeds from sales of investments	**130**	216
Purchase of available-for-sale securities	**(653)**	(761)
Proceeds from sales of available-for-sale securities	**699**	930
Net cash provided by/(used for) investing activities	**(240)**	112
Cash flows from financing activities		
Unsecured short-term borrowings, net	**(869)**	1,501
Other secured financings (short-term), net	**(483)**	1,340
Proceeds from issuance of other secured financings (long-term)	**798**	1,291
Repayment of other secured financings (long-term), including the current portion	**(4,334)**	(3,580)
Proceeds from issuance of unsecured long-term borrowings	**9,358**	8,805
Repayment of unsecured long-term borrowings, including the current portion	**(11,134)**	(7,364)
Derivative contracts with a financing element, net	**208**	210
Deposits, net	**4,765**	158
Common stock repurchased	**(365)**	(1,481)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	**(220)**	(358)
Proceeds from issuance of common stock, including stock option exercises	**39**	63
Excess tax benefit related to share-based compensation	**70**	333
Cash settlement of share-based compensation	**(1)**	(35)
Net cash provided by/(used for) financing activities	**(2,168)**	883
Net increase in cash and cash equivalents	**1,130**	2,895
Cash and cash equivalents, beginning of year	**56,008**	39,788
Cash and cash equivalents, end of period	**$ 57,138**	$ 42,683

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were $4.04 billion and $2.71 billion during the three months ended March 2012 and March 2011, respectively.

Income tax refunds, net of cash payments, were $29 million during the three months ended March 2012. Cash payments for income taxes, net of refunds, were $296 million during the three months ended March 2011.

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 March 2012 and March 2011 refer to the firm's periods ended, or the dates, as the context requires, March 31, 2012 and March 31, 2011, respectively. All references to December 2011 refer to the date December 31, 2011. 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:

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Collateralized Agreements and Financings	Note 9
Securitization Activities	Note 10
Variable Interest Entities	Note 11
Other Assets	Note 12
Goodwill and Identifiable Intangible Assets	Note 13
Deposits	Note 14
Short-Term Borrowings	Note 15
Long-Term Borrowings	Note 16
Other Liabilities and Accrued Expenses	Note 17
Commitments, Contingencies and Guarantees	Note 18
Shareholders' Equity	Note 19
Regulation and Capital Adequacy	Note 20
Earnings Per Common Share	Note 21
Transactions with Affiliated Funds	Note 22
Interest Income and Interest Expense	Note 23
Income Taxes	Note 24
Business Segments	Note 25
Credit Concentrations	Note 26
Legal Proceedings	Note 27

Consolidation

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

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

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

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

In general, the firm accounts for investments acquired 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 March 2012 and December 2011, "Cash and cash equivalents" included \$7.22 billion and \$7.95 billion, respectively, of cash and due from banks, and \$49.92 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 will require 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 $4.69 billion and $4.86 billion as of March 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 March 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	**$ 10,553**	**$ —**	$ 13,440	$ —
U.S. government and federal agency obligations	**90,488**	**27,489**	87,040	21,006
Non-U.S. government obligations	**60,812**	**43,791**	49,205	34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	**6,724**	**1**	6,699	27
Loans and securities backed by residential real estate	**8,815**	**7**	7,592	3
Bank loans and bridge loans	**18,988**	**2,242** [2]	19,745	2,756 [2]
Corporate debt securities	**24,370**	**6,841**	22,131	6,553
State and municipal obligations	**3,407**	**47**	3,089	3
Other debt obligations	**4,702**	**—**	4,362	—
Equities and convertible debentures	**75,927**	**19,483**	65,113	21,326
Commodities	**9,462**	**—**	5,762	—
Derivatives [1]	**71,258**	**51,350**	80,028	58,453
Total	**$385,506**	**$151,251**	$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. Includes 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 March	
in millions	**2012**	2011
Interest rates	**$1,889**	$ 2,406
Credit	**1,710**	2,051
Currencies	**(724)**	(1,606)
Equities	**1,973**	2,850
Commodities	**471**	957
Other	**524**	416
Total	**$5,843**	$ 7,074

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, commodities prices, credit spreads and funding spreads.

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 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	**March 2012**	December 2011
Total level 1 financial assets	**$ 159,906**	$ 136,780
Total level 2 financial assets	**566,165**	587,416
Total level 3 financial assets	**48,015**	47,937
Netting and collateral [1]	**(108,461)**	(120,821)
Total financial assets at fair value	**$ 665,625**	$ 651,312
Total assets	**$ 950,932**	$ 923,225
Total level 3 financial assets as a percentage of Total assets	**5.0%**	5.2%
Total level 3 financial assets as a percentage of Total financial assets at fair value	**7.2%**	7.4%
Total level 3 financial liabilities at fair value	**$ 23,941**	$ 25,498
Total financial liabilities at fair value	**$ 403,516**	$ 388,669
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	**5.9%**	6.6%

1. Represents the impact on derivatives of cash collateral 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 March 2012 were essentially unchanged compared with December 2011, primarily reflecting an increase in private equity investments, principally due to transfers to level 3 and purchases, offset by a decrease in derivative assets. The decrease in derivative assets primarily reflected settlements and net unrealized losses on credit and currency derivatives, partially offset by the impact of decreased counterparty netting and transfers to level 3 of certain credit derivatives.

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 or losses and transfers in or out of level 3.

Note 6.

Cash Instruments

Cash instruments include U.S. government and federal agency obligations, non-U.S. government 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 and 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 level 3 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 • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs for these valuations, which may be determined based on relative value analyses, include: • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral • 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) • 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 • Timing of expected future cash flows (duration)
Loans and securities backed by residential real estate • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are 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: • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral • Market yields implied by transactions of similar or related assets • Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs • Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
Bank loans and bridge loans	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Corporate debt securities State and municipal obligations Non-U.S. government obligations Other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: • 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) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Equities and convertible debentures • Private equity investments (including 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 and available: • Industry multiples and public comparables • Transactions in similar instruments • Discounted cash flow techniques • Third-party appraisals The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include: • Market and transaction multiples • Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates • For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

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. These inputs are not representative of the inputs that could have been used in the valuation 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	Significant Unobservable Inputs by Valuation Technique	Range of Significant Unobservable Inputs as of March 2012
Loans and securities backed by commercial real estate	Discounted cash flows:	
• Collateralized by a single commercial real estate property or a portfolio of properties	• Yield	3.3% to 27.7%
• May include tranches of varying levels of subordination	• Recovery rate [1]	20.0% to 100.0%
	• Duration (years) [2]	0.6 to 7.4
Loans and securities backed by residential real estate	Discounted cash flows:	
• Collateralized by portfolios of residential real estate	• Yield	3.2% to 30.0%
• May include tranches of varying levels of subordination	• Cumulative loss rate	0.0% to 79.0%
	• Duration (years) [2]	0.1 to 9.7
Bank loans and bridge loans	Discounted cash flows:	
	• Yield	0.7% to 28.1%
	• Recovery rate [1]	15.0% to 100.0%
	• Duration (years) [2]	0.5 to 7.9
Corporate debt securities	Discounted cash flows:	
State and municipal obligations	• Yield	1.5% to 35.3%
Non-U.S. government obligations	• Recovery rate [1]	0.0% to 100.0%
Other debt obligations	• Duration (years) [2]	0.4 to 18.0
Equities and convertible debentures	Comparable multiples:	
• Private equity investments (including investments in real estate entities)	• Multiples	0.8x to 20.0x
	Discounted cash flows:	
	• Yield/discount rate	10.0% to 30.0%
	• Long-term growth rate/compound annual growth rate	(0.7)% to 55.9%
	• Capitalization rate	5.5% to 11.5%
	• Recovery rate [1]	45.0% to 100.0%
	• Duration (years) [2]	1.0 to 9.0

1. 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).

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 March 2012			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$ 1,985**	**$ 8,560**	**$ 8**	**$ 10,553**
U.S. government and federal agency obligations	**37,228**	**53,260**	**—**	**90,488**
Non-U.S. government obligations	**47,657**	**13,050**	**105**	**60,812**
Mortgage and other asset-backed loans and securities [1]:				
Loans and securities backed by commercial real estate	**—**	**3,568**	**3,156**	**6,724**
Loans and securities backed by residential real estate	**—**	**7,205**	**1,610**	**8,815**
Bank loans and bridge loans	**—**	**7,937**	**11,051**	**18,988**
Corporate debt securities [2]	**90**	**21,768**	**2,512**	**24,370**
State and municipal obligations	**—**	**2,795**	**612**	**3,407**
Other debt obligations [2]	**—**	**3,153**	**1,549**	**4,702**
Equities and convertible debentures	**48,535** [3]	**12,518** [4]	**14,874** [5]	**75,927**
Commodities	**—**	**9,462**	**—**	**9,462**
Total	**$135,495**	**$143,276**	**$35,477**	**$314,248**

	Cash Instrument Liabilities at Fair Value as of March 2012			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government and federal agency obligations	**$ 27,289**	**$ 200**	**$ —**	**$ 27,489**
Non-U.S. government obligations	**43,255**	**536**	**—**	**43,791**
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	**—**	**1**	**—**	**1**
Loans and securities backed by residential real estate	**—**	**7**	**—**	**7**
Bank loans and bridge loans	**—**	**1,519**	**723**	**2,242**
Corporate debt securities [6]	**9**	**6,816**	**16**	**6,841**
State and municipal obligations	**—**	**47**	**—**	**47**
Equities and convertible debentures	**18,489** [3]	**986** [4]	**8**	**19,483**
Total	**$ 89,042**	**$ 10,112**	**$ 747**	**$ 99,901**

1. Includes $437 million and $590 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.
2. Includes $404 million and $1.40 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 $13.05 billion of private equity investments, $1.23 billion of real estate investments and $592 million of convertible debentures.
6. Includes $7 million of CDOs and CLOs backed by corporate obligations in level 3.

	Cash Instrument Assets at Fair Value as of December 2011			
in millions	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 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

	Cash Instrument Liabilities at Fair Value as of December 2011			
in millions	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	$ 20,940	$ 66	$ —	$ 21,006
Non-U.S. government 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 collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.
2. Includes $403 million and $1.19 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 $12.07 billion of private equity investments, $1.10 billion of real estate investments 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. Transfers of cash instruments between level 1 and level 2 were $728 million for the three months ended March 2012, consisting of transfers to level 2 of public equity investments, primarily reflecting the impact of transfer restrictions. See level 3 rollforwards below for further information about transfers between level 2 and level 3.

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 March 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	$ —	$ —	$ —	$ 8	$ —	$ —	$ —	$ —	$ 8
Non-U.S. government obligations	148	(1)	(59)	7	(8)	—	20	(2)	105
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,346	39	96	295	(276)	(289)	486	(541)	3,156
Loans and securities backed by residential real estate	1,709	43	23	254	(181)	(101)	14	(151)	1,610
Bank loans and bridge loans	11,285	150	206	1,188	(1,246)	(792)	960	(700)	11,051
Corporate debt securities	2,480	92	158	295	(422)	(128)	260	(223)	2,512
State and municipal obligations	599	2	8	20	(39)	(2)	25	(1)	612
Other debt obligations	1,451	44	24	99	(120)	(56)	123	(16)	1,549
Equities and convertible debentures	13,667	39	332	558	(150)	(194)	779	(157)	14,874
Total	**$34,685**	**$408 [2]**	**$788 [2]**	**$2,724**	**$(2,442)**	**$(1,562)**	**$2,667**	**$(1,791)**	**$35,477**

	Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 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	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Total	**$ 905**	**$ (34)**	**$ (68)**	**$ (326)**	**$ 87**	**$ 195**	**$ 102**	**$ (114)**	**$ 747**

1. Includes both originations and secondary market purchases.
2. The aggregate amounts include approximately $167 million, $654 million and $375 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

The net unrealized gain on level 3 cash instruments of $856 million (reflecting $788 million on cash instrument assets and $68 million on cash instrument liabilities) for the three months ended March 2012 primarily consisted of gains on private equity investments, bank loans and bridge loans, and corporate debt securities, primarily reflecting an increase in global equity prices and tighter credit spreads.

Transfers into level 3 during the three months ended March 2012 primarily reflected transfers from level 2 of certain bank loans and bridge loans, private equity investments, and loans and securities backed by commercial real estate, principally due to reduced transparency of market prices as a result of less market activity in these instruments.

Transfers out of level 3 during the three months ended March 2012 primarily reflected transfers to level 2 of certain bank and bridge loans, and loans and securities backed by commercial real estate, principally due to improved transparency of market prices as a result of market activity in these instruments.

	Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended March 2011							
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	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	$ 58	$ 162	$ 389	$ (527)	$ (323)	$ (22)	$ 3,713
Loans and securities backed by residential real estate	2,501	50	50	575	(230)	(206)	16	2,756
Bank loans and bridge loans	9,905	169	568	491	(274)	(604)	(326)	9,929
Corporate debt securities	2,737	92	216	789	(459)	(104)	(133)	3,138
State and municipal obligations	754	1	13	7	(3)	(1)	(29)	742
Other debt obligations	1,274	24	20	297	(149)	(53)	70	1,483
Equities and convertible debentures	11,060	40	233	268	(302)	(121)	587	11,765
Total	$32,207	$434 [2]	$1,262 [2]	$2,816	$(1,944)	$(1,412)	$ 163	$33,526

	Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 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	Settlements	Net transfers in and/or (out) of level 3	Balance, end of period
Total	$ 446	$ (22)	$ 41	$ (59)	$ 90	$ 8	$ (22)	$ 482

1. Includes both originations and secondary market purchases.
2. The aggregate amounts include approximately $608 million, $656 million and $432 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

The net unrealized gain/(loss) on level 3 cash instruments of $1.22 billion (reflecting $1.26 billion on cash instrument assets and $(41) million on cash instrument liabilities) for the three months ended March 2011 primarily consisted of unrealized gains on bank loans and bridge loans, private equity investments and corporate debt securities, reflecting strengthening global credit markets and equity markets.

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

- Bank loans and bridge loans: net transfer out of level 3 of $326 million, 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 certain 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 $587 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 certain equity investments due to improved transparency of market prices as a result of initial public offerings.

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 10 years. The firm continues to manage its existing private equity 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 $250 million of these interests in hedge funds during the quarter ended March 2012.

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

	As of March 2012		As of December 2011	
in millions	**Fair Value of Investments**	**Unfunded Commitments**	Fair Value of Investments	Unfunded Commitments
Private equity funds [1]	**$ 8,828**	**$3,066**	$ 8,074	$3,514
Private debt funds [2]	**3,744**	**3,244**	3,596	3,568
Hedge funds [3]	**3,058**	**—**	3,165	—
Real estate funds [4]	**1,541**	**1,463**	1,531	1,613
Total	**$17,171**	**$7,773**	$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 with clients and other market participants 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 certificates of deposit.

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.

in millions	As of March 2012 Derivative Assets	As of March 2012 Derivative Liabilities	As of December 2011 Derivative Assets	As of December 2011 Derivative Liabilities
Exchange-traded	**$ 5,379**	**$ 3,878**	$ 5,880	$ 3,172
Over-the-counter	**65,879**	**47,472**	74,148	55,281
Total	**$71,258**	**$51,350**	$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 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.

in millions, except number of contracts	As of March 2012 Derivative Assets	As of March 2012 Derivative Liabilities	As of March 2012 Number of Contracts	As of December 2011 Derivative Assets	As of December 2011 Derivative Liabilities	As of December 2011 Number of Contracts
Derivatives not accounted for as hedges						
Interest rates	**$ 552,324**	**$ 512,372**	**304,937**	$ 624,189	$ 582,608	287,351
Credit	**115,065**	**97,845**	**363,617**	150,816	130,659	362,407
Currencies	**74,699**	**61,091**	**242,500**	88,654	71,736	203,205
Commodities	**36,058**	**36,959**	**85,787**	35,966	38,050	93,755
Equities	**59,623**	**51,704**	**299,762**	64,135	51,928	332,273
Subtotal	**837,769**	**759,971**	**1,296,603**	963,760	874,981	1,278,991
Derivatives accounted for as hedges						
Interest rates	**22,238**	**68**	**1,308**	21,981	13	1,125
Currencies	**64**	**48**	**75**	124	21	71
Subtotal	**22,302**	**116**	**1,383**	22,105	34	1,196
Gross fair value of derivatives	**$ 860,071**	**$ 760,087**	**1,297,986**	$ 985,865	$ 875,015	1,280,187
Counterparty netting[1]	**(682,726)**	**(682,726)**		(787,733)	(787,733)	
Cash collateral netting[2]	**(106,087)**	**(26,011)**		(118,104)	(28,829)	
Fair value included in financial instruments owned	**$ 71,258**			$ 80,028		
Fair value included in financial instruments sold, but not yet purchased		**$ 51,350**			$ 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

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 and are therefore less transparent, 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 be less transparent 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 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. Inputs to the valuations of level 2 OTC 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.

Where models are used, the selection of a particular model to value an OTC 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. 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. For OTC 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.

Level 3 Derivatives

Level 3 OTC 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, the significant unobservable inputs are correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates) and specific interest rate volatilities.
- For level 3 credit derivatives, significant level 3 inputs include illiquid credit spreads, which are unique to specific reference obligations and reference entities, 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, of certain reference obligations to 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 OTC 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. These inputs are not representative of the inputs that could have been used in the valuation 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.

Significant Unobservable Inputs	Derivative Product Type	Range of Significant Unobservable Inputs as of March 2012	Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs [1]
Correlation	Interest rates	14% to 70%	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.
	Credit	5% to 91%	
	Currencies	66% to 87%	
	Equities	46% to 91%	
	Various [2]	(51)% to 83%	
Volatility	Interest rates	36% to 91%	In general, for purchased options an increase in volatility results in a higher fair value measurement.
	Commodities	4% to 80%	
	Equities	12% to 56%	
Credit spreads	Credit	88 basis points (bps) to 2,250 bps	In general, the fair value of purchased credit protection increases as credit spreads increase, recovery rates decrease or basis widens.
Recovery rates	Credit	0% to 85%	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.
Basis	Credit	1 point to 10 points	
Spread per million British Thermal units (MMBTU) of natural gas	Commodities	\$(0.82) to \$3.91	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) generally results in a higher fair value measurement.

1. Represents 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.

2. Represents correlation across derivative product types.

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 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 March 2012				
in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$149	$ 574,153	$ 260	$ —	$ 574,562
Credit	—	103,453	11,612	—	115,065
Currencies	—	73,384	1,379	—	74,763
Commodities	—	35,198	860	—	36,058
Equities	31	58,180	1,412	—	59,623
Gross fair value of derivative assets	180	844,368	15,523	—	860,071
Counterparty netting [1]	—	(675,980)	(4,372)	(2,374) [3]	(682,726)
Subtotal	$180	$ 168,388	$11,151	$(2,374)	$ 177,345
Cash collateral netting [2]					(106,087)
Fair value included in financial instruments owned					$ 71,258

	Derivative Liabilities at Fair Value as of March 2012				
in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$139	$ 511,801	$ 500	$ —	$ 512,440
Credit	—	92,735	5,110	—	97,845
Currencies	—	60,150	989	—	61,139
Commodities	—	36,000	959	—	36,959
Equities	33	49,739	1,932	—	51,704
Gross fair value of derivative liabilities	172	750,425	9,490	—	760,087
Counterparty netting [1]	—	(675,980)	(4,372)	(2,374) [3]	(682,726)
Subtotal	$172	$ 74,445	$ 5,118	$(2,374)	$ 77,361
Cash collateral netting [2]					(26,011)
Fair value included in financial instruments sold, but not yet purchased					$ 51,350

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 March 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)**	**$(63)**	**$ 32**	**$ 3**	**$ (1)**	**$ 164**	**$ 8**	**$ (12)**	**$ (240)**
Credit — net	**6,300**	**10**	**(308)**	**75**	**(73)**	**(553)**	**1,332**	**(281)**	**6,502**
Currencies — net	**842**	**(6)**	**(266)**	**1**	**(7)**	**(234)**	**2**	**58** [3]	**390**
Commodities — net	**(605)**	**40**	**206**	**99**	**(99)**	**41**	**100**	**119** [3]	**(99)**
Equities — net	**(432)**	**(25)**	**(277)**	**73**	**(100)**	**306**	**15**	**(80)**	**(520)**
Total derivatives — net	**$5,734**	**$(44)** [1]	**$(613)** [1,2]	**$251**	**$(280)**	**$(276)**	**$1,457**	**$(196)**	**$6,033**

1. The aggregate amounts include approximately $(444) million and $(213) 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 2 of derivative liabilities.

The net unrealized loss on level 3 derivatives of $613 million for the three months ended March 2012 was primarily attributable to the impact of tighter credit spreads, increases in equity prices and changes in foreign exchange rates on the underlying derivatives, partially offset by the impact of changes in commodity prices.

Transfers into level 3 derivatives during the three months ended March 2012 primarily reflected transfers of certain credit derivative assets from level 2, primarily due to unobservable inputs becoming more significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during the three months ended March 2012 primarily reflected transfers to level 2 of certain credit derivative assets, principally due to unobservable 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 March 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	$ (26)	$ (58)	$ 1	$ —	$ 13	$(221)	$ (97)
Credit — net	7,040	3	(104)	70	(81)	(722)	385	6,591
Currencies — net	1,098	(1)	(194)	25	(6)	(31)	241	1,132
Commodities — net	220	(78)	90	241	(233)	115	(162)	193
Equities — net	(990)	176	(294)	459	(625)	58	200	(1,016)
Total derivatives — net	$7,562	$ 74 [1]	$(560) [1, 2]	$796	$(945)	$(567)	$443	$ 6,803

1. The aggregate amounts include approximately $(501) million and $15 million reported in "Market making" and "Other principal transactions," respectively.

2. Principally resulted from changes in level 2 inputs.

The net unrealized loss on level 3 derivatives of $560 million for the three months ended March 2011 was primarily attributable to increases in equity index prices, tighter credit spreads and changes in foreign exchange rates on the underlying instruments.

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

- Credit — net: net transfer to level 3 of $385 million, principally due to reduced transparency of the correlation inputs used to value certain mortgage 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 loss, including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was $179 million and $25 million for the three months ended March 2012 and March 2011, respectively.

Bifurcated Embedded Derivatives

The table below presents derivatives, primarily equity and interest rate 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	**March 2012**	December 2011
Fair value of assets	**$387**	$422
Fair value of liabilities	**310**	304
Net	**$ 77**	$118
Number of contracts	**357**	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

	OTC Derivatives as of March 2012			
Assets Product Type	**0 - 12 Months**	**1 - 5 Years**	**5 Years or Greater**	**Total**
Interest rates	**$ 9,356**	**$31,554**	**$ 74,244**	**$ 115,154**
Credit	**2,705**	**13,987**	**10,976**	**27,668**
Currencies	**9,877**	**9,280**	**12,990**	**32,147**
Commodities	**5,768**	**4,837**	**124**	**10,729**
Equities	**4,306**	**7,620**	**7,370**	**19,296**
Netting across product types [1]	**(1,960)**	**(6,135)**	**(5,092)**	**(13,187)**
Subtotal	**$30,052**	**$61,143**	**$100,612**	**191,807**
Cross maturity netting [2]				**(19,841)**
Cash collateral netting [3]				**(106,087)**
Total				**$ 65,879**

Liabilities Product Type	**0 - 12 Months**	**1 - 5 Years**	**5 Years or Greater**	**Total**
Interest rates	**$ 6,541**	**$17,077**	**$29,390**	**$ 53,008**
Credit	**1,222**	**5,826**	**3,400**	**10,448**
Currencies	**7,685**	**4,853**	**5,965**	**18,503**
Commodities	**5,235**	**4,747**	**2,556**	**12,538**
Equities	**3,626**	**4,544**	**3,844**	**12,014**
Netting across product types [1]	**(1,960)**	**(6,135)**	**(5,092)**	**(13,187)**
Subtotal	**$22,349**	**$30,912**	**$40,063**	**93,324**
Cross maturity netting [2]				**(19,841)**
Cash collateral netting [3]				**(26,011)**
Total				**$ 47,472**

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

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

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

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

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

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 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	**March 2012**	December 2011
Net derivative liabilities under bilateral agreements	**$27,370**	$35,066
Collateral posted	**22,742**	29,002
Additional collateral or termination payments for a one-notch downgrade	**1,331**	1,303
Additional collateral or termination payments for a two-notch downgrade	**2,207**	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 not the obligation, to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

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

As of March 2012, written and purchased credit derivatives had total gross notional amounts of $1.97 trillion and $2.10 trillion, respectively, for total net notional purchased protection of $123.20 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 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 March 2012									
Credit spread on underlying (basis points)									
0-250	**$345,122**	**$ 906,230**	**$180,754**	**$1,432,106**	**$1,323,645**	**$212,487**	**$23,214**	**$ 11,569**	**$ 11,645**
251-500	**29,433**	**195,101**	**55,788**	**280,322**	**251,767**	**40,987**	**5,534**	**13,026**	**(7,492)**
501-1,000	**13,226**	**112,724**	**24,416**	**150,366**	**134,781**	**20,049**	**1,368**	**10,701**	**(9,333)**
Greater than 1,000	**19,673**	**77,527**	**12,880**	**110,080**	**91,671**	**20,690**	**488**	**35,757**	**(35,269)**
Total	**$407,454**	**$1,291,582**	**$273,838**	**$1,972,874**	**$1,801,864**	**$294,213**	**$30,604**	**$ 71,053**	**$(40,449)**
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 in 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 March	
in millions	**2012**	2011
Interest rate hedges	**$(2,238)**	$(2,658)
Hedged borrowings and bank deposits	**1,778**	2,163
Hedge ineffectiveness [1]	**(460)**	(495)

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 March	
in millions	**2012**	2011
Currency hedges	**$(212)**	$(225)
Foreign currency-denominated debt	**221**	82

The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income was not material for the three months ended March 2012 and March 2011.

As of March 2012 and December 2011, the firm had designated $2.89 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).

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. These inputs are not representative of the inputs that could have been used in the valuation of any one instrument. For example, the highest funding spread 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 the amount and timing of expected future cash flows, interest rates, the fair value of the collateral delivered or received by the firm (which is determined using the amount and timing of expected future cash flows, market yields and recovery assumptions), and collateral funding spreads. The ranges of significant unobservable inputs used to value level 3 resale and repurchase agreements as of March 2012 are as follows:

- Yield: 2.1% to 4.5%
- Duration: 2.0 to 5.4 years
- Funding spreads: 74 bps to 355 bps

Generally, increases in yield, duration or funding spreads, 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, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market yields and recovery assumptions), the frequency of additional collateral calls and the credit spreads of the firm. The ranges of significant unobservable inputs used to value level 3 other secured financings as of March 2012 are as follows:

- Yield: 3.5% to 25.0%
- Duration: 0.7 to 7.0 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 and, for certain hybrid financial instruments, equity prices, inflation rates and index levels. 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 typically include interest rates, inflation rates, volatilities, and policy lapse and projected mortality assumptions. Significant level 3 inputs typically include 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 March 2012 is as follows:

- Funding spreads: 80 bps to 170 bps

Generally, increases in funding spreads would result in a lower fair value measurement of both assets and liabilities.

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 and the amount and timing of expected future cash flows. 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 March 2012.

Deposits. The significant inputs to the valuation of time deposits are interest rates and the amount and timing of future cash flows. See Note 14 for further information about deposits.

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 March 2012			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities segregated for regulatory and other purposes [1]	**$24,231**	**$ 9,448**	**$ —**	**$ 33,679**
Securities purchased under agreements to resell	**—**	**180,094**	**956**	**181,050**
Securities borrowed	**—**	**57,062**	**—**	**57,062**
Receivables from customers and counterparties	**—**	**7,897**	**431**	**8,328**
Total	**$24,231**	**$254,501**	**$ 1,387**	**$280,119**

	Other Financial Liabilities at Fair Value as of March 2012			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Deposits	**$ —**	**$ 5,428**	**$ 96**	**$ 5,524**
Securities sold under agreements to repurchase	**—**	**171,044**	**2,048**	**173,092**
Securities loaned	**—**	**550**	**—**	**550**
Other secured financings	**—**	**27,085**	**1,282**	**28,367**
Unsecured short-term borrowings	**—**	**14,397**	**3,375**	**17,772**
Unsecured long-term borrowings	**—**	**15,199**	**2,310**	**17,509**
Other liabilities and accrued expenses	**—**	**486**	**8,965**	**9,451**
Total	**$ —**	**$234,189**	**$18,076**	**$252,265**

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 $24.23 billion of level 1 and $534 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.

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. Transfers between levels are recognized at the beginning of the reporting period in which they occur.

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 March 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	$ 1	$ 30	$535	$—	$ —	$(167)	$ —	$ —	$ 956
Receivables from customers and counterparties	795	—	9	—	—	—	—	—	(373)	431
Total	**$ 1,352**	**$ 1** [1]	**$ 39** [1]	**$535**	**$—**	**$ —**	**$(167)**	**$ —**	**$(373)**	**$ 1,387**

1. The aggregate amounts include gains of approximately $37 million and $3 million reported in "Market making" and "Interest income," respectively.

Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 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	$ —	$ (6)	$ —	$—	$ 89	$ —	$ —	$ —	$ 96
Securities sold under agreements to repurchase, at fair value	2,181	—	—	—	—	—	(133)	—	—	2,048
Other secured financings	1,752	1	(1)	—	—	24	(465)	14	(43)	1,282
Unsecured short-term borrowings	3,294	(16)	152	(13)	—	129	(118)	167	(220)	3,375
Unsecured long-term borrowings	2,191	11	176	—	—	155	(116)	134	(241)	2,310
Other liabilities and accrued expenses	8,996	4	50	—	—	—	(85)	—	—	8,965
Total	**$18,427**	**$ —** [1]	**$371** [1]	**$ (13)**	**$—**	**$397**	**$(917)**	**$315**	**$(504)**	**$18,076**

1. The aggregate amounts include losses of approximately $355 million, $15 million and $1 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.

The net unrealized gain/(loss) on level 3 other financial assets and liabilities at fair value of $(332) million (reflecting $39 million on other financial assets and $(371) million on other financial liabilities) for the three months ended March 2012 primarily consisted of losses on unsecured short-term and long-term borrowings. These losses primarily reflected losses on certain equity-linked notes, principally due to an increase in global equity prices which are level 2 inputs.

Transfers out of level 3 related to other financial assets during the three months ended March 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 related to other financial liabilities during the three months ended March 2012 primarily reflected transfers from level 2 of certain unsecured short-term and long-term borrowings, principally due to reduced transparency of the correlation and volatility inputs used to value certain hybrid financial instruments.

Transfers out of level 3 related to other financial liabilities during the three months ended March 2012 primarily reflected transfers to level 2 of certain unsecured short-term and long-term borrowings, principally due to increased transparency of the correlation and volatility inputs used to value certain hybrid financial instruments.

	Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 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	$ —	$ 64	$—	$ —	$ (8)	$ —	$ 158
Receivables from customers and counterparties	298	—	16	14	—	—	(6)	—	322
Total	$ 398	$ 2 [1]	$ 16 [1]	$ 78	$—	$ —	$ (14)	$ —	$ 480

1. The aggregate amounts include gains of approximately $16 million and $2 million reported in “Market making” and “Other principal transactions”, respectively.

	Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 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	$—	$ —	$ —	$—	$ —	$ (114)	$ —	$ 1,946
Other secured financings	8,349	—	9	—	—	11	(1,262)	—	7,107
Unsecured short-term borrowings	3,476	60	(204)	—	—	562	(153)	(532)	3,209
Unsecured long-term borrowings	2,104	4	45	—	—	241	(72)	82	2,404
Other liabilities and accrued expenses	2,409	—	152	4,337	—	—	(46)	—	6,852
Total	$18,398	$64 [1]	$ 2 [1]	$4,337	$—	$814	$(1,647)	$(450)	$21,518

1. The aggregate amounts include gains/(losses) of approximately $(165) million, $104 million and $(5) million reported in “Market making,” “Other principal transactions” and “Interest expense,” respectively.

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

- Unsecured short-term borrowings and Unsecured long-term borrowings: net transfer out of level 3 of $532 million and net transfer into level 3 of $82 million, respectively, principally due to a transfer of approximately $230 million from level 3 Unsecured short-term borrowings to level 3 Unsecured long-term borrowings related to an extension in the tenor of certain borrowings and the transfer to level 2 of certain short-term and long-term hybrid financial instruments due to improved transparency of the equity price inputs used to value these financial instruments.

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 March			
	2012		2011	
in millions	**Fair Value Option**	**Other**	Fair Value Option	Other
Receivables from customers and counterparties [1]	**$ 24**	**$ 459**	$ 1	$ 319
Other secured financings	**(26)**	**(915)**	4	(415)
Unsecured short-term borrowings	**(42)**	**(853)**	7	(224)
Unsecured long-term borrowings	**(231)**	**(368)**	3	(1,271)
Other liabilities and accrued expenses [2]	**(102)**	**41**	(189)	87
Other [3]	**(17)**	**5**	35	—
Total	**$(394)**	**$(1,631)**	$(139)	$(1,504)

1. Primarily consists of gains 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	**March 2012**	December 2011
Aggregate contractual principal amount of performing loans and long-term receivables in excess of the related fair value	**$ 3,347**	$ 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	**22,228**	23,034
Total [1]	**$25,575**	$26,860
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	**$ 2,378**	$ 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 March 2012 and December 2011, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of $2.18 billion and $2.82 billion, respectively, and the related total contractual amount of these lending commitments was $62.61 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 debt instruments (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by $393 million and $932 million as of March 2012 and December 2011, respectively. Of these amounts, $196 million and $693 million as of March 2012 and December 2011, respectively, related to unsecured long-term borrowings and the remainder related to long-term other secured financings.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was $973 million and $756 million for the three months ended March 2012 and March 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 March	
in millions	**2012**	2011
Net gains/(losses) including hedges	**$(224)**	$41
Net gains/(losses) excluding hedges	**(289)**	44

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	**March 2012**	December 2011
Securities purchased under agreements to resell [1]	**$181,050**	$187,789
Securities borrowed [2]	**169,092**	153,341
Securities sold under agreements to repurchase [1]	**173,092**	164,502
Securities loaned [2]	**8,121**	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 March 2012 and December 2011, $57.06 billion and $47.62 billion of securities borrowed and $550 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 March 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 delivery of 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 March 2012.

As of March 2012 and December 2011, the firm had $8.91 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 March 2012 and December 2011, nonrecourse other secured financings were $2.31 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 March 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 March 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	**$16,980**	**$ 5,213**	**$22,193**	$18,519	$ 5,140	$23,659
At amortized cost	**144**	**2,991**	**3,135**	155	5,371	5,526
Interest rates [1]	***3.20%***	***0.19%***		*3.85%*	*0.22%*	
Other secured financings (long-term):						
At fair value	**4,725**	**1,449**	**6,174**	4,305	2,055	6,360
At amortized cost	**891**	**746**	**1,637**	1,024	795	1,819
Interest rates [1]	***2.53%***	***3.25%***		*1.88%*	*3.28%*	
Total [2]	**$22,740**	**$10,399**	**$33,139**	$24,003	$13,361	$37,364
Amount of other secured financings collateralized by:						
Financial instruments [3]	**$22,437**	**$ 9,820**	**$32,257**	$23,703	$12,169	$35,872
Other assets [4]	**303**	**579**	**882**	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 $7.45 billion and $9.36 billion related to transfers of financial assets accounted for as financings rather than sales as of March 2012 and December 2011, respectively. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value" of $7.66 billion and $9.51 billion as of March 2012 and December 2011, respectively.
3. Includes $16.47 billion and $14.82 billion of other secured financings collateralized by financial instruments owned, at fair value as of March 2012 and December 2011, respectively, and includes $15.79 billion and $21.06 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of March 2012 and December 2011, respectively.
4. Primarily real estate and cash.

The table below presents other secured financings by maturity.

in millions	**As of March 2012**
Other secured financings (short-term)	**$25,328**
Other secured financings (long-term):	
2013	**1,437**
2014	**3,635**
2015	**576**
2016	**438**
2017	**201**
2018-thereafter	**1,524**
Total other secured financings (long-term)	**7,811**
Total other secured financings	**$33,139**

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 $197 million and $239 million, as of March 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	**March 2012**	December 2011
Collateral available to be delivered or repledged	**$606,896**	$622,926
Collateral that was delivered or repledged	**447,378**	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	**March 2012**	December 2011
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	**$ 67,404**	$ 53,989
Did not have the right to deliver or repledge	**122,681**	110,949
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	**2,921**	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 March	
in millions	**2012**	2011
Residential mortgages	**$10,989**	$7,703
Commercial mortgages	**—**	325
Other financial assets	**—**	32
Total	**$10,989**	$8,060
Cash flows on retained interests	**$ 147**	$ 228

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 March 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]	**$67,883**	**$4,913**	**$ —**	$70,448	$5,038	$ —
Other residential mortgage-backed [2]	**4,274**	**101**	**—**	4,459	101	3
Commercial mortgage-backed [3]	**2,311**	**28**	**46**	3,398	606	331
CDOs, CLOs and other [4]	**10,305**	**44**	**263**	9,972	32	211
Total [5]	**$84,773**	**$5,086**	**$309**	$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 March 2012, and securitizations during 2011 and 2010 as of December 2011.

2. Outstanding principal amount and fair value of retained interests as of both March 2012 and December 2011 primarily relate to prime and Alt-A securitizations during 2007 and 2006.

3. As of March 2012, the outstanding principal amount and the fair value of retained interests primarily relate to securitizations during 2006. 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 March 2012 and December 2011 primarily relate to CDO and CLO securitizations during 2007 and 2006.

5. Outstanding principal amount includes $789 million and $774 million as of March 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 asset of $2 million and a net liability of $52 million as of March 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 March 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	**$5,042**	**$ 44**	$5,745	$ 32
Weighted average life (years)	**8.0**	**4.6**	7.1	4.7
Constant prepayment rate [2]	**11.9%**	**N.M.**	14.1%	N.M.
Impact of 10% adverse change [2]	**$ (46)**	**N.M.**	$ (55)	N.M.
Impact of 20% adverse change [2]	**(89)**	**N.M.**	(108)	N.M.
Discount rate [3]	**5.7%**	**N.M.**	5.4%	N.M.
Impact of 10% adverse change	**$ (118)**	**N.M.**	$ (125)	N.M.
Impact of 20% adverse change	**(230)**	**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 March 2012 and December 2011. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of $44 million and $32 million as of March 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 mortgage-backed, 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 March 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	**$93,300** [2]	**$22,233**	**$7,890**	**$2,711**	**$536**	**$2,406**	**$129,076**
Carrying Value of the Firm's Variable Interests							
Assets	**6,453**	**1,127**	**1,448**	**168**	**300**	**5**	**9,501**
Liabilities	**—**	**23**	**3**	**34**	**—**	**—**	**60**
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	**5,042**	**44**	**—**	**—**	**—**	**—**	**5,086**
Purchased interests	**1,039**	**527**	**—**	**151**	**—**	**—**	**1,717**
Commitments and guarantees [1]	**—**	**1**	**368**	**—**	**7**	**—**	**376**
Derivatives [1]	**2,336**	**6,826**	**—**	**1,177**	**—**	**—**	**10,339**
Loans and investments	**121**	**—**	**1,447**	**—**	**300**	**5**	**1,873**
Total	**$ 8,538** [2]	**$ 7,398**	**$1,815**	**$1,328**	**$307**	**$ 5**	**$ 19,391**

	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 $3.92 billion and $4.17 billion as of March 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 $7.17 billion and $2.61 billion, respectively, as of March 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 March 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	$ 185	$ 60	$ —	$ 245
Cash and securities segregated for regulatory and other purposes	120	—	—	120
Receivables from brokers, dealers and clearing organizations	3	—	—	3
Receivables from customers and counterparties	—	12	—	12
Financial instruments owned, at fair value	2,266	389	94	2,749
Other assets	1,442	421	—	1,863
Total	**$4,016**	**$882**	**$ 94**	**$4,992**
Liabilities				
Other secured financings	$ 882	$383	$ 227	$1,492
Financial instruments sold, but not yet purchased, at fair value	—	1	2	3
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	180	—	1,837	2,017
Unsecured long-term borrowings	4	—	254	258
Other liabilities and accrued expenses	1,894	40	—	1,934
Total	**$2,960**	**$424**	**$2,320**	**$5,704**

	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	**March 2012**	December 2011
Property, leasehold improvements and equipment [1]	**$ 8,597**	$ 8,697
Goodwill and identifiable intangible assets [2]	**5,370**	5,468
Income tax-related assets [3]	**4,808**	5,017
Equity-method investments [4]	**667**	664
Miscellaneous receivables and other	**3,508**	3,306
Total	**$22,950**	$23,152

1. Net of accumulated depreciation and amortization of $8.59 billion and $8.46 billion as of March 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 $4.21 billion and $4.17 billion as of March 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.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment included $6.58 billion and $6.48 billion as of March 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 quarter of 2012 the firm tested certain commodity-related intangible assets, property, leasehold improvements and equipment, 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 an impairment loss of $116 million ($90 million related to property, leasehold improvements and equipment, $20 million related to commodity-related intangible assets and $6 million related to other assets), substantially all of which was 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 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," represent 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	**March 2012**	December 2011
Investment Banking:		
Financial Advisory	**$ 98**	$ 104
Underwriting	**183**	186
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	**268**	284
Equities Client Execution	**2,388**	2,390
Securities Services	**117**	117
Investing & Lending	**147**	147
Investment Management	**581**	574
Total	**$3,782**	$3,802

	Identifiable Intangible Assets	
	As of	
in millions	**March 2012**	December 2011
Investment Banking:		
Financial Advisory	**$ 2**	$ 4
Underwriting	**1**	1
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	**473**	488
Equities Client Execution	**656**	677
Investing & Lending	**326**	369
Investment Management	**130**	127
Total	**$1,588**	$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 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.

Goodwill was tested for impairment, using a quantitative test, during the fourth quarter of 2011 and goodwill was not impaired.

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.

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.

$ in millions		As of March 2012	As of Weighted Average Remaining Lives *(years)*	As of December 2011
Customer lists	Gross carrying amount	**$ 1,121**		$ 1,119
	Accumulated amortization	**(612)**		(593)
	Net carrying amount	**509**	**9**	526
Commodities-related intangibles [1]	Gross carrying amount	**480**		595
	Accumulated amortization	**(162)**		(237)
	Net carrying amount	**318**	**9**	358
Broadcast royalties [2]	Gross carrying amount	**560**		560
	Accumulated amortization	**(139)**		(123)
	Net carrying amount	**421**	**7**	437
Insurance-related intangibles [3]	Gross carrying amount	**292**		292
	Accumulated amortization	**(150)**		(146)
	Net carrying amount	**142**	**7**	146
Other [4]	Gross carrying amount	**954**		950
	Accumulated amortization	**(756)**		(751)
	Net carrying amount	**198**	**12**	199
Total	**Gross carrying amount**	**3,407**		3,516
	Accumulated amortization	**(1,819)**		(1,850)
	Net carrying amount	**$ 1,588**	**8**	$ 1,666

1. Primarily includes commodity-related customer contracts and relationships, permits and access rights.
2. Represents television broadcast royalties held by a consolidated VIE.
3. Represents value of business acquired related to the firm's insurance businesses.
4. 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 months ended March 2012 and March 2011, and the estimated future amortization expense through 2017 for identifiable intangible assets as of March 2012.

	Three Months Ended March	
in millions	**2012**	2011
Amortization expense	**$70**	$57

in millions	**As of March 2012**
Estimated future amortization expense:	
Remainder of 2012	**$197**
2013	**232**
2014	**201**
2015	**167**
2016	**163**
2017	**160**

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 were interest-bearing.

	As of	
in millions	**March 2012**	December 2011
U.S. offices	**$42,853**	$38,477
Non-U.S. offices	**8,021**	7,632
Total	**$50,874** [1]	$46,109 [1]

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

	As of March 2012		
in millions	**U.S.**	**Non-U.S.**	**Total**
Remainder of 2012	**$ 1,764**	**$2,684**	**$ 4,448**
2013	**4,167**	**24**	**4,191**
2014	**2,103**	**—**	**2,103**
2015	**1,801**	**—**	**1,801**
2016	**1,049**	**—**	**1,049**
2017	**798**	**—**	**798**
2018 - thereafter	**3,094**	**—**	**3,094**
Total	**$14,776** [2]	**$2,708** [3]	**$17,484** [1]

1. Includes $5.52 billion and $4.53 billion as of March 2012 and December 2011, respectively, of time deposits accounted for at fair value under the fair value option.
2. Includes $77 million greater than $100,000, of which $3 million matures within three months, $35 million matures within three to six months, $8 million matures within six to twelve months, and $31 million matures after twelve months.
3. Substantially all were greater than $100,000.

Demand deposits of $33.39 billion are 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, $11.96 billion of time deposits were effectively converted from fixed-rate obligations to floating-rate obligations and are 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 March 2012	As of December 2011
Other secured financings (short-term)	**$25,328**	$29,185
Unsecured short-term borrowings	**48,721**	49,038
Total	**$74,049**	$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 March 2012.

The table below presents unsecured short-term borrowings.

in millions	As of March 2012	As of December 2011
Current portion of unsecured long-term borrowings [1]	**$29,439**	$28,836
Hybrid financial instruments	**12,654**	11,526
Promissory notes	**287**	1,328
Commercial paper	**989**	1,491
Other short-term borrowings	**5,352**	5,857
Total	**$48,721**	$49,038
Weighted average interest rate [2]	**1.96%**	1.89%

1. Includes $5.51 billion and $8.53 billion as of March 2012 and December 2011, respectively, guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (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:

	As of	
in millions	**March 2012**	December 2011
Other secured financings (long-term)	**$ 7,811**	$ 8,179
Unsecured long-term borrowings	**171,592**	173,545
Total	**$179,403**	$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 March 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]	**$ 87,365**	**$36,331**	**$123,696**	$ 84,058	$38,569	$122,627
Floating-rate obligations [2]	**24,972**	**22,924**	**47,896**	23,436	27,482	50,918
Total	**$112,337**	**$59,255**	**$171,592**	$107,494	$66,051	$173,545

1. Interest rates on U.S. dollar-denominated debt ranged from 0.10% to 10.04% (with a weighted average rate of 5.43%) and 0.10% to 10.04% (with a weighted average rate of 5.62%) as of March 2012 and December 2011, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.85% to 14.85% (with a weighted average rate of 4.70%) and 0.85% to 14.85% (with a weighted average rate of 4.75%) as of March 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 holder 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 March 2012**
2013	**$ 13,203**
2014	**20,764**
2015	**17,351**
2016	**26,221**
2017	**18,376**
2018 - thereafter	**75,677**
Total [1]	**$171,592**

1. Includes $9.47 billion related to interest rate hedges on certain unsecured long-term borrowings, by year of maturity as follows: $367 million in 2013, $801 million in 2014, $598 million in 2015, $1.12 billion in 2016, $1.25 billion in 2017 and $5.33 billion in 2018 and thereafter.

The aggregate contractual principal amount of unsecured long-term borrowings (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by $196 million and $693 million as of March 2012 and December 2011, respectively.

The firm designates certain derivatives as fair value hedges to effectively convert a substantial portion of its fixed-rate unsecured long-term borrowings which are not accounted for at fair value into floating-rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of March 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 March 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 a reduction in the carrying value of total unsecured long-term borrowings of less than 4% as of both March 2012 and December 2011. 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	**March 2012**	December 2011
Fixed-rate obligations		
At fair value	**$ 48**	$ 76
At amortized cost [1]	**25,185**	28,773
Floating-rate obligations		
At fair value	**17,461**	17,086
At amortized cost [1]	**128,898**	127,610
Total	**$171,592**	$173,545

1. The weighted average interest rates on the aggregate amounts were 2.68% (5.14% related to fixed-rate obligations and 2.23% 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 March 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 both March 2012 and December 2011, subordinated debt had maturities ranging from 2017 to 2038. The table below presents subordinated borrowings.

	As of March 2012			As of December 2011		
in millions	**Par Amount**	**Carrying Amount**	**Rate [1]**	Par Amount	Carrying Amount	Rate [1]
Subordinated debt	**$14,446**	**$17,380**	**4.24%**	$14,310	$17,362	4.39%
Junior subordinated debt	**3,335**	**4,501**	**0.86%**	5,085	6,533	2.43%
Total subordinated borrowings	**$17,781**	**$21,881**	**3.60%**	$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. will issue 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 (2012 Trust), a new trust sponsored by the firm, and will use the proceeds to purchase the perpetual non-cumulative preferred stock and make certain payments to the holders of the APEX issued by Goldman Sachs Capital II on June 1, 2012.

In connection with the remarketing of the junior subordinated debt to the 2012 Trust, pursuant to the terms of the junior subordinated debt, the interest rate and other terms were modified. Following such sale, the firm pays interest semi-annually on the $1.75 billion of junior subordinated debt held by the 2012 Trust at a fixed annual rate of 4.647% and the debt matures on March 9, 2017. To fund the purchase of the junior subordinated debt, the 2012 Trust issued $1.75 billion of senior guaranteed trust securities. The 2012 Trust is required to pay distributions on its senior guaranteed trust securities in the same amounts and on the same dates that it is scheduled to receive interest on the junior subordinated debt it holds, and is required to redeem its senior guaranteed trust securities upon the maturity or earlier redemption of the junior subordinated debt it holds. Group Inc. fully and unconditionally guarantees the payment of these distribution and redemption amounts when due on a senior basis and, as such, the $1.75 billion of junior subordinated debt held by the 2012 Trust for the benefit of investors is no longer classified as junior subordinated debt. If the firm were to defer payment of interest on the junior subordinated debt securities and the 2012 Trust was 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 firm pays interest quarterly on $500 million of junior subordinated debt issued to Goldman Sachs Capital III at a rate per annum equal to three-month LIBOR plus 0.57% and the debt matures on September 1, 2043. In addition, the firm makes contract payments at a rate of 0.20% per annum on the stock purchase contracts held by the APEX Trusts.

The firm has the right to defer payments on the junior subordinated debt and the stock purchase contracts, subject to limitations, and therefore cause payment on the APEX to be deferred. 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.

The APEX Trusts and the 2012 Trust 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 (i) Group Inc.'s junior subordinated debt originally issued to the APEX Trusts prior to the applicable stock purchase date or (ii) APEX or shares of Group Inc.'s perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock) or perpetual Non-Cumulative Preferred Stock, Series F (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 equity securities during the 180-day period preceding the redemption or purchase.

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.

in millions	As of March 2012	As of December 2011
Compensation and benefits	**$ 5,068**	$ 5,701
Insurance-related liabilities	**18,712**	18,614
Noncontrolling interests [1]	**1,377**	1,450
Income tax-related liabilities [2]	**1,494**	533
Employee interests in consolidated funds	**299**	305
Subordinated liabilities issued by consolidated VIEs	**1,008**	1,090
Accrued expenses and other	**4,223**	4,108
Total	**$32,181**	$31,801

1. Includes $1.14 billion and $1.17 billion related to consolidated investment funds as of March 2012 and December 2011, respectively.

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

The table below presents insurance-related liabilities by type.

in millions	As of March 2012	As of December 2011
Separate account liabilities	**$ 3,485**	$ 3,296
Liabilities for future benefits and unpaid claims	**14,154**	14,213
Contract holder account balances	**848**	835
Reserves for guaranteed minimum death and income benefits	**225**	270
Total	**$18,712**	$18,614

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 $1.30 billion as of both March 2012 and December 2011 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 $633 million and $648 million as of March 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 $8.77 billion and $8.75 billion carried at fair value under the fair value option as of March 2012 and December 2011, respectively.

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.

in millions	Commitment Amount by Period of Expiration as of March 2012				Total Commitments as of	
	Remainder 2012	2013-2014	2015-2016	2017-Thereafter	March 2012	December 2011
Commitments to extend credit [1]						
Commercial lending: [2]						
Investment-grade	$ 7,441	$11,017	$29,163	$5,478	$ 53,099	$ 51,281
Non-investment-grade	681	3,314	7,592	1,779	13,366	14,217
Warehouse financing	150	363	—	—	513	247
Total commitments to extend credit	8,272	14,694	36,755	7,257	66,978	65,745
Contingent and forward starting resale and securities borrowing agreements [3]	83,483	321	—	—	83,804	54,522
Forward starting repurchase and secured lending agreements [3]	13,161	—	—	—	13,161	17,964
Underwriting commitments	74	—	—	—	74	—
Letters of credit [4]	588	198	112	6	904	1,353
Investment commitments	1,731	3,564	410	2,455	8,160	9,118
Other	4,104	112	36	7	4,259	5,342
Total commitments	$111,413	$18,889	$37,313	$9,725	$177,340	$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 March 2012, approximately $4.31 billion of the firm's lending commitments were held for investment. The carrying value and the estimated fair value of such lending commitments were liabilities of $14 million and $117 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 March 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 $32.83 billion and $31.94 billion as of March 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 March 2012 and December 2011. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG.

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 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 $1.47 billion and $1.62 billion as of March 2012 and December 2011, respectively, related to real estate private investments and $6.69 billion and $7.50 billion as of March 2012 and December 2011, respectively, related to corporate and other private investments. Of these amounts, $7.46 billion and $8.38 billion as of March 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 March 2012
Remainder of 2012	$ 333
2013	422
2014	387
2015	337
2016	301
2017	287
2018 - thereafter	1,093
Total	**$3,160**

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 March 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 $40 billion and $42 billion, respectively. This amount reflects paydowns and cumulative losses of approximately $85 billion ($18 billion of which are cumulative losses) as of March 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 $610 million and total paydowns and cumulative losses of $1.45 billion ($478 million of which are cumulative losses) as of March 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.

To date, repurchase claims and actual repurchases of residential mortgage loans based upon alleged breaches of representations have not been significant and have mainly involved government-sponsored enterprises. During both the three months ended March 2012 and March 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 months ended March 2012 and March 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 March 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 Freddie Mac, 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 Freddie Mac repurchase requests. 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 $5.65 billion and $5.52 billion of contract holder account balances as of March 2012 and December 2011, respectively, for such benefits. The weighted average attained age of these contract holders was 69 years for both March 2012 and December 2011.

The net amount at risk, representing guaranteed minimum death and income benefits in excess of contract holder account balances, was $1.31 billion and $1.51 billion as of March 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 March 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]	**$9,868**	**$501,166**	**$278,786**	**$64,457**	**$61,428**	**$905,837**
Securities lending indemnifications [2]	**—**	**29,002**	**—**	**—**	**—**	**29,002**
Other financial guarantees [3]	**182**	**521**	**777**	**1,220**	**1,024**	**3,542**

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 $29.84 billion as of March 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 Trust, 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 Trust.

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 also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. 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 March 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 March 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.

Group Inc. has established a program for the issuance of securities by Goldman Sachs Secured Finance Limited insured by GS Secured Guaranty Company Limited (SGCL), a wholly-owned subsidiary of Group Inc. that is a financial guaranty insurer organized under the laws of Bermuda. The funds raised by SGCL are used to enter into repurchase transactions with GS&Co. and Goldman Sachs International (GSI). Group Inc. has fully and unconditionally guaranteed the securities issued by Goldman Sachs Secured Finance Limited, as well as the obligations of GS&Co. and GSI under their respective repurchase transactions. Group Inc. has not guaranteed the obligations of SGCL. The assets and liabilities of SGCL are legally separated from other assets and liabilities of the firm. The assets of SGCL will not be available to any holder of its capital stock until the claims of creditors have been paid.

Note 19.
Shareholders' Equity

Common Equity

On April 16, 2012, the Board of Directors of Group Inc. (Board) increased the firm's quarterly dividend to $0.46 per common share from $0.35 per common share. The dividend will be paid on June 28, 2012 to common shareholders of record on May 31, 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 months ended March 2012, the firm repurchased 3.3 million shares of its common stock at an average cost per share of $111.28, for a total cost of $362 million, 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 three months ended March 2012, employees remitted 33,477 shares with a total value of $3 million and the firm cancelled 8.1 million of RSUs with a total value of $872 million.

Preferred Equity

The table below presents perpetual preferred stock issued and outstanding.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Dividend Rate	Earliest Redemption Date	Redemption Value *(in millions)*
A	50,000	30,000	29,999	3 month LIBOR + 0.75%, with floor of 3.75% per annum	April 25, 2010	$ 750
B	50,000	32,000	32,000	6.20% per annum	October 31, 2010	800
C	25,000	8,000	8,000	3 month LIBOR + 0.75%, with floor of 4.00% per annum	October 31, 2010	200
D	60,000	54,000	53,999	3 month LIBOR + 0.67%, with floor of 4.00% per annum	May 24, 2011	1,350
	185,000	124,000	123,998			$3,100

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 17,500.1 shares of Series E Preferred Stock, and 5,000.1 shares of Series F Preferred Stock, in connection with the APEX Trusts. See Note 16 for further information about the APEX Trusts.

Under the stock purchase contracts with the APEX Trusts, Group Inc. will issue $2.25 billion of preferred stock, in the aggregate, on the relevant stock purchase dates (June 1, 2012 and on or before September 1, 2013 for Series E and Series F Preferred Stock, respectively), comprised of one share of Series E and Series F Preferred Stock to Goldman Sachs Capital II and III, respectively, for each $100,000 liquidation amount of APEX issued by these trusts. When issued, each share of Series E and Series F Preferred Stock will have a par value of $0.01 and a liquidation preference of $100,000 per share.

Dividends on Series E Preferred Stock and Series F Preferred Stock, if declared, will be payable quarterly at a rate per annum equal to the greater of (i) three-month LIBOR plus 0.77% and (ii) 4.00%.

The preferred stock may be redeemed at the option of the firm on the stock purchase dates or any day thereafter, subject to approval from the Federal Reserve Board and 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.

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 March			
	2012		2011	
	per share	*in millions*	*per share*	*in millions*
Series A	**$239.58**	**$ 7**	$ 239.58	$ 7
Series B	**387.50**	**12**	387.50	12
Series C	**255.56**	**2**	255.56	2
Series D	**255.56**	**14**	255.56	14
Series G	**—**	**—**	2,500.00	125 [1]
Total		**$35**		$160

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 March 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**	**$(516)**
Other comprehensive income/(loss)	**(28)**	**7**	**30**	**9**
Balance, end of period	**$(253)**	**$(367)**	**$113 [1]**	**$(507)**

	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 income/(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 March 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 capital adequacy regulations currently applicable to bank holding companies (which are based on the 'Basel 1' Capital Accord of the Basel Committee on Banking Supervision (Basel Committee)). These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). 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 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 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	**March 2012**	December 2011
Tier 1 capital	**$ 64,534**	$ 63,262
Tier 2 capital	**$ 13,559**	$ 13,881
Total capital	**$ 78,093**	$ 77,143
Risk-weighted assets	**$437,570**	$457,027
Tier 1 capital ratio	**14.7%**	13.8%
Total capital ratio	**17.8%**	16.9%
Tier 1 leverage ratio	**7.1%**	7.0%

RWAs under the Federal Reserve Board's risk-based capital guidelines 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) models, supplemented by other measures to capture risks not reflected in VaR models. 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. As required by the Dodd-Frank Act, U.S. banking regulators have adopted a rule that requires large banking organizations, upon adoption of Basel 2, to continue to calculate risk-based capital ratios under both Basel 1 and Basel 2. For each of the Tier 1 and Total capital ratios, the lower of the Basel 1 and Basel 2 ratios calculated will be used to determine whether the bank meets its minimum risk-based capital requirements.

In December 2011, the U.S. federal bank regulatory agencies issued revised proposals to modify their market risk regulatory capital requirements for banking organizations in the United States that have significant trading activities. These modifications are designed to address the adjustments to the market risk framework that were announced by the Basel Committee in June 2010 (Basel 2.5), as well as the prohibition on the use of credit ratings, as required by the Dodd-Frank Act. Once implemented, it is likely that these changes will result in increased capital requirements for market risk.

Additionally, the guidelines issued by the Basel Committee in December 2010 (Basel 3) revise the definition of Tier 1 capital, introduce Tier 1 common equity as a regulatory metric, set new minimum capital ratios (including a new "capital conservation buffer," which must be composed exclusively of Tier 1 common equity and will be in addition to the minimum capital ratios), introduce a Tier 1 leverage ratio within international guidelines for the first time, and make substantial revisions to the computation of RWAs for credit exposures. Implementation of the new requirements is expected to take place over the next several years. The federal banking agencies have not yet proposed rules to implement the Basel 3 guidelines in the United States.

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). The firm was one of 29 institutions identified by the Financial Stability Board (established at the direction of the leaders of the Group of 20) as globally systemically important under the Basel Committee's methodology. Therefore, depending upon 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 final determination of whether an institution is classified as globally systemically important and the calculation of the required additional capital amount is expected to be disclosed by the Basel Committee no later than November 2014 based on data through the end of 2013.

The Federal Reserve Board has proposed regulations designed to strengthen the regulation and supervision of large bank holding companies and systemically important nonbank financial firms. These proposals address risk-based capital and leverage requirements, liquidity requirements, stress tests, single counterparty limits and early remediation requirements that are designed to address financial weakness at an early stage. Although many of the proposals mirror initiatives to which bank holding companies are already subject, their full impact on the firm will not be known with certainty until the rules are finalized.

The Dodd-Frank Act will subject the firm at a firmwide level to the same leverage and risk-based capital requirements that apply to depository institutions and directs banking regulators to impose additional capital requirements as disclosed above. The Federal Reserve Board is expected to adopt the new leverage and risk-based capital regulations in 2012. As a consequence of these changes, Tier 1 capital treatment for the firm's junior subordinated debt issued to trusts will be phased out over a three-year period beginning on January 1, 2013. 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 adds further uncertainty to the firm's future capital requirements and those of the firm's subsidiaries.

A number of other governmental entities and regulators, including the European Union (EU) and the U.K.'s Financial Services Authority (FSA), have also proposed or announced changes that will result in increased capital requirements for financial institutions.

As a consequence of these developments, the firm expects minimum capital ratios required to be maintained under Federal Reserve Board regulations will be increased and changes in the prescribed calculation methodology are expected to result in higher RWAs and lower capital ratios than those currently computed.

The capital and liquidity requirements of several of the firm's subsidiaries will also be impacted in the future by the various developments arising from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators.

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 and the New York State Department of Financial Services 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 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 March 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	**March 2012**	December 2011
Tier 1 capital	**$ 19,769**	$ 19,251
Tier 2 capital	**$ 12**	$ 6
Total capital	**$ 19,781**	$ 19,257
Risk-weighted assets	**$103,900**	$112,824
Tier 1 capital ratio	**19.0%**	17.1%
Total capital ratio	**19.0%**	17.1%
Tier 1 leverage ratio	**18.5%**	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. In addition, the capital requirements for GS Bank USA are expected to be impacted by changes to the Basel Committee's capital guidelines, as outlined above. Furthermore, the firm expects that GS Bank USA will be impacted by aspects of the Dodd-Frank Act, including stress test and resolution plan requirements.

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 $43.05 billion and $40.06 billion as of March 2012 and December 2011, respectively, which exceeded required reserve amounts by $42.46 billion and $39.51 billion as of March 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.

Goldman Sachs International Bank, 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 March 2012 and December 2011, Goldman Sachs International Bank 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 March 2012, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of $12.51 billion, which exceeded the amount required by $10.68 billion. As of March 2012, GSEC had regulatory net capital, as defined by Rule 15c3-1, of $2.12 billion, which exceeded the amount required by $1.98 billion.

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 March 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 March 2012 and December 2011.

Other Non-U.S. Regulated Subsidiaries

The firm's principal non-U.S. regulated subsidiaries include 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 March 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 March 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 March 2012 and December 2011, Group Inc. was required to maintain approximately $32.52 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 per common share (EPS) is calculated by dividing net earnings 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 March	
in millions, except per share amounts	**2012**	2011
Numerator for basic and diluted EPS — net earnings applicable to common shareholders	**$2,074**	$ 908
Denominator for basic EPS — weighted average number of common shares	**510.8**	540.6
Effect of dilutive securities:		
RSUs	**9.2**	12.5
Stock options and warrants	**9.2**	29.9
Dilutive potential common shares	**18.4**	42.4
Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares	**529.2**	583.0
Basic EPS	**$ 4.05**	$ 1.66
Diluted EPS	**3.92**	1.56

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 $0.01 and $0.02 for the three months ended March 2012 and March 2011, respectively.

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

	Three Months Ended March	
in millions	**2012**	2011
Number of antidilutive RSUs and common shares underlying antidilutive stock options and warrants	**52.5**	6.3

Note 22.

Transactions with Affiliated Funds

The firm has formed numerous nonconsolidated investment funds with third-party investors. The firm generally acts as the investment manager for these funds and, as such, 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 March	
in millions	**2012**	2011
Fees earned from affiliated funds	**$594**	$753

	As of	
in millions	**March 2012**	December 2011
Fees receivable from funds	**$ 649**	$ 721
Aggregate carrying value of interests in funds	**15,984**	14,960

The firm has provided voluntary financial support to certain of its funds that have experienced significant reductions in capital and liquidity or had limited access to the debt markets during the financial crisis. As of March 2012 and December 2011, the firm had exposure to these funds in the form of loans and guarantees of $291 million and $289 million, respectively, primarily related to certain real estate funds. In addition, as of March 2012 and December 2011, the firm had no outstanding commitments to extend credit to these funds.

The firm may provide additional voluntary financial support to these funds if they were to experience significant financial distress; however, such amounts are not expected to be material to the firm. 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 March	
in millions	**2012**	2011
Interest income		
Deposits with banks	**$ 38**	$ 29
Securities borrowed, securities purchased under agreements to resell and federal funds sold	**(14)**	169
Financial instruments owned, at fair value	**2,442**	2,515
Other interest [1]	**367**	394
Total interest income	**2,833**	3,107
Interest expense		
Deposits	**91**	72
Securities loaned and securities sold under agreements to repurchase	**211**	201
Financial instruments sold, but not yet purchased, at fair value	**525**	496
Short-term borrowings [2]	**168**	129
Long-term borrowings [2]	**1,009**	786
Other interest [3]	**(152)**	65
Total interest expense	**1,852**	1,749
Net interest income	**$ 981**	$1,358

1. Primarily includes interest income on customer debit balances and other interest-earning assets.

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

3. Primarily includes 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 March 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 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 revenue and expense items. 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 and total assets.

in millions		For the Three Months Ended or as of March 2012	2011
Investment Banking	Net revenues	**$ 1,154**	$ 1,269
	Operating expenses	**866**	923
	Pre-tax earnings	**$ 288**	$ 346
	Segment assets	**$ 1,743**	$ 1,775
Institutional Client Services	Net revenues [1]	**$ 5,709**	$ 6,647
	Operating expenses	**3,883**	4,584
	Pre-tax earnings	**$ 1,826**	$ 2,063
	Segment assets	**$862,695**	$840,970
Investing & Lending	Net revenues	**$ 1,911**	$ 2,705
	Operating expenses	**958**	1,231
	Pre-tax earnings	**$ 953**	$ 1,474
	Segment assets	**$ 77,328**	$ 79,996
Investment Management	Net revenues	**$ 1,175**	$ 1,273
	Operating expenses	**990**	1,067
	Pre-tax earnings	**$ 185**	$ 206
	Segment assets	**$ 9,166**	$ 10,548
Total	**Net revenues**	**$ 9,949**	$ 11,894
	Operating expenses	**6,768**	7,854
	Pre-tax earnings	**$ 3,181**	$ 4,040
	Total assets	**$950,932**	$933,289

1. Includes $29 million for both the three months ended March 2012 and March 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 $59 million and $24 million for the three months ended March 2012 and March 2011, respectively; and
- charitable contributions of $12 million and $25 million for the three months ended March 2012 and March 2011, respectively.

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 March	
in millions	**2012**	2011
Investment Banking	**$ (6)**	$ —
Institutional Client Services	**971**	1,214
Investing & Lending	**(27)**	93
Investment Management	**43**	51
Total net interest	**$981**	$1,358

	Three Months Ended March	
in millions	**2012**	2011
Investment Banking	**$ 42**	$ 51
Institutional Client Services	**166**	331
Investing & Lending	**183**	168
Investment Management	**42**	44
Total depreciation and amortization	**$433**	$ 594

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 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 (excluding Corporate) for each geographic region.

	Three Months Ended March			
$ in millions	**2012**		2011	
Net revenues				
Americas [1]	**$5,787**	**58%**	$ 6,839	58%
EMEA [2]	**2,708**	**27**	2,874	24
Asia [3]	**1,454**	**15**	2,181	18
Total net revenues	**$9,949**	**100%**	$11,894	100%
Pre-tax earnings				
Americas [1]	**$1,727**	**53%**	$ 2,273	55%
EMEA [2]	**1,062**	**33**	1,088	27
Asia [3]	**463**	**14**	728	18
Subtotal	**3,252**	**100%**	4,089	100%
Corporate [4]	**(71)**		(49)	
Total pre-tax earnings	**$3,181**		$ 4,040	

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 $59 million and $24 million for the three months ended March 2012 and March 2011, respectively; and charitable contributions of $12 million and $25 million for the three months ended March 2012 and March 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 March 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	**March 2012**	December 2011
U.S. government and federal agency obligations [1]	**$109,659**	$103,468
% of total assets	**11.5%**	11.2%
Other sovereign obligations [1, 2]	**$ 60,619**	$ 49,025
% of total assets	**6.4%**	5.3%

1. Included in "Financial instruments owned, at fair value" and "Cash and securities segregated for regulatory and other purposes."
2. Principally consisting of securities issued by the governments of Germany, Japan and the United Kingdom as of both March 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 other sovereign obligations. See Note 9 for further information about collateralized agreements and financings.

The table below presents U.S. government and federal agency obligations, and other sovereign 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	**March 2012**	December 2011
U.S. government and federal agency obligations	**$ 94,712**	$ 94,603
Other sovereign obligations [1]	**120,570**	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 March 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. As of the date hereof, the firm has estimated the aggregate amount of reasonably possible losses for such proceedings and for any other proceedings described below where management has been able to estimate a range of reasonably possible loss to be approximately $2.7 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 in recent years.

GS&Co. is among numerous underwriting firms named as defendants in a number of complaints filed commencing October 3, 2007, in the U.S. District Court for the Western District of Washington alleging violations of Section 16 of the Exchange Act in connection with offerings of securities for 15 issuers during 1999 and 2000. The complaints generally assert that the underwriters, together with each issuer's directors, officers and principal shareholders, entered into purported agreements to tie allocations in the offerings to increased brokerage commissions and aftermarket purchase orders. The complaints further allege that, based upon these and other purported agreements, the underwriters violated the reporting provisions of, and are subject to short-swing profit recovery under, Section 16 of the Exchange Act. The district court granted defendants' motions to dismiss on the grounds that the plaintiff's demands were inadequate with respect to certain actions and that the remaining actions were time-barred. On December 2, 2010, the appellate court affirmed in part and reversed in part, upholding the dismissal of seven of the actions in which GS&Co. is a defendant that were dismissed based on the deficient demands but remanding the remaining eight actions in which GS&Co. is a defendant that were dismissed as time-barred for consideration of other bases for dismissal. On June 27, 2011, the U.S. Supreme Court granted the defendants' petition for review of whether the actions that were remanded are time-barred and, on March 26, 2012, vacated the appellate court's determination that the actions were timely and remanded the actions to determine if the claims were subject to equitable tolling in further proceedings consistent with the Supreme Court's opinion.

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 January 9, 2012, the creditors moved for permission either to reargue the appellate decision or to appeal further to the New York Court of Appeals.

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, approximately €48 million, into an escrow account. 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.

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. On June 9, 2011, pursuant to a settlement, a consent order was entered by the Massachusetts Securities Division pursuant to which GS&Co. paid a $10 million civil penalty and agreed to various undertakings regarding certain of its research practices. On April 12, 2012, the SEC and FINRA issued orders in connection with GS&Co.'s settlement of charges relating to matters similar to those involved in the Massachusetts settlement. Pursuant to these settlements, GS&Co. paid $11 million to each of the SEC and FINRA and agreed to various undertakings with regard to its policies and procedures.

Adelphia Communications Fraudulent Conveyance Litigation. GS&Co. is named a defendant in two adversary 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 December 5, 2011, the parties reached a settlement in principle, subject to documentation and 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.

Beginning in September 2006, Group Inc. and/or GS&Co. were named as defendants in four Fannie Mae shareholder derivative actions in the U.S. District Court for the District of Columbia. The complaints generally allege that the Goldman Sachs defendants aided and abetted a breach of fiduciary duty by Fannie Mae's directors and officers in connection with certain Fannie Mae-sponsored REMIC transactions, and one of the complaints also asserts a breach of contract claim. The complaints also name as defendants certain former officers and directors of Fannie Mae as well as an outside accounting firm. The complaints seek, inter alia, unspecified damages. The Goldman Sachs defendants were dismissed without prejudice from the first filed of these actions, and the remaining claims in that action were dismissed for failure to make a demand on Fannie Mae's board of directors. That dismissal has been affirmed on appeal. The district court dismissed the remaining three actions on July 28, 2010. One action was dismissed without prejudice, and the other two were dismissed with prejudice on motions to dismiss by Fannie Mae. The plaintiffs filed motions for reconsideration, which were denied on October 22, 2010, and have revised their notices of appeal in these actions. On January 20, 2011, the appellate court consolidated all actions on appeal. On March 30, 2012, the appellate court affirmed the district court's substitution of Fannie Mae's conservator, FHFA, for plaintiffs, reversed the district court's denial of FHFA's motion for voluntary dismissal in two of the three actions, and remanded with instructions to dismiss those two actions without prejudice. The appellate court vacated as moot the district court's dismissal of those two actions on other grounds.

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, but that he intends to file a motion seeking attorneys' fees.

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.

Purported shareholder derivative actions were commenced in New York Supreme Court, New York County and the Delaware Court of Chancery beginning on December 14, 2009, alleging that the Board breached its fiduciary duties in connection with setting compensation levels for the year 2009 and that such levels were excessive. The complaints name as defendants Group Inc., the Board and certain senior executives. The complaints sought, *inter alia*, unspecified damages, restitution of certain compensation paid, and an order requiring the firm to adopt corporate reforms. In the actions in New York state court, on April 8, 2010, the plaintiffs filed a motion indicating that they no longer intend to pursue their claims but are seeking an award of attorneys' fees in connection with bringing the suit, which the defendants opposed. By a decision dated September 21, 2011, the New York court dismissed plaintiffs' claims as moot and denied plaintiffs' application for attorneys' fees. On October 25, 2011, plaintiffs appealed from the denial of a fee award. In the actions brought in the Delaware Court of Chancery, the defendants moved to dismiss, and the plaintiffs amended their complaint on April 28, 2010 to include, among other things, the allegations included in the SEC's action described in the "Mortgage-Related Matters" section below. The plaintiffs amended the complaint a second time on January 20, 2011, the defendants moved to dismiss the second amended complaint and, by a decision dated October 12, 2011, the Delaware court dismissed plaintiffs' second amended complaint. Plaintiffs appealed on November 9, 2011 and the Delaware Supreme Court affirmed the dismissal on May 3, 2012.

Group Inc. and certain of its affiliates are subject to a number of investigations and reviews from various governmental agencies and self-regulatory organizations regarding the firm's compensation processes. The firm is cooperating with the investigations and reviews.

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 March 8, 2011, GS&Co. filed a motion to compel arbitration and/or to dismiss the complaint. 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.

Since April 22, 2010, a number of putative shareholder derivative actions have been filed in New York Supreme Court, New York County, and 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 its affiliates in connection with mortgage-related matters between 2004 and 2007, including the ABACUS 2007-AC1 transaction and other CDO offerings. These derivative complaints generally include allegations of breach of fiduciary duty, corporate waste, abuse of control, mismanagement, unjust enrichment, misappropriation of information, securities fraud and insider trading, and challenge the accuracy and adequacy of Group Inc.'s disclosure. These derivative complaints seek, among other things, declaratory relief, unspecified compensatory damages, restitution and certain corporate governance reforms. In addition, as described in the "Compensation-Related Litigation" section above, the plaintiffs in the compensation-related Delaware Court of Chancery actions twice amended their complaint, including to assert allegations similar to those in the derivative claims referred to above, the Delaware court granted the defendants' motion to dismiss the second amended complaint, plaintiffs appealed on November 9, 2011, and the Delaware Supreme Court affirmed the dismissal on May 3, 2012.

The federal court cases have been consolidated, plaintiffs filed a consolidated amended complaint on August 1, 2011, and, on October 6, 2011, the defendants moved to dismiss the action. On December 8, 2011, the parties to the federal court action stipulated that (i) if the dismissal of the Delaware action is affirmed, the parties will submit a proposed order dismissing the federal court action with prejudice and (ii) if the Delaware action is remanded, the federal court action will be reinstated. The New York Supreme Court has consolidated the two actions pending in that court, the defendants moved to dismiss on December 2, 2011, and the cases have been stayed pending the outcome of the appeal in the Delaware action.

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 January 31, 2012, the defendants moved to dismiss.

In addition, in October 2011, the Board received a books and records demand from a shareholder 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 and loan sales to Fannie Mae and Freddie Mac.

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. The demands generally allege 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. The demands include a letter from a Group Inc. shareholder, which previously made a demand that the Board investigate and take action in connection with auction products matters, and expanded its demand to address the foregoing matters. The Board has rejected these demands. In August 2011, the shareholder made a books and records demand for materials related to the Board's rejection of the shareholder's demand letter in connection with auction products matters.

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.

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 has appealed the dismissal with respect to all of the offerings included in its original complaint. 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 defendants moved to dismiss this separate action, and the district court dismissed the action, with leave to replead. Plaintiff filed an amended complaint on October 20, 2011, and, on December 16, 2011, defendants moved to dismiss. These trusts issued, and GS&Co. underwrote, approximately $785 million principal amount of certificates to all purchasers in the offering at issue in this 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 February 16, 2012, defendants filed a petition to review that ruling with the U.S. Court of Appeals for the Second Circuit.

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.

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.

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, Asset Management Fund and related entities, Basis Yield Alpha Fund (Master), Cambridge Place Investment Management Inc., the Charles Schwab Corporation, 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), Landesbank Baden-Württemberg, Massachusetts Mutual Life Insurance Company, MoneyGram Payment Systems, Inc., the National Credit Union Administration, Stichting Pensioenfonds ABP, The Union Central Life Insurance Company, Ameritas Life Insurance Corp., Acacia Life Insurance Company, Watertown Savings Bank, and The Western and Southern Life Insurance Co.) 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), Bayerische Landesbank, Deutsche Bank National Trust Company, Deutsche Zentral-Genossenschaftbank, Erste Abwicklungsanstalt and related parties, HSH Nordbank, IKB Deutsche Industriebank AG, John Hancock and related parties, M&T Bank, Norges Bank Investment Management, Prudential Insurance Company of America and related parties, and Sealink Funding Limited) 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 $16.5 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities). This amount does not include the threatened claims noted above or potential claims by other purchasers in the same or other mortgage-related offerings that have not actually brought claims against the firm, or claims that have been dismissed (including claims by Landesbank Baden-Württemberg, which were dismissed pursuant to a judgment of the district court that was affirmed on appeal by a summary order dated April 19, 2012).

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 April 4, 2012, plaintiff filed a motion to remand 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.

On February 24, 2012, the firm received a "Wells" notice from the staff of the SEC with respect to the disclosures contained in the offering documents used in connection with a late 2006 offering of approximately $1.3 billion of subprime residential mortgage-backed securities underwritten by GS&Co. The firm has made a submission to, and intends to continue to engage in a dialogue with, the SEC staff seeking to address their concerns.

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.

Auction Products Matters. 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 definitive documentation and approval by the various states. On June 2, 2009, GS&Co. entered into an Assurance of Discontinuance with the New York State Attorney General. On March 19, 2010, GS&Co. entered into an Administrative Consent Order with the Illinois Secretary of State, Securities Department, which had conducted an investigation on behalf of states other than New York. GS&Co. has entered into similar consent orders with most 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.

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. The defendants filed a motion to dismiss certain aspects of the fourth amended complaint on October 21, 2010, and the court granted that motion on January 13, 2011. On January 21, 2011, certain defendants, including Group Inc., filed a motion 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. The court granted that motion on March 1, 2011. On July 11, 2011, the plaintiffs moved for leave to file a fifth amended complaint encompassing additional transactions and to take discovery concerning those transactions. On September 7, 2011, the district court denied the plaintiffs' motion, without prejudice, insofar as it sought leave to file a fifth amended complaint, but permitted an additional six-month phase of discovery with respect to the additional transactions.

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 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.). On July 6, 2010 and August 19, 2010, two additional investors filed motions to intervene in order to assert claims based on additional offerings (none of which were underwritten by GS&Co.). The defendants opposed the motions on the ground that the putative intervenors' claims were time-barred and, on June 21, 2011, the court denied the motions 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.

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 failed to, among other things, describe adequately the extent of MF Global's exposure to European sovereign debt, in violation of the disclosure requirements of the federal securities laws. 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 May 27, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York by several contingent technology workers who were employees of third-party vendors. The plaintiffs sought overtime pay for alleged hours worked in excess of 40 per work week. The complaint alleged that the plaintiffs were de facto employees of GS&Co. and that GS&Co. is responsible for the overtime pay under federal and state overtime laws. The complaint sought class action status and unspecified damages. On March 21, 2011, the parties agreed to the terms of a settlement in principle and on February 10, 2012, the court approved the terms of the settlement and the time to appeal has run. The firm has paid the full amount of the settlement.

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 have filed their objections to that recommendation with the district judge.

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.

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. On April 27, 2012 and April 30, 2012, the majority shareholder plaintiffs and the defendants each moved for summary judgment on various claims. 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 for purposes of discovery.

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. These proceedings are ongoing. 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.

On March 13, 2012, GSEC entered into a consent order with the CFTC to settle charges that GSEC had failed to diligently supervise the handling of accounts and investigate questionable behavior of a broker-dealer client to which GSEC provided clearing services. Under this consent order, GSEC paid $7 million to the CFTC and represented that it had implemented enhanced supervision policies, procedures and training.

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 fully cooperate 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.

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 is cooperating with the investigations arising from this referral, which are ongoing.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of
The Goldman Sachs Group, Inc.:

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of March 31, 2012, the related condensed consolidated statements of earnings for the three months ended March 31, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three months ended March 31, 2012 and 2011, the condensed consolidated statement of changes in shareholders' equity for the three months ended March 31, 2012, and the condensed consolidated statements of cash flows for the three months ended March 31, 2012 and 2011. These condensed consolidated interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2011, and the related consolidated statements of earnings, changes in shareholders' equity, cash flows and comprehensive income for the year then ended (not presented herein), and in our report dated February 28, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2011, and the condensed consolidated statement of changes in shareholders' equity for the year ended December 31, 2011, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York
May 9, 2012

Statistical Disclosures

Distribution of Assets, Liabilities and Shareholders' Equity

The table below presents a summary of consolidated average balances and interest rates.

	Three Months Ended March					
	2012			2011		
in millions, except rates	**Average balance**	**Interest**	**Average Rate** *(annualized)*	Average balance	Interest	Average Rate *(annualized)*
Assets						
Deposits with banks	**$ 48,029**	**$ 38**	**0.32%**	$ 34,094	$ 29	0.34%
U.S.	**43,939**	**29**	**0.27**	29,814	22	0.30
Non-U.S.	**4,090**	**9**	**0.89**	4,280	7	0.66
Securities borrowed, securities purchased under agreements to resell, at fair value, and federal funds sold	**348,873**	**(14)**	**(0.02)**	345,021	169	0.20
U.S.	**200,486**	**(112)**	**(0.22)**	225,247	—	—
Non-U.S.	**148,387**	**98**	**0.27**	119,774	169	0.57
Financial instruments owned, at fair value [1, 2]	**294,257**	**2,442**	**3.34**	284,548	2,515	3.58
U.S.	**181,376**	**1,590**	**3.53**	184,064	1,814	4.00
Non-U.S.	**112,881**	**852**	**3.04**	100,484	701	2.83
Other interest-earning assets [3]	**133,707**	**367**	**1.10**	137,437	394	1.16
U.S.	**87,609**	**236**	**1.08**	94,839	203	0.87
Non-U.S.	**46,098**	**131**	**1.14**	42,598	191	1.82
Total interest-earning assets	**824,866**	**2,833**	**1.38**	801,100	3,107	1.57
Cash and due from banks	**6,770**			4,134		
Other non-interest-earning assets [2]	**110,222**			112,904		
Total assets	**$941,858**			$918,138		
Liabilities						
Interest-bearing deposits	**$ 48,096**	**$ 91**	**0.76%**	$ 38,775	$ 72	0.75%
U.S.	**40,571**	**81**	**0.80**	32,652	65	0.81
Non-U.S.	**7,525**	**10**	**0.53**	6,123	7	0.46
Securities loaned and securities sold under agreements to repurchase, at fair value	**176,115**	**211**	**0.48**	169,094	201	0.48
U.S.	**121,092**	**84**	**0.28**	110,953	87	0.32
Non-U.S.	**55,023**	**127**	**0.93**	58,141	114	0.80
Financial instruments sold, but not yet purchased [1, 2]	**91,587**	**525**	**2.31**	95,388	496	2.11
U.S.	**40,292**	**162**	**1.62**	49,231	223	1.84
Non-U.S.	**51,295**	**363**	**2.85**	46,157	273	2.40
Commercial paper	**1,288**	**1**	**0.28**	1,444	1	0.18
U.S.	**261**	**—**	**0.60**	51	—	0.16
Non-U.S.	**1,027**	**1**	**0.20**	1,393	1	0.18
Other borrowings [4, 5]	**74,079**	**167**	**0.91**	69,915	128	0.74
U.S.	**49,630**	**136**	**1.10**	45,418	120	1.07
Non-U.S.	**24,449**	**31**	**0.51**	24,497	8	0.13
Long-term borrowings [5, 6]	**182,239**	**1,009**	**2.23**	185,509	786	1.72
U.S.	**175,006**	**947**	**2.18**	179,082	734	1.66
Non-U.S.	**7,233**	**62**	**3.45**	6,427	52	3.28
Other interest-bearing liabilities [7]	**204,166**	**(152)**	**(0.30)**	194,388	65	0.14
U.S.	**150,736**	**(251)**	**(0.67)**	143,293	(54)	(0.15)
Non-U.S.	**53,430**	**99**	**0.75**	51,095	119	0.94
Total interest-bearing liabilities	**777,570**	**1,852**	**0.96**	754,513	1,749	0.94
Non-interest-bearing deposits	**184**			119		
Other non-interest-bearing liabilities [2]	**93,280**			87,454		
Total liabilities	**871,034**			842,086		
Shareholders' equity						
Preferred stock	**3,100**			5,993		
Common stock	**67,724**			70,059		
Total shareholders' equity	**70,824**			76,052		
Total liabilities, preferred stock and shareholders' equity	**$941,858**			$918,138		
Interest rate spread			**0.42%**			0.63%
Net interest income and net yield on interest-earning assets		**$ 981**	**0.48**		$1,358	0.69
U.S.		**584**	**0.46**		864	0.66
Non-U.S.		**397**	**0.51**		494	0.75
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations [8]						
Assets			**37.76%**			33.35%
Liabilities			**25.72**			25.69

Statistical Disclosures

1. Consists of cash financial instruments, including equity securities and convertible debentures.
2. Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.
3. Primarily consists of cash and securities segregated for regulatory and other purposes and certain receivables from customers and counterparties.
4. Consists of short-term other secured financings and unsecured short-term borrowings, excluding commercial paper.
5. Interest rates include the effects of interest rate swaps accounted for as hedges.
6. Consists of long-term secured financings and unsecured long-term borrowings.
7. Primarily consists of certain payables to customers and counterparties.
8. Assets, liabilities and interest are attributed to U.S. and non-U.S. based on the location of the legal entity in which the assets and liabilities are held.

Ratios

The table below presents selected financial ratios.

	Three Months Ended March	
	2012	2011
Annualized net earnings to average assets	**0.9%**	1.2%
Annualized return on average common shareholders' equity [1]	**12.2**	12.2 [4]
Annualized return on average total shareholders' equity [2]	**11.9**	14.4
Total average equity to average assets	**7.5**	8.3
Dividend payout ratio [3]	**8.9**	22.4

1. Based on annualized net earnings applicable to common shareholders divided by average monthly common shareholders' equity.
2. Based on annualized net earnings divided by average monthly total shareholders' equity.
3. Dividends declared per common share as a percentage of diluted earnings per common share.
4. The $1.64 billion Series G Preferred Stock dividend was not annualized in the calculation of annualized net earnings applicable to common shareholders since it has no impact on other quarters in the year.

Cross-border Outstandings

Cross-border outstandings are based on the Federal Financial Institutions Examination Council's (FFIEC) regulatory guidelines for reporting cross-border information and represent the amounts that the firm may not be able to obtain from a foreign country due to country-specific events, including unfavorable economic and political conditions, economic and social instability, and changes in government policies.

Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments the firm holds and is measured based on the potential loss in an event of non-payment by a counterparty. Credit exposure is reduced through the effect of risk mitigants, such as netting agreements with counterparties that permit the firm to offset receivables and payables with such counterparties or obtaining collateral from counterparties. The tables below do not include all the effects of such risk mitigants and do not represent the firm's credit exposure.

Claims in the tables below include cash, receivables, securities purchased under agreements to resell, securities borrowed and cash financial instruments, but exclude derivative instruments and commitments. Securities purchased under agreements to resell and securities borrowed are presented gross, without reduction for related securities collateral held, based on the domicile of the counterparty. Margin loans (included in receivables) are presented based on the amount of collateral advanced by the counterparty.

The tables below present cross-border outstandings for each country in which cross-border outstandings exceed 0.75% of consolidated assets in accordance with the FFIEC guidelines.

	As of March 2012			
in millions	**Banks**	**Governments**	**Other**	**Total**
Country				
France	**$37,858** [1]	**$ 3,461**	**$ 4,134**	**$45,453**
Germany	**7,075**	**18,639**	**14,184**	**39,898**
Cayman Islands	**4**	**—**	**31,857**	**31,861**
Japan	**14,264**	**2**	**11,658**	**25,924**
China	**7,232**	**964**	**3,162**	**11,358**
United Kingdom	**2,428**	**2,581**	**5,788**	**10,797**
Italy	**623**	**8,220** [2]	**1,135**	**9,978**
Switzerland	**3,353**	**44**	**6,486**	**9,883**
Canada	**480**	**1,410**	**6,639**	**8,529**

	As of December 2011			
in millions	Banks	Governments	Other	Total
Country				
France	$33,916 [1]	$ 2,859	$ 3,776	$40,551
Cayman Islands	—	—	33,742	33,742
Japan	18,745	31	6,457	25,233
Germany	5,458	16,089	3,162	24,709
United Kingdom	2,111	3,349	5,243	10,703
Italy	6,143	3,054	841	10,038 [4]
Ireland	1,148	63	8,801 [3]	10,012
China	6,722	38	2,908	9,668
Switzerland	3,836	40	5,112	8,988
Canada	676	1,019	6,841	8,536
Australia	1,597	470	5,209	7,276

1. Primarily comprised of secured lending transactions with a clearing house which are secured by collateral.
2. Primarily comprised of short-term Italian government obligations.
3. Primarily comprised of interests in and receivables from funds domiciled in Ireland, but whose underlying investments are primarily located outside of Ireland, and secured lending transactions which are secured by U.S. government obligations.
4. Primarily comprised of secured lending transactions which are primarily secured by German government obligations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INDEX

Introduction

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

We report our activities in four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management. See "Results of Operations" below for further information about our business segments.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011. References to "our Annual Report on Form 10-K" are to our Annual Report on Form 10-K for the year ended December 31, 2011.

When we use the terms "Goldman Sachs," "the firm," "we," "us" and "our," we mean Group Inc., a Delaware corporation, and its consolidated subsidiaries.

References to "this Form 10-Q" are to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012. All references to March 2012 and March 2011 refer to our periods ended, or the dates, as the context requires, March 31, 2012 and March 31, 2011, respectively. All references to December 2011 refer to the date December 31, 2011. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Executive Overview

The firm generated net earnings of $2.11 billion for the first quarter of 2012, compared with $2.74 billion for the first quarter of 2011. Our diluted earnings per common share were $3.92 for the first quarter of 2012, compared with $1.56 [1] for the first quarter of 2011. Annualized return on average common shareholders' equity (ROE) [2] was 12.2% for the first quarter of 2012, compared with 12.2% [1] for the first quarter of 2011.

Book value per common share was $134.48 and tangible book value per common share [3] was $123.94 as of March 2012, both approximately 3% higher compared with the end of 2011. Our Tier 1 capital ratio under Basel 1 was 14.7% and our Tier 1 common ratio under Basel 1 [4] was 12.9% as of March 2012, up from 13.8% and 12.1%, respectively, as of the end of 2011. In April 2012, the Board of Directors of Group, Inc. (Board) increased the firm's quarterly dividend to $0.46 per common share from $0.35 per common share.

The firm generated net revenues of $9.95 billion for the first quarter of 2012, compared with $11.89 billion for the first quarter of 2011. These results reflected lower net revenues in each of our business segments compared with the first quarter of 2011. An overview of net revenues for each of our business segments is provided below.

1. Excluding the impact of the preferred dividend of $1.64 billion related to the redemption of our Series G Preferred Stock (calculated as the difference between the carrying value and the redemption value of the preferred stock), diluted earnings per common share were $4.38 and annualized ROE was 14.5% for the first quarter of 2011. We believe that presenting our results for the first quarter of 2011 excluding this dividend is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and ROE excluding this dividend are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. See "Results of Operations — Financial Overview" below for further information about our calculation of diluted earnings per common share and ROE excluding the impact of this dividend.

2. See "Results of Operations — Financial Overview" below for further information about our calculation of ROE.

3. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. See "Equity Capital — Other Capital Metrics" below for further information about our calculation of tangible book value per common share.

4. Tier 1 common ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. See "Equity Capital — Consolidated Regulatory Capital Ratios" below for further information about our Tier 1 common ratio.

Investment Banking

Net revenues in Investment Banking decreased compared with the first quarter of 2011 as significantly higher net revenues in Financial Advisory were more than offset by significantly lower net revenues in our Underwriting business. Net revenues in equity underwriting were significantly lower than the first quarter of 2011, primarily reflecting a decline in industry-wide activity. Net revenues in debt underwriting were lower compared with a strong first quarter of 2011, primarily reflecting a decline in leveraged finance activity.

Institutional Client Services

Net revenues in Institutional Client Services decreased compared with the first quarter of 2011. The decrease primarily reflected significantly lower net revenues in Fixed Income, Currency and Commodities Client Execution compared with a solid first quarter of 2011, as higher net revenues in interest rate products were more than offset by lower net revenues in the other major businesses. During the first quarter of 2012, Fixed Income, Currency and Commodities Client Execution operated in an environment generally characterized by tighter credit spreads and improved activity levels compared with the fourth quarter of 2011.

Net revenues in Equities decreased slightly compared with the first quarter of 2011, as higher net revenues in equities client execution, reflecting an increase in derivatives, were more than offset by lower commissions and fees, consistent with lower market volumes. Securities services net revenues were essentially unchanged compared with the first quarter of 2011. During the first quarter of 2012, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels compared with the fourth quarter of 2011.

Investing & Lending

Net revenues in Investing & Lending were $1.91 billion for the first quarter of 2012, compared with $2.71 billion for the first quarter of 2011. During the first quarter of 2012, an increase in global equity prices and tighter credit spreads contributed to positive results in Investing & Lending. These results included a gain of $169 million from our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC), net gains of $891 million from other investments in equities (with public and private equities each contributing approximately one-half of the net gains), net gains and net interest of $585 million from debt securities and loans, and other net revenues of $266 million, principally related to our consolidated entities held for investment purposes.

Investment Management

Net revenues in Investment Management decreased compared with the first quarter of 2011, primarily due to lower management and other fees and lower transaction revenues. During the quarter, assets under management decreased $4 billion to $824 billion, reflecting net outflows of $26 billion, including net outflows in money market assets and, to a lesser extent, equity and alternative investment assets. This decrease was partially offset by net market appreciation of $22 billion, primarily in equity and fixed income assets.

Our business, by its nature, does not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and other factors. For a further discussion of the factors that may affect our future operating results, see "Certain Risk Factors That May Affect Our Businesses" below, as well as "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K.

Business Environment

Global

Global economic conditions improved gradually during the first quarter of 2012 as real gross domestic product (GDP) appeared to increase in the United States and Japan, as well as China and other emerging markets. However, real GDP in Europe appeared to decline due to continued concerns about European sovereign debt risk. Although macroeconomic challenges persist, positive developments during the first quarter of 2012, including actions undertaken by the European Central Bank and other central banks to address funding risks for European financial institutions, as well as progress in resolving Greece's debt situation, helped to improve global market conditions. Encouraging U.S. economic data also contributed to the improved market sentiment. In response to these events, credit markets improved, global equity markets increased and volatility levels declined during the quarter. The price of crude oil increased, but showed signs of stabilization by the end of the quarter. The U.S. dollar depreciated against the Euro and the British pound, but appreciated against the Japanese yen. Industry-wide debt offerings and equity and equity-related offerings both increased during the quarter, while announced and completed mergers and acquisitions volumes declined.

United States

In the United States, real GDP increased during the quarter, although at a modestly slower pace than in the fourth quarter of 2011. The growth of fixed investment slowed during the quarter and government spending fell, while consumer spending and residential construction growth increased. Measures of business and consumer confidence improved. Unemployment levels declined during the quarter, although the rate of unemployment remained elevated. Measures of inflation remained subdued during the quarter. Housing market activity improved but continued to be impacted by uncertainty about economic growth. The U.S. Federal Reserve maintained its federal funds rate at a target range of zero to 0.25% and continued to extend the duration of the U.S. Treasury debt it holds. The 10-year U.S. Treasury note yield ended the quarter at 2.23%, 34 basis points higher than the end of 2011. In equity markets, the NASDAQ Composite Index, the S&P 500 Index, and the Dow Jones Industrial Average increased by 19%, 12% and 8%, respectively, during the quarter.

Europe

In the Euro area, real GDP appeared to decline during the quarter, broadly in line with the decline during the fourth quarter of 2011. Despite these contractions, measures of business confidence improved. Measures of core inflation declined during the first quarter. The European Central Bank maintained its main refinancing operations rate at 1.00% and continued injecting liquidity in the Eurosystem through its longer-term refinancing operations (LTROs) which were announced at the end of 2011. The Euro appreciated by 3% against the U.S. dollar. In the United Kingdom, real GDP also declined during the quarter, for the second consecutive quarter. The Bank of England maintained its official bank rate at 0.50% and the British pound appreciated by 3% against the U.S. dollar. Long-term government bond yields generally declined in most Euro area economies, although yields increased in the U.K. The DAX Index, CAC 40 Index, the Euro Stoxx 50 Index, and the FTSE 100 Index increased by 18%, 8%, 7% and 4%, respectively, during the quarter.

Asia

In Japan, real GDP appeared to increase during the quarter, following a decline in the fourth quarter of 2011. Growth appeared to be supported by improved exports and an increase in industrial production and business confidence. During the quarter, the Bank of Japan left its target overnight call rate unchanged at a range of zero to 0.10% and expanded its asset purchase program. In addition, the Bank of Japan introduced a price stability goal in the medium to long term, currently set at an inflation level of 1%. The yield on 10-year Japanese government bonds was essentially unchanged compared with the end of 2011. The Japanese yen depreciated by 8% against the U.S. dollar and the Nikkei 225 index ended the quarter 19% higher. In China, real GDP growth moderated compared with the fourth quarter of 2011, reflecting a slowdown in the pace of growth in industrial production. Measures of inflation continued to decline during the quarter. The People's Bank of China reduced the reserve requirement ratio by 50 basis points during the quarter. The Chinese yuan slightly appreciated against the U.S. dollar and the Shanghai Composite Index increased by 3% during the quarter. In addition, equity markets in Hong Kong and South Korea increased significantly during the quarter. In India, economic growth appeared to remain solid during the quarter. The rate of wholesale inflation declined significantly during the quarter. The Indian rupee appreciated against the U.S. dollar and equity markets in India increased significantly.

Critical Accounting Policies

Fair Value

Fair Value Hierarchy. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value (i.e., inventory), as well as certain other financial assets and financial liabilities, are reflected in our condensed consolidated statements of financial condition at fair value (i.e., marked-to-market), with related gains or losses generally recognized in our condensed consolidated statements of earnings. The use of fair value to measure financial instruments is fundamental to our risk management practices and is our most critical accounting policy.

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the hierarchy under U.S. generally accepted accounting principles (U.S. GAAP) gives (i) the highest priority to unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities (level 1 inputs), (ii) the next priority to inputs other than level 1 inputs that are observable, either directly or indirectly (level 2 inputs), and (iii) the lowest priority to inputs that cannot be observed in market activity (level 3 inputs). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

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

Instruments categorized within level 3 of the fair value hierarchy, which represent approximately 5% of the firm's total assets, require one or more significant inputs that are not observable. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. Estimating the fair value of level 3 financial instruments requires judgments to be made. These judgments include:

- determining the appropriate valuation methodology and/or model for each type of level 3 financial instrument;
- determining model inputs based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations; and
- determining appropriate valuation adjustments related to illiquidity or counterparty credit quality.

Regardless of the methodology, valuation inputs and assumptions are only changed when corroborated by substantive evidence.

Controls Over Valuation of Financial Instruments. Market makers and investment professionals in our revenue-producing units are responsible for pricing our financial instruments. Our control infrastructure is independent of the revenue-producing units and is fundamental to ensuring that all of our financial instruments are appropriately valued at market-clearing levels. In the event that there is a difference of opinion in situations where estimating the fair value of financial instruments requires judgment (e.g., calibration to market comparables or trade comparison, as described below), the final valuation decision is made by senior managers in control and support functions that are independent of the revenue-producing units (independent control and support functions). This independent price verification is critical to ensuring that our financial instruments are properly valued.

Price Verification. The objective of price verification is to have an informed and independent opinion with regard to the valuation of financial instruments under review. Instruments that have one or more significant inputs which cannot be corroborated by external market data are classified within level 3 of the fair value hierarchy. Price verification strategies utilized by our independent control and support functions include:

- **Trade Comparison.** Analysis of trade data (both internal and external where available) is used to determine the most relevant pricing inputs and valuations.
- **External Price Comparison.** Valuations and prices are compared to pricing data obtained from third parties (e.g., broker or dealers, MarkIt, Bloomberg, IDC, TRACE). Data obtained from various sources is compared to ensure consistency and validity. When broker or dealer quotations or third-party pricing vendors are used for valuation or price verification, greater priority is generally given to executable quotations.
- **Calibration to Market Comparables.** Market-based transactions are used to corroborate the valuation of positions with similar characteristics, risks and components.
- **Relative Value Analyses.** Market-based transactions are analyzed to determine the similarity, measured in terms of risk, liquidity and return, of one instrument relative to another or, for a given instrument, of one maturity relative to another.
- **Collateral Analyses.** Margin disputes on derivatives are examined and investigated to determine the impact, if any, on our valuations.
- **Execution of Trades.** Where appropriate, trading desks are instructed to execute trades in order to provide evidence of market-clearing levels.
- **Backtesting.** Valuations are corroborated by comparison to values realized upon sales.

See Notes 5 through 8 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about fair value measurements.

Review of Net Revenues. Independent control and support functions ensure adherence to our pricing policy through a combination of daily procedures, including the explanation and attribution of net revenues based on the underlying factors. Through this process we independently validate net revenues, identify and resolve potential fair value or trade booking issues on a timely basis and ensure that risks are being properly categorized and quantified.

Review of Valuation Models. Quantitative professionals within our Market Risk Management department (Market Risk Management) perform an independent model approval process. This process incorporates a review of a diverse set of model and trade parameters across a broad range of values (including extreme and/or improbable conditions) in order to critically evaluate:

- the model's suitability for valuation and risk management of a particular instrument type;
- the model's accuracy in reflecting the characteristics of the related product and its significant risks;
- the suitability and properties of the numerical algorithms incorporated in the model;
- the model's consistency with models for similar products; and
- the model's sensitivity to input parameters and assumptions.

New or changed models are reviewed and approved. Models are evaluated and re-approved annually to assess the impact of any changes in the product or market and any market developments in pricing theories.

Level 3 Financial Assets at Fair Value. The table below presents financial assets measured at fair value and the amount of such assets that are classified within level 3 of the fair value hierarchy.

Total level 3 financial assets were $48.02 billion and $47.94 billion as of March 2012 and December 2011, respectively.

See Notes 5 through 8 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about changes in level 3 financial assets and fair value measurements.

	As of March 2012		As of December 2011	
in millions	**Total at Fair Value**	**Level 3 Total**	Total at Fair Value	Level 3 Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$ 10,553**	**$ 8**	$ 13,440	$ —
U.S. government and federal agency obligations	**90,488**	**—**	87,040	—
Non-U.S. government obligations	**60,812**	**105**	49,205	148
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	**6,724**	**3,156**	6,699	3,346
Loans and securities backed by residential real estate	**8,815**	**1,610**	7,592	1,709
Bank loans and bridge loans	**18,988**	**11,051**	19,745	11,285
Corporate debt securities	**24,370**	**2,512**	22,131	2,480
State and municipal obligations	**3,407**	**612**	3,089	599
Other debt obligations	**4,702**	**1,549**	4,362	1,451
Equities and convertible debentures	**75,927**	**14,874**	65,113	13,667
Commodities	**9,462**	**—**	5,762	—
Total cash instruments	**314,248**	**35,477**	284,178	34,685
Derivatives	**71,258**	**11,151**	80,028	11,900
Financial instruments owned, at fair value	**385,506**	**46,628**	364,206	46,585
Securities segregated for regulatory and other purposes	**33,679**	**—**	42,014	—
Securities purchased under agreements to resell	**181,050**	**956**	187,789	557
Securities borrowed	**57,062**	**—**	47,621	—
Receivables from customers and counterparties	**8,328**	**431**	9,682	795
Total	**$665,625**	**$48,015**	$651,312	$47,937

Goodwill and Identifiable Intangible Assets

Goodwill. Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. Goodwill is assessed annually for impairment, or more frequently if events occur or circumstances change that indicate an impairment may exist, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative assessment are not conclusive, a quantitative goodwill impairment test is performed by comparing the estimated fair value of each reporting unit with its estimated net book value. We derive the fair value based on valuation techniques we believe market participants would use (i.e., observable price-to-earnings multiples and price-to-book multiples). We derive the net book value by estimating the amount of shareholders' equity required to support the activities of each reporting unit. Estimating the fair value of our reporting units requires management to make judgments. Critical inputs include (i) projected earnings, (ii) estimated long-term growth rates and (iii) cost of equity.

During the second half of 2011, consistent with the decline in stock prices in the broader financial services sector, our stock price declined and throughout most of this period, our market capitalization was below book value. Accordingly, we performed a quantitative impairment test during the fourth quarter of 2011 and determined that goodwill was not impaired. The estimated fair value of our reporting units in which we hold substantially all of our goodwill significantly exceeded the estimated carrying values. We believe that it is appropriate to consider market capitalization, among other factors, as an indicator of fair value over a reasonable period of time.

Although economic market conditions have generally improved during the first quarter of 2012, if there is a prolonged period of weakness in the business environment and financial markets, our earnings may be adversely affected, which could result in an impairment of goodwill in the future. In addition, significant changes to other critical inputs of the goodwill impairment test (e.g., cost of equity) could cause the estimated fair value of our reporting units to decline, which could result in an impairment of goodwill in the future.

See Note 13 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for the carrying value of our goodwill.

Identifiable Intangible Assets. We amortize our identifiable intangible assets (i) over their estimated lives, (ii) based on economic usage or (iii) in proportion to estimated gross profits or premium revenues. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable.

An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. See Note 13 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for the carrying value and estimated remaining lives of our identifiable intangible assets by major asset class and impairments of our identifiable intangible assets.

A prolonged period of market weakness could adversely impact our businesses and impair the value of our identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including (i) decreases in revenues from commodity-related customer contracts and relationships, (ii) decreases in cash receipts from television broadcast royalties, (iii) an adverse action or assessment by a regulator or (iv) adverse actual experience on the contracts in our variable annuity and life insurance business. Management judgment is required to evaluate whether indications of potential impairment have occurred, and to test intangibles for impairment if required.

Use of Estimates

The use of generally accepted accounting principles requires management to make certain estimates and assumptions. In addition to the estimates we make in connection with fair value measurements, the accounting for goodwill and identifiable intangible assets, and discretionary compensation accruals, the use of estimates and assumptions is also important in determining provisions for losses that may arise from litigation, regulatory proceedings and tax audits.

A substantial portion of our compensation and benefits represents discretionary compensation, which is finalized at year-end. We believe the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the net revenues earned in such periods. In addition to the level of net revenues, our overall compensation expense in any given year is also influenced by, among other factors, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment. See "Results of Operations — Financial Overview — Operating Expenses" below for information regarding our ratio of compensation and benefits to net revenues.

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be reasonably estimated. In accounting for income taxes, we estimate and provide for potential liabilities that may arise out of tax audits to the extent that uncertain tax positions fail to meet the recognition standard under FASB Accounting Standards Codification 740. See Note 24 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about accounting for income taxes.

Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total estimated liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. See Notes 18 and 27 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information on certain judicial, regulatory and legal proceedings.

Results of Operations

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. See "Certain Risk Factors That May Affect Our Businesses" below and "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for a further discussion of the impact of economic and market conditions on our results of operations.

Financial Overview

The table below presents an overview of our financial results.

	Three Months Ended March	
$ in millions, except per share amounts	**2012**	2011
Net revenues	**$9,949**	$11,894
Pre-tax earnings	**3,181**	4,040
Net earnings	**2,109**	2,735
Net earnings applicable to common shareholders	**2,074**	908
Diluted earnings per common share	**3.92**	1.56 [2]
Annualized return on average common shareholders' equity [1]	**12.2%**	12.2% [2]

1. Annualized ROE is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders' equity. The impact of the $1.64 billion Series G Preferred Stock dividend in the first quarter of 2011 was not annualized in the calculation of annualized net earnings applicable to common shareholders for the three months ended March 2011 as this amount had no impact on other quarters in the year. The table below presents our average common shareholders' equity.

	Average for the Three Months Ended March	
in millions	**2012**	2011
Total shareholders' equity	**$70,824**	$76,052
Preferred stock	**(3,100)**	(5,993)
Common shareholders' equity	**$67,724**	$70,059

2. Excluding the impact of the preferred dividend of $1.64 billion related to the redemption of our Series G Preferred Stock (calculated as the difference between the carrying value and the redemption value of the preferred stock), diluted earnings per common share were $4.38 and annualized ROE was 14.5% for the first quarter of 2011. We believe that presenting our results for the first quarter of 2011 excluding this dividend is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and ROE excluding this dividend are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. The tables below present the calculation of net earnings applicable to common shareholders, diluted earnings per common share and average common shareholders' equity excluding the impact of this dividend.

in millions, except per share amount	Three Months Ended March 2011
Net earnings applicable to common shareholders	$ 908
Impact of the Series G Preferred Stock dividend	1,643
Net earnings applicable to common shareholders, excluding the impact of the Series G Preferred Stock dividend	2,551
Divided by: average diluted common shares outstanding	583.0
Diluted earnings per common share, excluding the impact of the Series G Preferred Stock dividend	$ 4.38

in millions	Average for the Three Months Ended March 2011
Total shareholders' equity	$76,052
Preferred stock	(5,993)
Common shareholders' equity	70,059
Impact of the Series G Preferred Stock dividend	411
Common shareholders' equity, excluding the impact of the Series G Preferred Stock dividend	$70,470

Net Revenues

Three Months Ended March 2012 versus March 2011. Net revenues on the condensed consolidated statements of earnings were $9.95 billion for the first quarter of 2012, 16% lower than the first quarter of 2011, reflecting lower net revenues in each of our business segments compared with the first quarter of 2011.

Non-interest Revenues

Investment banking

During the first quarter of 2012, investment banking revenues reflected an operating environment generally characterized by continued macroeconomic concerns that weighed on certain corporate activity, despite positive developments during the quarter. Although global equity markets increased and volatility levels declined, industry-wide equity and equity-related underwriting activity levels remained low. However, industry-wide debt underwriting activity significantly improved compared with the second half of 2011, as credit spreads tightened and interest rates remained low. If macroeconomic concerns continue and result in lower levels of client activity, investment banking revenues would likely continue to be negatively impacted.

Three Months Ended March 2012 versus March 2011. Investment banking revenues on the condensed consolidated statements of earnings were $1.16 billion for the first quarter of 2012, 9% lower than the first quarter of 2011, as significantly higher revenues from financial advisory were more than offset by significantly lower revenues in our underwriting business. Revenues in equity underwriting were significantly lower than the first quarter of 2011, primarily reflecting a decline in industry-wide activity. Revenues in debt underwriting were lower compared with a strong first quarter of 2011, primarily reflecting a decline in leveraged finance activity.

Investment management

During the first quarter of 2012, investment management revenues reflected an operating environment generally characterized by improved asset prices, resulting in appreciation in the value of client assets and a shift in investor assets away from money markets, consistent with industry trends. If asset prices decline or investors change their mix of assets to favor lower risk asset classes or continue to withdraw their assets, investment management revenues would likely be negatively impacted.

Three Months Ended March 2012 versus March 2011. Investment management revenues on the condensed consolidated statements of earnings were $1.11 billion for the first quarter of 2012, 6% lower than the first quarter of 2011, primarily due to lower management and other fees.

Commissions and fees

During the first quarter of 2012, commissions and fees reflected an operating environment generally characterized by an increase in global equity prices and lower volatility levels compared with the second half of 2011. Although there were positive developments during the quarter, macroeconomic concerns persist, which contributed to lower market volumes. If macroeconomic concerns continue and result in lower market volumes, commissions and fees would likely continue to be negatively impacted.

Three Months Ended March 2012 versus March 2011. Commissions and fees on the condensed consolidated statements of earnings were $860 million for the first quarter of 2012, 16% lower than the first quarter of 2011, consistent with lower market volumes.

Market making

During the first quarter of 2012, market-making revenues reflected an operating environment characterized by a general improvement in market conditions. Positive developments during the quarter helped to improve market conditions, including actions undertaken by the European Central Bank and other central banks to address funding risks for European financial institutions, as well as progress in resolving Greece's debt situation. Encouraging U.S. economic data also contributed to the improved market sentiment. These events resulted in tighter credit spreads, improved market liquidity and higher activity levels in certain products, compared with the fourth quarter of 2011. In addition, global equity prices increased and volatility levels decreased. Despite improvements in the operating environment, client sentiment remains fragile as macroeconomic concerns persist, including European sovereign debt risk, uncertainty surrounding the economic prospects in the U.S. and the potential slowdown in the growth of emerging market economies. In addition, other broad market concerns, such as uncertainty over financial regulatory reform persist. If these concerns continue over the long term, market-making revenues would likely continue to be negatively impacted.

Three Months Ended March 2012 versus March 2011. Market-making revenues on the condensed consolidated statements of earnings were $3.91 billion for the first quarter of 2012, 12% lower than the first quarter of 2011, as higher revenues in interest rate products and equity derivatives were more than offset by lower revenues in most of our other major market-making activities.

Other principal transactions

During the first quarter of 2012, other principal transactions results reflected an operating environment characterized by an increase in global equity markets and tighter credit spreads. Although these conditions contributed to positive revenues in other principal transactions, macroeconomic concerns persist, particularly regarding the state of global economies, including European sovereign debt risk and uncertainty surrounding the economic prospects in the U.S. In addition, other broad market concerns, such as uncertainty over financial regulatory reform persist. If equity markets decline and credit spreads widen, other principal transactions revenues would likely be negatively impacted.

Three Months Ended March 2012 versus March 2011. Other principal transactions revenues on the condensed consolidated statements of earnings were $1.94 billion for the first quarter of 2012, compared with $2.61 billion for the first quarter of 2011. Results for the first quarter of 2012 included a gain from our investment in the ordinary shares of ICBC, net gains from other investments in equities (with public and private equities each contributing approximately one-half of the net gains), net gains from debt securities and loans, and revenues related to our consolidated entities held for investment purposes. In the first quarter of 2011, revenues in other principal transactions included a gain from our investment in the ordinary shares of ICBC, net gains from other investments in equities, net gains from debt securities and loans, and revenues related to our consolidated entities held for investment purposes.

Net Interest Income

Three Months Ended March 2012 versus March 2011. Net interest income on the condensed consolidated statements of earnings was $981 million for the first quarter of 2012, 28% lower than the first quarter of 2011. The decrease compared with the first quarter of 2011 was primarily due to higher interest expense related to our long-term borrowings and lower average yields on financial instruments owned, at fair value.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. Compensation and benefits includes salaries, estimated year-end discretionary compensation, amortization of equity awards and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment.

In the context of more difficult economic and financial conditions, the firm launched an initiative during the second quarter of 2011 to identify areas where we can operate more efficiently and reduce our operating expenses. We have largely implemented our targeted annual run rate compensation and non-compensation reduction of approximately $1.4 billion and continue to identify savings opportunities.

The table below presents our operating expenses and total staff.

	Three Months Ended March	
$ in millions	**2012**	2011
Compensation and benefits	**$ 4,378**	$ 5,233
Brokerage, clearing, exchange and distribution fees	**567**	620
Market development	**117**	179
Communications and technology	**196**	198
Depreciation and amortization	**433**	590
Occupancy	**212**	267
Professional fees	**234**	233
Insurance reserves [1]	**157**	88
Other expenses	**474**	446
Total non-compensation expenses	**2,390**	2,621
Total operating expenses	**$ 6,768**	$ 7,854
Total staff at period-end [2]	**32,400**	35,400

1. Revenues related to our insurance activities are included in "Market making" on the condensed consolidated statements of earnings.

2. Includes employees, consultants and temporary staff.

Three Months Ended March 2012 versus March 2011. Operating expenses were $6.77 billion for the first quarter of 2012, 14% lower than the first quarter of 2011. The accrual for compensation and benefits expenses was $4.38 billion for the first quarter of 2012, a 16% decline compared with the first quarter of 2011. The ratio of compensation and benefits to net revenues for the first quarter of 2012 was 44.0%, consistent with the first quarter of 2011. Total staff decreased 3% during the first quarter of 2012.

Non-compensation expenses were $2.39 billion, 9% lower than the first quarter of 2011. The decrease compared with the first quarter of 2011 reflected lower impairment charges, lower market development expenses, principally reflecting the impact of expense reduction initiatives, lower occupancy expenses and lower brokerage, clearing, exchange and distribution fees. These decreases were partially offset by increased reserves related to the firm's insurance business. The first quarter of 2012 included impairment charges related to consolidated investments of $116 million and net provisions for litigation and regulatory proceedings of $59 million.

Provision for Taxes

The effective income tax rate for the first quarter of 2012 was 33.7%, up from 28.0% for 2011. The increase in the effective income tax rate was primarily due to the earnings mix and a decrease in the impact of permanent benefits.

Effective January 1, 2012, the rules related to the deferral of U.S. tax on certain non-repatriated active financing income expired. This change did not have a material effect on our financial condition, results of operations or cash flows for the three months ended March 2012 and we do not expect this change to have a material effect on our financial condition, results of operations or cash flows for the remainder of 2012. This change may have a material impact on our effective tax rate for 2013 if the expired provisions are not re-enacted.

Segment Operating Results

The table below presents the net revenues, operating expenses and pre-tax earnings of our segments.

		Three Months Ended March	
in millions		**2012**	2011
Investment Banking	Net revenues	**$1,154**	$ 1,269
	Operating expenses	**866**	923
	Pre-tax earnings	**$ 288**	$ 346
Institutional Client Services	Net revenues	**$5,709**	$ 6,647
	Operating expenses	**3,883**	4,584
	Pre-tax earnings	**$1,826**	$ 2,063
Investing & Lending	Net revenues	**$1,911**	$ 2,705
	Operating expenses	**958**	1,231
	Pre-tax earnings	**$ 953**	$ 1,474
Investment Management	Net revenues	**$1,175**	$ 1,273
	Operating expenses	**990**	1,067
	Pre-tax earnings	**$ 185**	$ 206
Total	**Net revenues**	**$9,949**	$11,894
	Operating expenses	**6,768**	7,854
	Pre-tax earnings	**$3,181**	$ 4,040

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

- net provisions for a number of litigation and regulatory proceedings of $59 million and $24 million for the three months ended March 2012 and March 2011, respectively; and
- charitable contributions of $12 million and $25 million for the three months ended March 2012 and March 2011, respectively.

Net revenues in our segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. See Note 25 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our business segments.

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

Investment Banking

Our Investment Banking segment is comprised of:

Financial Advisory. Includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings and spin-offs, and derivative transactions directly related to these client advisory assignments.

Underwriting. Includes public offerings and private placements of a wide range of securities, loans and other financial instruments, and derivative transactions directly related to these client underwriting activities.

The table below presents the operating results of our Investment Banking segment.

	Three Months Ended March	
in millions	**2012**	2011
Financial Advisory	**$ 489**	$ 357
Equity underwriting	**255**	426
Debt underwriting	**410**	486
Total Underwriting	**665**	912
Total net revenues	**1,154**	1,269
Operating expenses	**866**	923
Pre-tax earnings	**$ 288**	$ 346

The table below presents our financial advisory and underwriting transaction volumes.[1]

	Three Months Ended March	
in billions	**2012**	2011
Announced mergers and acquisitions	**$117**	$170
Completed mergers and acquisitions	**79**	165
Equity and equity-related offerings [2]	**14**	26
Debt offerings [3]	**72**	72

1. Source: Thomson Reuters. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or a change in the value of a transaction.
2. Includes Rule 144A and public common stock offerings, convertible offerings and rights offerings.
3. Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues. Excludes leveraged loans.

Three Months Ended March 2012 versus March 2011. Net revenues in Investment Banking were $1.15 billion, 9% lower than the first quarter of 2011.

Net revenues in Financial Advisory were $489 million, 37% higher than the first quarter of 2011. Net revenues in our Underwriting business were $665 million, 27% lower than the first quarter of 2011. Net revenues in equity underwriting were significantly lower than the first quarter of 2011, primarily reflecting a decline in industry-wide activity. Net revenues in debt underwriting were lower compared with a strong first quarter of 2011, primarily reflecting a decline in leveraged finance activity.

During the first quarter of 2012, Investment Banking operated in an environment generally characterized by continued macroeconomic concerns that weighed on certain corporate activity, despite positive developments during the quarter. Although global equity markets increased and volatility levels declined, industry-wide equity and equity-related underwriting activity levels remained low. However, industry-wide debt underwriting activity significantly improved compared with the second half of 2011, as credit spreads tightened and interest rates remained low. If macroeconomic concerns continue and result in lower levels of client activity, net revenues in Investment Banking would likely continue to be negatively impacted.

Our investment banking transaction backlog was essentially unchanged compared with the end of 2011, reflecting higher estimated net revenues from potential underwriting transactions, offset by lower estimated net revenues from potential advisory transactions. Estimated net revenues from potential debt underwriting transactions were higher compared with the end of 2011, primarily reflecting an increase in client mandates to underwrite leveraged finance transactions. Estimated net revenues from potential equity underwriting transactions were also higher compared with the end of 2011, reflecting an increase in client mandates to underwrite initial public offerings.

Our investment banking transaction backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not. We believe changes in our investment banking transaction backlog may be a useful indicator of client activity levels which, over the long term, impact our net revenues. However, the timeframe for completion and corresponding revenue recognition of transactions in our backlog varies based on the nature of the assignment, as certain transactions may remain in our backlog for longer periods of time and others may enter and leave within the same reporting period. In addition, our transaction backlog is subject to certain limitations, such as assumptions about the likelihood that individual client transactions will occur in the future. Transactions may be cancelled or modified, and transactions not included in the estimate may also occur.

Operating expenses were $866 million for the first quarter of 2012, 6% lower than the first quarter of 2011, primarily due to decreased compensation and benefits expenses. Pre-tax earnings were $288 million in the first quarter of 2012, 17% lower than the first quarter of 2011.

Institutional Client Services

Our Institutional Client Services segment is comprised of:

Fixed Income, Currency and Commodities Client Execution. Includes client execution activities related to making markets in interest rate products, credit products, mortgages, currencies and commodities.

We generate market-making revenues in these activities, in three ways:

- In large, highly liquid markets (such as markets for U.S. Treasury bills, large capitalization S&P 500 stocks or certain mortgage pass-through certificates), we execute a high volume of transactions for our clients for modest spreads and fees.
- In less liquid markets (such as mid-cap corporate bonds, growth market currencies and certain non-agency mortgage-backed securities), we execute transactions for our clients for spreads and fees that are generally somewhat larger.
- We also structure and execute transactions involving customized or tailor-made products that address our clients' risk exposures, investment objectives or other complex needs (such as a jet fuel hedge for an airline).

Given the focus on the mortgage market, our mortgage activities are further described below.

Our activities in mortgages include commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives (including U.S. government agency-issued collateralized mortgage obligations, other prime, subprime and Alt-A securities and loans), and other asset-backed securities, loans and derivatives.

We buy, hold and sell long and short mortgage positions, primarily for market making for our clients. Our inventory therefore changes based on client demands and is generally held for short-term periods.

See Notes 18 and 27 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information about exposure to mortgage repurchase requests, mortgage rescissions and mortgage-related litigation.

Equities. Includes client execution activities related to making markets in equity products, as well as commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide. Equities also includes our securities services business, which provides financing, securities lending and other prime brokerage services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and generates revenues primarily in the form of interest rate spreads or fees, and revenues related to our insurance activities.

The table below presents the operating results of our Institutional Client Services segment.

	Three Months Ended March	
in millions	**2012**	2011
Fixed Income, Currency and Commodities Client Execution	**$3,458**	$4,325
Equities client execution	**1,050**	979
Commissions and fees	**834**	971
Securities services	**367**	372
Total Equities	**2,251**	2,322
Total net revenues	**5,709**	6,647
Operating expenses	**3,883**	4,584
Pre-tax earnings	**$1,826**	$2,063

Three Months Ended March 2012 versus March 2011. Net revenues in Institutional Client Services were $5.71 billion, 14% lower than the first quarter of 2011.

Net revenues in Fixed Income, Currency and Commodities Client Execution were $3.46 billion, 20% lower than a solid first quarter of 2011, as higher net revenues in interest rate products were more than offset by lower net revenues in the other major businesses. During the first quarter of 2012, Fixed Income, Currency and Commodities Client Execution operated in an environment generally characterized by tighter credit spreads and improved activity levels compared with the fourth quarter of 2011.

Net revenues in Equities were $2.25 billion, 3% lower than the first quarter of 2011, as higher net revenues in equities client execution, reflecting an increase in derivatives, were more than offset by lower commissions and fees, consistent with lower market volumes. Securities services net revenues were essentially unchanged compared with the first quarter of 2011. During the first quarter of 2012, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels compared with the fourth quarter of 2011.

The net loss attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was $224 million for the first quarter of 2012, compared with a net gain of $41 million for the first quarter of 2011.

During the first quarter of 2012, Institutional Client Services operated in an environment characterized by a general improvement in market conditions. Positive developments during the quarter helped to improve market conditions, including actions undertaken by the European Central Bank and other central banks to address funding risks for European financial institutions, as well as progress in resolving Greece's debt situation. Encouraging U.S. economic data also contributed to the improved market sentiment. These events resulted in tighter credit spreads, improved market liquidity and higher activity levels in certain businesses, compared with the fourth quarter of 2011. In addition, global equity prices increased and volatility levels decreased. Despite improvements in the operating environment, client sentiment remains fragile as macroeconomic concerns persist, including European sovereign debt risk, uncertainty surrounding the economic prospects in the U.S. and the potential slowdown in the growth of emerging market economies. In addition, other broad market concerns, such as uncertainty over financial regulatory reform persist. If these concerns continue over the long term, net revenues in Fixed Income, Currency and Commodities Client Execution and Equities would likely continue to be negatively impacted.

Operating expenses were $3.88 billion for the first quarter of 2012, 15% lower than the first quarter of 2011, primarily due to decreased compensation and benefits expenses and the impact of impairment charges related to Litton Loan Servicing LP during the first quarter of 2011. These decreases were partially offset by increased reserves related to our insurance business. Pre-tax earnings were $1.83 billion in the first quarter of 2012, 11% lower than the first quarter of 2011.

Investing & Lending

Investing & Lending includes our investing activities and the origination of loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds that we manage, in debt securities, loans, public and private equity securities, real estate, consolidated investment entities and power generation facilities.

The table below presents the operating results of our Investing & Lending segment.

	Three Months Ended March	
in millions	**2012**	2011
ICBC	**$ 169**	$ 316
Equity securities (excluding ICBC)	**891**	1,054
Debt securities and loans	**585**	1,024
Other [1]	**266**	311
Total net revenues	**1,911**	2,705
Operating expenses	**958**	1,231
Pre-tax earnings	**$ 953**	$1,474

1. Primarily includes net revenues related to our consolidated entities held for investment purposes.

Three Months Ended March 2012 versus March 2011. Net revenues in Investing & Lending were $1.91 billion for the first quarter of 2012, compared with $2.71 billion for the first quarter of 2011. During the first quarter of 2012, an increase in global equity prices and tighter credit spreads contributed to positive results in Investing & Lending. These results included a gain of $169 million from our investment in the ordinary shares of ICBC, net gains of $891 million from other investments in equities (with public and private equities each contributing approximately one-half of the net gains), net gains and net interest of $585 million from debt securities and loans, and other net revenues of $266 million, principally related to our consolidated entities held for investment purposes.

Results for the first quarter of 2011 included a gain of $316 million from our investment in the ordinary shares of ICBC, net gains of $1.05 billion from other investments in equities, net gains and net interest of $1.02 billion from debt securities and loans, and other net revenues of $311 million, principally related to our consolidated entities held for investment purposes. These results generally reflected an increase in global equity prices and favorable credit markets during the first quarter of 2011.

Operating expenses were $958 million for the first quarter of 2012, 22% lower than the first quarter of 2011, primarily due to decreased compensation and benefits expenses, partially offset by higher impairment charges related to our consolidated investments. Pre-tax earnings were $953 million in the first quarter of 2012, 35% lower than the first quarter of 2011.

Investment Management

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

Assets under management typically generate fees as a percentage of net asset value, which vary by asset class and are affected by investment performance as well as asset inflows and redemptions. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund's return or when the return exceeds a specified benchmark or other performance targets. Incentive fees are recognized when all material contingencies are resolved.

The table below presents the operating results of our Investment Management segment.

	Three Months Ended March	
in millions	**2012**	2011
Management and other fees	**$1,003**	$1,048
Incentive fees	**58**	74
Transaction revenues	**114**	151
Total net revenues	**1,175**	1,273
Operating expenses	**990**	1,067
Pre-tax earnings	**$ 185**	$ 206

Assets under management include client assets where we earn a fee for managing assets on a discretionary basis. This includes net assets in our mutual funds, hedge funds and private equity funds (including real estate funds), and separately managed accounts for institutional and individual investors. Assets under management do not include the self-directed assets of our clients, including brokerage accounts, or interest-bearing deposits held through our bank depository institution subsidiaries.

The tables below present our assets under management by asset class and a summary of the changes in our assets under management.

	As of			
	March 31,		December 31,	
in billions	**2012**	2011	2011	2010
Alternative investments [1]	**$139**	$151	$142	$148
Equity	**136**	150	126	144
Fixed income	**347**	338	340	340
Total non-money market assets	**622**	639	608	632
Money markets	**202**	201	220	208
Total assets under management	**$824**	$840	$828	$840

1. Primarily includes hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies.

	Three Months Ended March 31,	
in billions	**2012**	2011
Balance, beginning of period	**$828**	$840
Net inflows/(outflows)		
Alternative investments	**(4)**	—
Equity	**(5)**	—
Fixed income	**1**	(5)
Total non-money market net inflows/(outflows)	**(8)**	(5)
Money markets	**(18)**	(7)
Total net inflows/(outflows)	**(26)**	(12)
Net market appreciation/(depreciation)	**22**	12
Balance, end of period	**$824**	$840

Three Months Ended March 2012 versus March 2011. Net revenues in Investment Management were $1.18 billion, 8% lower than the first quarter of 2011. The decrease in net revenues compared with the first quarter of 2011 was primarily due to lower management and other fees and lower transaction revenues. During the quarter, assets under management decreased $4 billion to $824 billion, reflecting net outflows of $26 billion, including net outflows in money market assets and, to a lesser extent, equity and alternative investment assets. This decrease was partially offset by net market appreciation of $22 billion, primarily in equity and fixed income assets.

During the first quarter of 2012, Investment Management operated in an environment generally characterized by improved asset prices, resulting in appreciation in the value of client assets and a shift in investor assets away from money markets, consistent with industry trends. If asset prices decline or investors change their mix of assets to favor lower risk asset classes or continue to withdraw their assets, net revenues in Investment Management would likely be negatively impacted.

Operating expenses were $990 million for the first quarter of 2012, 7% lower than the first quarter of 2011, primarily due to decreased compensation and benefits expenses. Pre-tax earnings were $185 million in the first quarter of 2012, 10% lower than the first quarter of 2011.

Geographic Data

See Note 25 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for a summary of our total net revenues and pre-tax earnings by geographic region.

Regulatory Developments

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted in July 2010, significantly altered the financial regulatory regime within which we operate. The implications of the Dodd-Frank Act for our businesses will depend to a large extent on the rules that will be adopted by the Board of Governors of the Federal Reserve System (Federal Reserve Board), the Federal Deposit Insurance Corporation (FDIC), the SEC, the U.S. Commodity Futures Trading Commission (CFTC) and other agencies to implement the legislation, as well as the development of market practices and structures under the regime established by the legislation and the implementing rules. Similar reforms are being considered by other regulators and policy makers worldwide and these reforms may affect our businesses. We expect that the principal areas of impact from regulatory reform for us will be:

- the Dodd-Frank prohibition on "proprietary trading" and the limitation on the sponsorship of, and investment in, hedge funds and private equity funds by banking entities, including bank holding companies, referred to as the "Volcker Rule";
- increased regulation of and restrictions on over-the-counter (OTC) derivatives markets and transactions; and
- increased regulatory capital requirements.

In October 2011, the proposed rules to implement the Volcker Rule were issued and included an extensive request for comments on the proposal. The proposed rules are highly complex and many aspects of the Volcker Rule remain unclear. The full impact of the rule will depend upon the detailed scope of the prohibitions, permitted activities, exceptions and exclusions, and the full impact on the firm will not be known with certainty until the rules are finalized.

While many aspects of the Volcker Rule remain unclear, we evaluated the prohibition on "proprietary trading" and determined that businesses that engage in "bright line" proprietary trading are most likely to be prohibited. In 2011 and 2010, we liquidated substantially all of our Principal Strategies and global macro proprietary trading positions.

In addition, we evaluated the limitations on sponsorship of, and investments in, hedge funds and private equity funds. The firm earns management fees and incentive fees for investment management services from private equity and hedge funds, which are included in our Investment Management segment. The firm also makes investments in funds and the gains and losses from such investments are included in our Investing & Lending segment; these gains and losses will be impacted by the Volcker Rule. The Volcker Rule limitation on investments in hedge funds and private equity funds requires the firm to reduce its investment in each private equity and hedge fund to 3% or less of net asset value, and to reduce the firm's aggregate investment in all such funds to 3% or less of the firm's Tier 1 capital. Over the period from 1999 through the first quarter of 2012, the firm's aggregate net revenues from its investments in hedge funds and private equity funds were not material to the firm's aggregate total net revenues over the same period. We continue to manage our existing private equity funds taking into account the transition periods under the Volcker Rule. With respect to our hedge funds, we currently plan to comply with the Volcker Rule by redeeming certain of our interests in the funds. We currently expect to redeem up to approximately 10% of certain hedge funds' total redeemable units per quarter over ten consecutive quarters, beginning March 2012 and ending June 2014. We redeemed approximately $250 million of these interests in hedge funds during the quarter ended March 2012. In addition, we have limited the firm's initial investment to 3% for certain new funds.

As required by the Dodd-Frank Act, the Federal Reserve Board and FDIC have jointly issued a rule requiring each bank holding company with over $50 billion in assets and each designated systemically important financial institution to provide to regulators an annual plan for its rapid and orderly resolution in the event of material financial distress or failure (resolution plan). Our resolution plan must, among other things, ensure that Goldman Sachs Bank USA (GS Bank USA) is adequately protected from risks arising from our other entities. The regulators' joint rule sets specific standards for the resolution plans, including requiring a detailed resolution strategy and analyses of the company's material entities, organizational structure, interconnections and interdependencies, and management information systems, among other elements. We have commenced work on our first resolution plan, which we must submit to the regulators by July 1, 2012. GS Bank USA is also required by the FDIC to submit a plan for its rapid and orderly resolution in the event of material financial distress or failure by July 1, 2012.

In September 2011, the SEC proposed rules to implement the Dodd-Frank Act's prohibition against securitization participants' engaging in any transaction that would involve or result in any material conflict of interest with an investor in a securitization transaction. The proposed rules would except bona fide market-making activities and risk-mitigating hedging activities in connection with securitization activities from the general prohibition.

In December 2011, the Federal Reserve Board proposed regulations designed to strengthen the regulation and supervision of large bank holding companies and systemically important nonbank financial firms. These proposals address risk-based capital and leverage requirements, liquidity requirements, stress tests, single counterparty limits and early remediation requirements that are designed to address financial weakness at an early stage. Although many of the proposals mirror initiatives to which bank holding companies are already subject, their full impact on the firm will not be known with certainty until the rules are finalized.

In addition, the U.S. federal bank regulatory agencies issued revised proposals to modify their market risk regulatory capital requirements for banking organizations in the United States that have significant trading activities. The modifications are designed to address the adjustments to the market risk framework that were announced by the Basel Committee in June 2010 (Basel 2.5), as well as the prohibition on the use of credit ratings, as required by the Dodd-Frank Act. We expect the federal banking agencies to propose further modifications to their capital adequacy regulations to address both the guidelines issued by the Basel Committee in December 2010 (Basel 3) and other aspects of the Dodd-Frank Act, including requirements for global systemically important banks. Once implemented, it is likely that these changes will result in increased capital requirements, although their full impact will not be known until the U.S. federal bank regulatory agencies publish their final rules.

The Dodd-Frank Act also establishes a Bureau of Consumer Financial Protection having broad authority to regulate providers of credit, payment and other consumer financial products and services, and this Bureau has oversight over certain of our products and services.

See "Business — Regulation" in Part I, Item 1 of our Annual Report on Form 10-K for more information.

Balance Sheet and Funding Sources

Balance Sheet Management

One of our most important risk management disciplines is our ability to manage the size and composition of our balance sheet. While our asset base changes due to client activity, market fluctuations and business opportunities, the size and composition of our balance sheet reflect (i) our overall risk tolerance, (ii) our ability to access stable funding sources and (iii) the amount of equity capital we hold.

Although our balance sheet fluctuates on a day-to-day basis, our total assets and adjusted assets at quarterly and year-end dates are generally not materially different from those occurring within our reporting periods.

In order to ensure appropriate risk management, we seek to maintain a liquid balance sheet and have processes in place to dynamically manage our assets and liabilities which include:

- quarterly planning;
- business-specific limits;
- monitoring of key metrics; and
- scenario analyses.

Quarterly Planning. We prepare a quarterly balance sheet plan that combines our projected total assets and composition of assets with our expected funding sources and capital levels for the upcoming quarter. The objectives of this quarterly planning process are:

- to develop our near-term balance sheet projections, taking into account the general state of the financial markets and expected client-driven and firm-driven activity levels;
- to ensure that our projected assets are supported by an adequate amount and tenor of funding and that our projected capital and liquidity metrics are within management guidelines; and
- to allow business risk managers and managers from our independent control and support functions to objectively evaluate balance sheet limit requests from business managers in the context of the firm's overall balance sheet constraints. These constraints include the firm's liability profile and equity capital levels, maturities and plans for new debt and equity issuances, share repurchases, deposit trends and secured funding transactions.

To prepare our quarterly balance sheet plan, business risk managers and managers from our independent control and support functions meet with business managers to review current and prior period metrics and discuss expectations for the upcoming quarter. The specific metrics reviewed include asset and liability size and composition, aged inventory, limit utilization, risk and performance measures, and capital usage.

Our consolidated quarterly plan, including our balance sheet plans by business, funding and capital projections, and projected capital and liquidity metrics, is reviewed by the Finance Committee. See "Overview and Structure of Risk Management."

Business-Specific Limits. The Finance Committee sets asset and liability limits for each business and aged inventory limits for certain financial instruments as a disincentive to hold inventory over longer periods of time. These limits are set at levels which are close to actual operating levels in order to ensure prompt escalation and discussion among business managers and managers in our independent control and support functions on a routine basis. The Finance Committee reviews and approves balance sheet limits on a quarterly basis and may also approve changes in limits on an ad hoc basis in response to changing business needs or market conditions.

Monitoring of Key Metrics. We monitor key balance sheet metrics daily both by business and on a consolidated basis, including asset and liability size and composition, aged inventory, limit utilization, risk measures and capital usage. We allocate assets to businesses and review and analyze movements resulting from new business activity as well as market fluctuations.

Scenario Analyses. We conduct scenario analyses to determine how we would manage the size and composition of our balance sheet and maintain appropriate funding, liquidity and capital positions in a variety of situations:

- These scenarios cover short-term and long-term time horizons using various macro-economic and firm-specific assumptions. We use these analyses to assist us in developing longer-term funding plans, including the level of unsecured debt issuances, the size of our secured funding program and the amount and composition of our equity capital. We also consider any potential future constraints, such as limits on our ability to grow our asset base in the absence of appropriate funding.
- Through our Internal Capital Adequacy Assessment Process (ICAAP) and our resolution and recovery planning, we further analyze how we would manage our balance sheet and risks through the duration of a severe crisis and we develop plans to access funding, generate liquidity, and/or redeploy equity capital, as appropriate.

Balance Sheet Allocation

In addition to preparing our condensed consolidated statements of financial condition in accordance with U.S. GAAP, we prepare a balance sheet that generally allocates assets to our businesses, which is a non-GAAP presentation and may not be comparable to similar non-GAAP presentations used by other companies. We believe that presenting our assets on this basis is meaningful because it is consistent with the way management views and manages risks associated with the firm's assets and better enables investors to assess the liquidity of the firm's assets. The table below presents a summary of this balance sheet allocation.

	As of	
in millions	**March 2012**	December 2011
Excess liquidity (Global Core Excess)	**$170,851**	$171,581
Other cash	**8,196**	7,888
Excess liquidity and cash	**179,047**	179,469
Secured client financing	**261,952**	283,707
Inventory	**297,297**	273,640
Secured financing agreements	**96,286**	71,103
Receivables	**36,478**	35,769
Institutional Client Services	**430,061**	380,512
ICBC	**5,126**	4,713
Equity (excluding ICBC)	**23,890**	23,041
Debt	**22,261**	23,311
Receivables and other	**5,645**	5,320
Investing & Lending	**56,922**	56,385
Total inventory and related assets	**486,983**	436,897
Other assets	**22,950**	23,152
Total assets	**$950,932**	$923,225

The following is a description of the captions in the table above.

Excess Liquidity and Cash. We maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in the event of a stressed environment. See "Liquidity Risk Management" below for details on the composition and sizing of our excess liquidity pool or "Global Core Excess" (GCE). In addition to our excess liquidity, we maintain other operating cash balances, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.

Secured Client Financing. We provide collateralized financing for client positions, including margin loans secured by client collateral, securities borrowed, and resale agreements primarily collateralized by government obligations. As a result of client activities, we are required to segregate cash and securities to satisfy regulatory requirements. Our secured client financing arrangements, which are generally short-term, are accounted for at fair value or at amounts that approximate fair value, and include daily margin requirements to mitigate counterparty credit risk.

Institutional Client Services. In Institutional Client Services, we maintain inventory positions to facilitate market-making in fixed income, equity, currency and commodity products. Additionally, as part of client market-making activities, we enter into resale or securities borrowing arrangements to obtain securities which we can use to cover transactions in which we or our clients have sold securities that have not yet been purchased. The receivables in Institutional Client Services primarily relate to securities transactions.

Investing & Lending. In Investing & Lending, we make investments and originate loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds that we manage, in debt securities, loans, public and private equity securities, real estate and other investments.

Other Assets. Other assets are generally less liquid, non-financial assets, including property, leasehold improvements and equipment, goodwill and identifiable intangible assets, income tax-related receivables, equity-method investments and miscellaneous receivables.

The tables below present the reconciliation of this balance sheet allocation to our U.S. GAAP balance sheet. In the tables below, total assets for Institutional Client Services and Investing & Lending represent the inventory and related assets. These amounts differ from total assets by business segment disclosed in Note 25 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q because total assets disclosed in Note 25 include allocations of our excess liquidity and cash, secured client financing and other assets.

	As of March 2012					
in millions	Excess Liquidity and Cash [1]	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	Total Assets
Cash and cash equivalents	**$ 57,138**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 57,138**
Cash and securities segregated for regulatory and other purposes	**—**	**53,099**	**—**	**—**	**—**	**53,099**
Securities purchased under agreements to resell and federal funds sold	**56,996**	**80,440**	**43,327**	**287**	**—**	**181,050**
Securities borrowed	**28,975**	**87,158**	**52,959**	**—**	**—**	**169,092**
Receivables from brokers, dealers and clearing organizations	**—**	**4,067**	**12,598**	**221**	**—**	**16,886**
Receivables from customers and counterparties	**—**	**37,188**	**23,880**	**4,143**	**—**	**65,211**
Financial instruments owned, at fair value	**35,938**	**—**	**297,297**	**52,271**	**—**	**385,506**
Other assets	**—**	**—**	**—**	**—**	**22,950**	**22,950**
Total assets	**$179,047**	**$261,952**	**$430,061**	**$56,922**	**$22,950**	**$950,932**

	As of December 2011					
in millions	Excess Liquidity and Cash [1]	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	Total Assets
Cash and cash equivalents	$ 56,008	$ —	$ —	$ —	$ —	$ 56,008
Cash and securities segregated for regulatory and other purposes	—	64,264	—	—	—	64,264
Securities purchased under agreements to resell and federal funds sold	70,220	98,445	18,671	453	—	187,789
Securities borrowed	14,919	85,990	52,432	—	—	153,341
Receivables from brokers, dealers and clearing organizations	—	3,252	10,612	340	—	14,204
Receivables from customers and counterparties	—	31,756	25,157	3,348	—	60,261
Financial instruments owned, at fair value	38,322	—	273,640	52,244	—	364,206
Other assets	—	—	—	—	23,152	23,152
Total assets	$179,469	$283,707	$380,512	$56,385	$23,152	$923,225

1. Includes unencumbered cash, U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), and German, French, Japanese and United Kingdom government obligations.

Less Liquid Inventory Composition

We seek to maintain a liquid balance sheet comprised of assets that can be readily sold or funded on a secured basis. However, we do hold certain financial instruments that may be more difficult to sell, or fund on a secured basis, especially during times of market stress. We focus on funding these assets with liabilities that have longer-term contractual maturities to reduce the need to refinance in periods of market stress. The table below presents our aggregate holdings in these categories of financial instruments.

	As of	
in millions	**March 2012**	December 2011
Bank loans and bridge loans [1]	**$18,988**	$19,745
Private equity investments and restricted public equity securities [2]	**16,529**	15,463
Mortgage and other asset-backed loans and securities	**15,539**	14,291
High-yield and other debt obligations	**13,276**	11,118
ICBC ordinary shares [3]	**5,126**	4,713
Emerging market debt securities	**5,629**	4,624
Emerging market equity securities	**4,843**	3,922
Other investments in funds [4]	**3,396**	3,394

1. Includes funded commitments and inventory held in connection with our origination, investing and market-making activities.
2. Includes interests in funds that we manage. Such amounts exclude assets for which the firm does not bear economic exposure of $2.32 billion and $2.38 billion as of March 2012 and December 2011, respectively, including assets related to consolidated investment funds and consolidated variable interest entities (VIEs).
3. Includes interests of $2.82 billion and $2.60 billion as of March 2012 and December 2011, respectively, held by investment funds managed by Goldman Sachs. As of the date of this filing, these investment funds no longer have an interest in the ordinary shares of ICBC.
4. Includes interests in other investment funds that we manage. We redeemed approximately $250 million of these interests in hedge funds during the quarter ended March 2012. See "Results of Operations — Regulatory Developments" for more information about our plans to redeem certain of our interests in hedge funds to comply with the Volcker Rule.

See Notes 4 through 6 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about the financial instruments we hold.

Balance Sheet Analysis and Metrics

As of March 2012, total assets on our condensed consolidated statements of financial condition were $950.93 billion, an increase of $27.71 billion from December 2011. This increase was due to (i) an increase in financial instruments owned, at fair value of $21.30 billion, primarily due to increases in non-U.S. government obligations and equities and convertible debentures, partially offset by a decrease in derivatives and (ii) an increase in securities borrowed of $15.75 billion, primarily due to increases in client and firm activity. These increases were partially offset by decreases in cash and securities segregated of $11.17 billion, primarily due to decreases in reserve balances held by broker-dealer subsidiaries related to client activity.

As of March 2012, total liabilities on our condensed consolidated statements of financial condition were $879.28 billion, an increase of $26.43 billion from December 2011. This increase was due to (i) an increase in payables to customers and counterparties of $12.00 billion, primarily due to increases in client activity, (ii) an increase in securities sold under agreements to repurchase, at fair value of $8.59 billion, due to client activity, and (iii) an increase in financial instruments sold, but not yet purchased, at fair value of $6.24 billion, primarily due to increases in U.S. and non-U.S. government and federal agency obligations, partially offset by decreases in derivatives.

As of March 2012 and December 2011, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were $173.09 billion and $164.50 billion, respectively, which were 3% higher and 7% higher, respectively, than the daily average amount of repurchase agreements over the respective quarters. As of March 2012, the increase in our repurchase agreements relative to the daily average during the quarter was due to client activity at the end of the quarter. The level of our repurchase agreements fluctuates between and within periods, primarily due to providing clients with access to highly liquid collateral, such as U.S. government and federal agency, and investment-grade sovereign obligations through collateralized financing activities.

The table below presents information on our assets, unsecured long-term borrowings, shareholders' equity and leverage ratios.

$ in millions	As of March 2012	December 2011
Total assets	**$950,932**	$923,225
Adjusted assets	**$647,592**	$604,391
Unsecured long-term borrowings	**$171,592**	$173,545
Total shareholders' equity	**$ 71,656**	$ 70,379
Leverage ratio	**13.3x**	13.1x
Adjusted leverage ratio	**9.0x**	8.6x
Debt to equity ratio	**2.4x**	2.5x

Adjusted assets. Adjusted assets equals total assets less (i) low-risk collateralized assets generally associated with our secured client financing transactions, federal funds sold and excess liquidity (which includes financial instruments sold, but not yet purchased, at fair value, less derivative liabilities) and (ii) cash and securities we segregate for regulatory and other purposes. Adjusted assets is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

The table below presents the reconciliation of total assets to adjusted assets.

in millions		As of March 2012	December 2011
Total assets		**$ 950,932**	$ 923,225
Deduct:	Securities borrowed	**(169,092)**	(153,341)
	Securities purchased under agreements to resell and federal funds sold	**(181,050)**	(187,789)
Add:	Financial instruments sold, but not yet purchased, at fair value	**151,251**	145,013
	Less derivative liabilities	**(51,350)**	(58,453)
	Subtotal	**(250,241)**	(254,570)
Deduct:	Cash and securities segregated for regulatory and other purposes	**(53,099)**	(64,264)
Adjusted assets		**$ 647,592**	$ 604,391

Leverage ratio. The leverage ratio equals total assets divided by total shareholders' equity and measures the proportion of equity and debt the firm is using to finance assets. This ratio is different from the Tier 1 leverage ratio included in "Equity Capital — Consolidated Regulatory Capital Ratios" below, and further described in Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Adjusted leverage ratio. The adjusted leverage ratio equals adjusted assets divided by total shareholders' equity. We believe that the adjusted leverage ratio is a more meaningful measure of our capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital. The adjusted leverage ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Our adjusted leverage ratio increased to 9.0x as of March 2012 from 8.6x as of December 2011 as our adjusted assets increased.

Debt to equity ratio. The debt to equity ratio equals unsecured long-term borrowings divided by total shareholders' equity.

Funding Sources

Our primary sources of funding are secured financings, unsecured long-term and short-term borrowings, and deposits. We seek to maintain broad and diversified funding sources globally.

We raise funding through a number of different products, including:

- collateralized financings, such as repurchase agreements, securities loaned and other secured financings;
- long-term unsecured debt (including structured notes) through syndicated U.S. registered offerings, U.S. registered and 144A medium-term note programs, offshore medium-term note offerings and other debt offerings;
- demand and savings deposits through cash sweep programs and time deposits through internal and third-party broker networks; and
- short-term unsecured debt through U.S. and non-U.S. commercial paper and promissory note issuances and other methods.

We generally distribute our funding products through our own sales force to a large, diverse creditor base in a variety of markets in the Americas, Europe and Asia. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies, mutual funds and individuals. We have imposed various internal guidelines to monitor creditor concentration across our funding programs.

Secured Funding. We fund a significant amount of our inventory on a secured basis. Secured funding is less sensitive to changes in our credit quality than unsecured funding due to the nature of the collateral we post to our lenders. However, because the terms or availability of secured funding, particularly short-dated funding, can deteriorate rapidly in a difficult environment, we generally do not rely on short-dated secured funding unless it is collateralized with highly liquid securities such as government obligations.

Substantially all of our other secured funding is executed for tenors of one month or greater. Additionally, we monitor counterparty concentration and hold a portion of our GCE for refinancing risk associated with our secured funding transactions. We seek longer terms for secured funding collateralized by lower-quality assets because these funding transactions may pose greater refinancing risk.

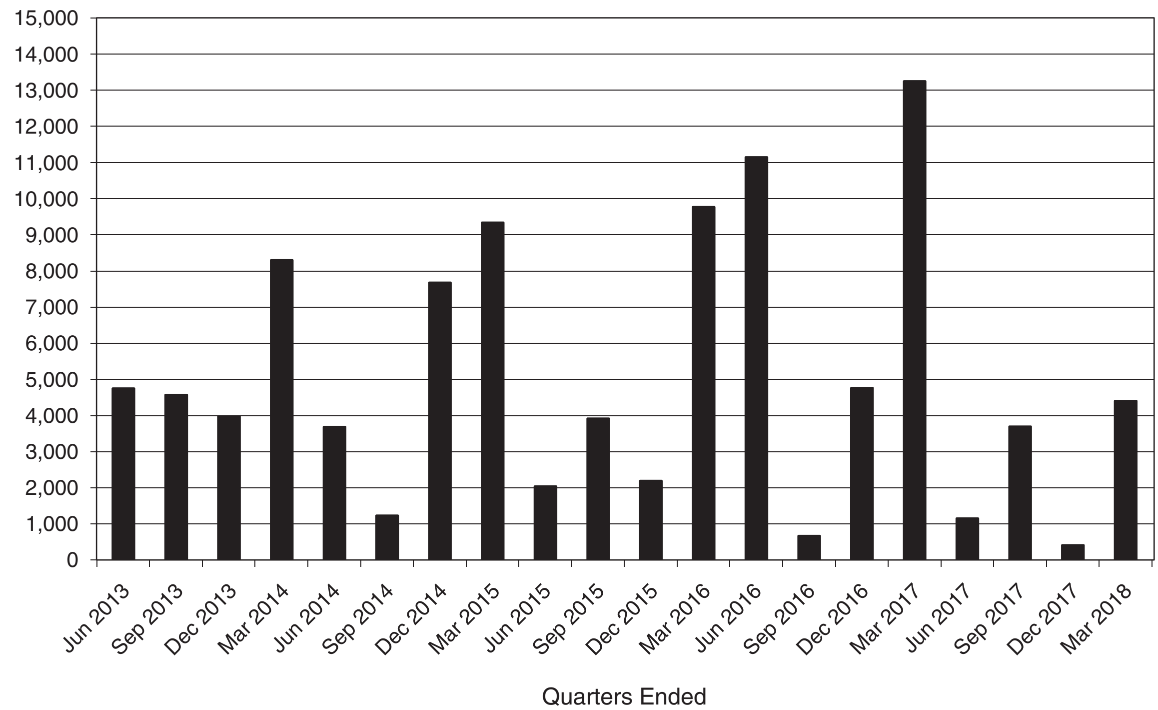
The weighted average maturity of our secured funding, excluding funding collateralized by highly liquid securities eligible for inclusion in our GCE, exceeded 100 days as of March 2012.

A majority of our secured funding for securities not eligible for inclusion in the GCE is executed through term repurchase agreements and securities lending contracts. We also raise financing through other types of collateralized financings, such as secured loans and notes.

GS Bank USA has access to funding through the Federal Reserve Bank discount window. While we do not rely on this funding in our liquidity planning and stress testing, we maintain policies and procedures necessary to access this funding and test discount window borrowing procedures.

Unsecured Long-Term Borrowings. We issue unsecured long-term borrowings as a source of funding for inventory and other assets and to finance a portion of our GCE. We issue in different tenors, currencies, and products to maximize the diversification of our investor base. The table below presents our quarterly unsecured long-term borrowings maturity profile through the first quarter of 2018 as of March 2012.

Unsecured Long-Term Borrowings Maturity Profile
$ in millions



The weighted average maturity of our unsecured long-term borrowings as of March 2012 was approximately eight years. To mitigate refinancing risk, we seek to limit the principal amount of debt maturing on any one day or during any week or year. We enter into interest rate swaps to convert a substantial portion of our long-term borrowings into floating-rate obligations in order to manage our exposure to interest rates. See Note 16 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our unsecured long-term borrowings.

Temporary Liquidity Guarantee Program (TLGP). As of March 2012, we had $5.51 billion of senior unsecured short-term debt outstanding guaranteed by the FDIC under the TLGP, all of which will mature on or prior to June 15, 2012. We have not issued long-term debt under the TLGP since March 2009 and the program has expired for new issuances.

Deposits. As of March 2012, our bank depository institution subsidiaries had $50.87 billion in customer deposits, including $17.48 billion of certificates of deposit and other time deposits with a weighted average maturity of three years, and $33.39 billion of other deposits, substantially all of which were from cash sweep programs. We utilize deposits to finance lending activities in our bank subsidiaries and to support potential outflows, such as draws on unfunded commitments.

Unsecured Short-Term Borrowings. A significant portion of our short-term borrowings were originally long-term debt that is scheduled to mature within one year of the reporting date. We use short-term borrowings to finance liquid assets and for other cash management purposes. We primarily issue commercial paper, promissory notes, and other hybrid instruments.

As of March 2012, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were $48.72 billion. See Note 15 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our unsecured short-term borrowings.

Equity Capital

Capital adequacy is of critical importance to us. Our principal objective is to be conservatively capitalized in terms of the amount and composition of our equity base. Accordingly, we have in place a comprehensive capital management policy that serves as a guide to determine the amount and composition of equity capital we maintain.

The level and composition of our equity capital are determined by multiple factors including our consolidated regulatory capital requirements and ICAAP, and may also be influenced by other factors such as rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments. In addition, we maintain a capital plan which projects sources and uses of capital given a range of business environments, and a contingency capital plan which provides a framework for analyzing and responding to an actual or perceived capital shortfall.

Effective December 2011, as part of the Federal Reserve Board's annual Comprehensive Capital Analysis and Review, U.S. bank holding companies with total consolidated assets of $50 billion or greater, are required to submit annual capital plans for review by the Federal Reserve Board. The capital plans should demonstrate the ability of a bank holding company to maintain its capital ratios above minimum regulatory capital requirements and above a Tier 1 common ratio of 5% on a pro forma basis inclusive of proposed capital actions under expected and stressed scenarios. The purpose of the Federal Reserve Board's review is to ensure that these institutions have robust, forward-looking capital planning processes that account for their unique risks and that permit continued operations during times of economic and financial stress. As part of the capital plan review, the Federal Reserve Board evaluates an institution's plan to make capital distributions, such as increasing dividend payments or repurchasing or redeeming stock, across a range of macro-economic and firm-specific assumptions. On March 13, 2012, the Federal Reserve informed us that it did not object to our proposed capital actions through the first quarter of 2013, including the repurchase of outstanding common stock and an increase in the quarterly common stock dividend.

Our consolidated regulatory capital requirements are determined by the Federal Reserve Board, as described below. Our ICAAP incorporates an internal risk-based capital assessment designed to identify and measure material risks associated with our business activities, including market risk, credit risk and operational risk, in a manner that is closely aligned with our risk management practices. Our internal risk-based capital assessment is supplemented with the results of stress tests.

As of March 2012, our total shareholders' equity was $71.66 billion (consisting of common shareholders' equity of $68.56 billion and preferred stock of $3.10 billion). As of December 2011, our total shareholders' equity was $70.38 billion (consisting of common shareholders' equity of $67.28 billion and preferred stock of $3.10 billion). In addition, $3.25 billion of our junior subordinated debt issued to trusts and $1.75 billion of preferred stock purchase contracts related to Normal Automatic Preferred Enhanced Capital Securities (APEX) issued by Goldman Sachs Capital II qualify as equity capital for regulatory and certain rating agency purposes. See "— Consolidated Regulatory Capital Ratios" below for information regarding the impact of regulatory developments.

Consolidated Regulatory Capital

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956. As a bank holding company, we are subject to consolidated regulatory capital requirements that are computed in accordance with the Federal Reserve Board's capital adequacy regulations currently applicable to bank holding companies (which are based on the 'Basel 1' Capital Accord of the Basel Committee on Banking Supervision (Basel Committee)). These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). See Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information regarding the firm's RWAs. The firm's capital levels are also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

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

Consolidated Regulatory Capital Ratios

The table below presents information about our regulatory capital ratios.

$ in millions	As of March 2012	As of December 2011
Common shareholders' equity	**$ 68,556**	$ 67,279
Less: Goodwill	**(3,782)**	(3,802)
Less: Disallowable intangible assets	**(1,588)**	(1,666)
Less: Other deductions [1]	**(6,752)**	(6,649)
Tier 1 Common Capital	**56,434**	55,162
Preferred stock	**3,100**	3,100
Junior subordinated debt issued to trusts [2]	**3,250**	5,000
Stock purchase contracts related to APEX securities [2]	**1,750**	—
Tier 1 Capital	**64,534**	63,262
Qualifying subordinated debt [3]	**13,480**	13,828
Other adjustments	**79**	53
Tier 2 Capital	**$ 13,559**	$ 13,881
Total Capital	**$ 78,093**	$ 77,143
Risk-Weighted Assets [4]	**$437,570**	$457,027
Tier 1 Capital Ratio	**14.7%**	13.8%
Total Capital Ratio	**17.8%**	16.9%
Tier 1 Leverage Ratio [4]	**7.1%**	7.0%
Tier 1 Common Ratio [5]	**12.9%**	12.1%

1. Principally includes equity investments in non-financial companies and the cumulative change in the fair value of our unsecured borrowings attributable to the impact of changes in our own credit spreads, disallowed deferred tax assets, and investments in certain nonconsolidated entities.
2. See Note 16 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information about the junior subordinated debt issued to trusts and the preferred stock purchase contracts related to APEX securities issued by Goldman Sachs Capital II.
3. Substantially all of our subordinated debt qualifies as Tier 2 capital for Basel 1 purposes.
4. See Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information about the firm's RWAs and Tier 1 leverage ratio.
5. The Tier 1 common ratio equals Tier 1 common capital divided by RWAs. We believe that the Tier 1 common ratio is meaningful because it is one of the measures that we and investors use to assess capital adequacy and, while not currently a formal regulatory capital ratio, this measure is of increasing importance to regulators. The Tier 1 common ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Our Tier 1 capital ratio increased to 14.7% as of March 2012 from 13.8% as of December 2011 primarily reflecting an increase in shareholders' equity and a decrease in RWAs. Our Tier 1 leverage ratio increased to 7.1% as of March 2012 from 7.0% as of December 2011 reflecting an increase in our Tier 1 capital, primarily due to an increase in shareholders' equity.

We are 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 us 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 us, adopt Basel 2, once approved to do so by regulators. As required by the Dodd-Frank Act, U.S. banking regulators have adopted a rule that requires large banking organizations, upon adoption of Basel 2, to continue to calculate risk-based capital ratios under both Basel 1 and Basel 2. For each of the Tier 1 and Total capital ratios, the lower of the Basel 1 and Basel 2 ratios calculated will be used to determine whether the bank meets its minimum risk-based capital requirements.

The U.S. federal bank regulatory agencies have issued revised proposals to modify their market risk regulatory capital requirements for banking organizations in the United States that have significant trading activities. These modifications are designed to address the adjustments to Basel 2.5, as well as the prohibition on the use of credit ratings, as required by the Dodd-Frank Act. Once implemented, it is likely that these changes will result in increased capital requirements for market risk.

Additionally, Basel 3 revises the definition of Tier 1 capital, introduces Tier 1 common equity as a regulatory metric, sets new minimum capital ratios (including a new "capital conservation buffer," which must be composed exclusively of Tier 1 common equity and will be in addition to the minimum capital ratios), introduces a Tier 1 leverage ratio within international guidelines for the first time, and makes substantial revisions to the computation of RWAs for credit exposures. Implementation of the new requirements is expected to take place over the next several years. Although the U.S. federal banking agencies have now issued proposed rules that are intended to implement certain aspects of the Basel 2.5 guidelines, they have not yet addressed all aspects of those guidelines or the Basel 3 changes.

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). The firm was one of 29 institutions identified by the Financial Stability Board (established at the direction of the leaders of the Group of 20) as globally systemically important under the Basel Committee's methodology. Therefore, depending upon the manner and timing of the U.S. banking regulators' implementation of the Basel Committee's methodology, we expect that the minimum Tier 1 common ratio requirement applicable to us will include this additional capital assessment. The final determination of whether an institution is classified as globally systemically important and the calculation of the required additional capital amount is expected to be disclosed by the Basel Committee no later than November 2014 based on data through the end of 2013.

The Dodd-Frank Act will subject us at a firmwide level to the same leverage and risk-based capital requirements that apply to depository institutions and directs banking regulators to impose additional capital requirements as disclosed above. The Federal Reserve Board is expected to adopt the new leverage and risk-based capital regulations in 2012. As a consequence of these changes, Tier 1 capital treatment for our junior subordinated debt issued to trusts will be phased out over a three-year period beginning on January 1, 2013. 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 adds further uncertainty to our future capital requirements.

See Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information about our regulatory capital ratios and the related regulatory requirements.

Internal Capital Adequacy Assessment Process

We perform an ICAAP with the objective of ensuring that the firm is appropriately capitalized relative to the risks in our business.

As part of our ICAAP, we perform an internal risk-based capital assessment. This assessment incorporates market risk, credit risk and operational risk. Market risk is calculated by using Value-at-Risk (VaR) calculations supplemented by risk-based add-ons which include risks related to rare events (tail risks). Credit risk utilizes assumptions about our counterparties' probability of default, the size of our losses in the event of a default and the maturity of our counterparties' contractual obligations to us. Operational risk is calculated based on scenarios incorporating multiple types of operational failures. Backtesting is used to gauge the effectiveness of models at capturing and measuring relevant risks.

We evaluate capital adequacy based on the result of our internal risk-based capital assessment, supplemented with the results of stress tests which measure the firm's performance under various market conditions. Our goal is to hold sufficient capital, under our internal risk-based capital framework, to ensure we remain adequately capitalized after experiencing a severe stress event. Our assessment of capital adequacy is viewed in tandem with our assessment of liquidity adequacy and integrated into the overall risk management structure, governance and policy framework of the firm.

We attribute capital usage to each of our businesses based upon our internal risk-based capital and regulatory frameworks and manage the levels of usage based upon the balance sheet and risk limits established.

Rating Agency Guidelines

The credit rating agencies assign credit ratings to the obligations of Group Inc., which directly issues or guarantees substantially all of the firm's senior unsecured obligations. Goldman, Sachs & Co. (GS&Co.) and Goldman Sachs International (GSI) have been assigned long- and short-term issuer ratings by certain credit rating agencies. GS Bank USA has also been assigned long-term issuer ratings as well as ratings on its long-term and short-term bank deposits. In addition, credit rating agencies have assigned ratings to debt obligations of certain other subsidiaries of Group Inc.

The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See "Liquidity Risk Management — Credit Ratings" for further information about credit ratings of Group Inc., GS&Co., GSI and GS Bank USA.

Subsidiary Capital Requirements

Many of our subsidiaries, including GS Bank USA and our broker-dealer subsidiaries, are subject to separate regulation and capital requirements in jurisdictions throughout the world. For purposes of assessing the adequacy of its capital, GS Bank USA has established an ICAAP which is similar to that used by Group Inc. GS Bank USA's capital levels and prompt corrective action classification are subject to qualitative judgments by its regulators about components, risk weightings and other factors.

We expect that the capital requirements of several of our subsidiaries will be impacted in the future by the various developments arising from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators.

See Note 20 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information about GS Bank USA's capital ratios under Basel 1 as implemented by the Federal Reserve Board, and for further information about the capital requirements of our other regulated subsidiaries and the potential impact of regulatory reform.

Subsidiaries not subject to separate regulatory capital requirements may hold capital to satisfy local tax guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. In certain instances, Group Inc. may be limited in its ability to access capital held at certain subsidiaries as a result of regulatory, tax or other constraints. As of March 2012 and December 2011, Group Inc.'s equity investment in subsidiaries was $68.60 billion and $67.70 billion, respectively, compared with its total shareholders' equity of $71.66 billion and $70.38 billion, respectively.

Group Inc. has guaranteed the payment obligations of GS&Co., GS Bank USA, Goldman Sachs Bank (Europe) plc and Goldman Sachs Execution & Clearing, L.P. (GSEC) subject to certain exceptions. In November 2008, Group Inc. contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee certain losses, including credit-related losses, relating to assets held by the contributed entities. In connection with this guarantee, Group Inc. also agreed to pledge to GS Bank USA certain collateral, including interests in subsidiaries and other illiquid assets.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is managed through a combination of derivatives and non-U.S. denominated debt.

Contingency Capital Plan

Our contingency capital plan provides a framework for analyzing and responding to a perceived or actual capital deficiency, including, but not limited to, identification of drivers of a capital deficiency, as well as mitigants and potential actions. It outlines the appropriate communication procedures to follow during a crisis period, including internal dissemination of information as well as ensuring timely communication with external stakeholders.

Equity Capital Management

Our objective is to maintain a sufficient level and optimal composition of equity capital. We principally manage our capital through issuances and repurchases of our common stock. We may also, from time to time, issue or repurchase our preferred stock, junior subordinated debt issued to trusts and other subordinated debt or other forms of capital as business conditions warrant and subject to any regulatory approvals. We manage our capital requirements principally by setting limits on balance sheet assets and/or limits on risk, in each case both at the consolidated and business levels. We attribute capital usage to each of our businesses based upon our internal risk-based capital and regulatory frameworks and manage the levels of usage based upon the balance sheet and risk limits established.

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

Share Repurchase Program. We seek to use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our current and projected capital positions (i.e., comparisons of our desired level and composition of capital to our actual level and composition of capital) and the issuance of shares resulting from employee share-based compensation, but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock.

As of March 2012, under the share repurchase program approved by the Board, we can repurchase up to 60.3 million additional shares of common stock; however, any such repurchases are subject to the approval of the Federal Reserve Board. See "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II, Item 2 and Note 19 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information on our repurchase program.

See Notes 16 and 19 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

Other Capital Metrics

The table below presents information on our shareholders' equity and book value per common share.

$ in millions, except per share amounts	As of March 2012	As of December 2011
Total shareholders' equity	**$71,656**	$70,379
Common shareholders' equity	**68,556**	67,279
Tangible common shareholders' equity	**63,186**	61,811
Book value per common share	**134.48**	130.31
Tangible book value per common share	**123.94**	119.72

Tangible common shareholders' equity. Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and identifiable intangible assets. We believe that tangible common shareholders' equity is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible common shareholders' equity is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

The table below presents the reconciliation of total shareholders' equity to tangible common shareholders' equity.

in millions	As of March 2012	As of December 2011
Total shareholders' equity	**$71,656**	$70,379
Deduct: Preferred stock	**(3,100)**	(3,100)
Common shareholders' equity	**68,556**	67,279
Deduct: Goodwill and identifiable intangible assets	**(5,370)**	(5,468)
Tangible common shareholders' equity	**$63,186**	$61,811

Book value and tangible book value per common share. Book value and tangible book value per common share are based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 509.8 million and 516.3 million as of March 2012 and December 2011, respectively. We believe that tangible book value per common share (tangible common shareholders' equity divided by common shares outstanding) is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Off-Balance-Sheet Arrangements and Contractual Obligations

Off-Balance-Sheet Arrangements

We have various types of off-balance-sheet arrangements that we enter into in the ordinary course of business. Our involvement in these arrangements can take many different forms, including:

- purchasing or retaining residual and other interests in special purpose entities such as mortgage-backed and other asset-backed securitization vehicles;
- holding senior and subordinated debt, interests in limited and general partnerships, and preferred and common stock in other nonconsolidated vehicles;
- entering into interest rate, foreign currency, equity, commodity and credit derivatives, including total return swaps;
- entering into operating leases; and
- providing guarantees, indemnifications, loan commitments, letters of credit and representations and warranties.

We enter into these arrangements for a variety of business purposes, including securitizations. The securitization vehicles that purchase mortgages, corporate bonds, and other types of financial assets are critical to the functioning of several significant investor markets, including the mortgage-backed and other asset-backed securities markets, since they offer investors access to specific cash flows and risks created through the securitization process.

We also enter into these arrangements to underwrite client securitization transactions; provide secondary market liquidity; make investments in performing and nonperforming debt, equity, real estate and other assets; provide investors with credit-linked and asset-repackaged notes; and receive or provide letters of credit to satisfy margin requirements and to facilitate the clearance and settlement process.

Our financial interests in, and derivative transactions with, such nonconsolidated entities are accounted for at fair value, in the same manner as our other financial instruments, except in cases where we apply the equity method of accounting.

The table below presents where a discussion of our various off-balance-sheet arrangements may be found in Part I, Items 1 and 2 of this Form 10-Q. In addition, see Note 3 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for a discussion of our consolidation policies.

Type of Off-Balance-Sheet Arrangement	Disclosure in Form 10-Q
Variable interests and other obligations, including contingent obligations, arising from variable interests in nonconsolidated VIEs	See Note 11 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.
Leases, letters of credit, and lending and other commitments	See below and Note 18 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.
Guarantees	See below and Note 18 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.
Derivatives	See Notes 4, 5, 7 and 18 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Contractual Obligations

We have certain contractual obligations which require us to make future cash payments. These contractual obligations include our unsecured long-term borrowings, secured long-term financings, time deposits, contractual interest payments and insurance agreements, all of which are included in our condensed consolidated statements of financial condition. Our obligations to make future cash payments also include certain off-balance-sheet contractual obligations such as purchase obligations, minimum rental payments under noncancelable leases and commitments and guarantees.

The table below presents our contractual obligations, commitments and guarantees as of March 2012.

in millions	Remainder of 2012	2013-2014	2015-2016	2017-Thereafter	Total
Amounts related to on-balance-sheet obligations					
Time deposits [1]	$ —	$ 5,779	$ 2,850	$ 3,892	$ 12,521
Secured long-term financings [2]	—	5,072	1,014	1,725	7,811
Unsecured long-term borrowings [3]	—	33,967	43,572	94,053	171,592
Contractual interest payments [4]	5,015	13,419	10,604	35,719	64,757
Insurance liabilities [5]	935	2,473	1,865	18,449	23,722
Subordinated liabilities issued by consolidated VIEs	44	36	—	928	1,008
Amounts related to off-balance-sheet arrangements					
Commitments to extend credit	8,272	14,694	36,755	7,257	66,978
Contingent and forward starting resale and securities borrowing agreements	83,483	321	—	—	83,804
Forward starting repurchase and secured lending agreements	13,161	—	—	—	13,161
Underwriting commitments	74	—	—	—	74
Letters of credit	588	198	112	6	904
Investment commitments	1,731	3,564	410	2,455	8,160
Other commitments	4,104	112	36	7	4,259
Minimum rental payments	333	809	638	1,380	3,160
Derivative guarantees	501,166	278,786	64,457	61,428	905,837
Securities lending indemnifications	29,002	—	—	—	29,002
Other financial guarantees	521	777	1,220	1,024	3,542

1. Excludes $4.96 billion of time deposits maturing within one year.
2. The aggregate contractual principal amount of secured long-term financings for which the fair value option was elected, primarily consisting of transfers of financial assets accounted for as financings rather than sales and certain other nonrecourse financings, exceeded their related fair value by $197 million.
3. Includes $9.47 billion related to interest rate hedges on certain unsecured long-term borrowings. In addition, the aggregate contractual principal amount of unsecured long-term borrowings (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by $196 million.
4. Represents estimated future interest payments related to unsecured long-term borrowings, secured long-term financings and time deposits based on applicable interest rates as of March 2012. Includes stated coupons, if any, on structured notes.
5. Represents estimated undiscounted payments related to future benefits and unpaid claims arising from policies associated with our insurance activities, excluding separate accounts and estimated recoveries under reinsurance contracts.

In the table above:

- Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holder are excluded and are treated as short-term obligations.
- Obligations that are repayable prior to maturity at our option are reflected at their contractual maturity dates and obligations that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.
- Amounts included in the table do not necessarily reflect the actual future cash flow requirements for these arrangements because commitments and guarantees represent notional amounts and may expire unused or be reduced or cancelled at the counterparty's request.
- Due to the uncertainty of the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded. See Note 24 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our unrecognized tax benefits.

See Notes 15 and 18 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our short-term borrowings, and commitments and guarantees.

As of March 2012, our unsecured long-term borrowings were $171.59 billion, with maturities extending to 2061, and consisted principally of senior borrowings. See Note 16 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our unsecured long-term borrowings.

As of March 2012, our future minimum rental payments net of minimum sublease rentals under noncancelable leases were $3.16 billion. These lease commitments, principally for office space, expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 18 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. During the three months ended March 2012, total occupancy expenses for space held in excess of our current requirements were not material. In addition, during the three months ended March 2012, we did not incur any exit costs related to our office space. We may incur exit costs in the future to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

Overview and Structure of Risk Management

Overview

We believe that effective risk management is of primary importance to the success of the firm. Accordingly, we have comprehensive risk management processes through which we monitor, evaluate and manage the risks we assume in conducting our activities. These include market, credit, liquidity, operational, legal, regulatory and reputational risk exposures. Our risk management framework is built around three core components: governance, processes and people.

Governance. Risk management governance starts with our Board, which plays an important role in reviewing and approving risk management policies and practices, both directly and through its Risk Committee, which consists of all of our independent directors. The Board also receives periodic updates on firmwide risks from our independent control and support functions. Next, at the most senior levels of the firm, our leaders are experienced risk managers, with a sophisticated and detailed understanding of the risks we take. Our senior managers lead and participate in risk-oriented committees, as do the leaders of our independent control and support functions — including those in internal audit, compliance, controllers, credit risk management, human capital management, legal, market risk management, operations, operational risk management, tax, technology and treasury.

The firm's governance structure provides the protocol and responsibility for decision-making on risk management issues and ensures implementation of those decisions. We make extensive use of risk-related committees that meet regularly and serve as an important means to facilitate and foster ongoing discussions to identify, manage and mitigate risks.

We maintain strong communication about risk and we have a culture of collaboration in decision-making among the revenue-producing units, independent control and support functions, committees and senior management. While we believe that the first line of defense in managing risk rests with the managers in our revenue-producing units, we dedicate extensive resources to independent control and support functions in order to ensure a strong oversight structure and an appropriate segregation of duties.

Processes. We maintain various processes and procedures that are critical components of our risk management. First and foremost is our daily discipline of marking substantially all of the firm's inventory to current market levels. Goldman Sachs carries its inventory at fair value, with changes in valuation reflected immediately in our risk management systems and in net revenues. We do so because we believe this discipline is one of the most effective tools for assessing and managing risk and that it provides transparent and realistic insight into our financial exposures.

We also apply a rigorous framework of limits to control risk across multiple transactions, products, businesses and markets. This includes setting credit and market risk limits at a variety of levels and monitoring these limits on a daily basis. Limits are typically set at levels that will be periodically exceeded, rather than at levels which reflect our maximum risk appetite. This fosters an ongoing dialogue on risk among revenue-producing units, independent control and support functions, committees and senior management, as well as rapid escalation of risk-related matters. See "Market Risk Management" and "Credit Risk Management" for further information on our risk limits.

Active management of our positions is another important process. Proactive mitigation of our market and credit exposures minimizes the risk that we will be required to take outsized actions during periods of stress.

We also focus on the rigor and effectiveness of the firm's risk systems. The goal of our risk management technology is to get the right information to the right people at the right time, which requires systems that are comprehensive, reliable and timely. We devote significant time and resources to our risk management technology to ensure that it consistently provides us with complete, accurate and timely information.

People. Even the best technology serves only as a tool for helping to make informed decisions in real time about the risks we are taking. Ultimately, effective risk management requires our people to interpret our risk data on an ongoing and timely basis and adjust risk positions accordingly. In both our revenue-producing units and our independent control and support functions, the experience of our professionals, and their understanding of the nuances and limitations of each risk measure, guide the firm in assessing exposures and maintaining them within prudent levels.

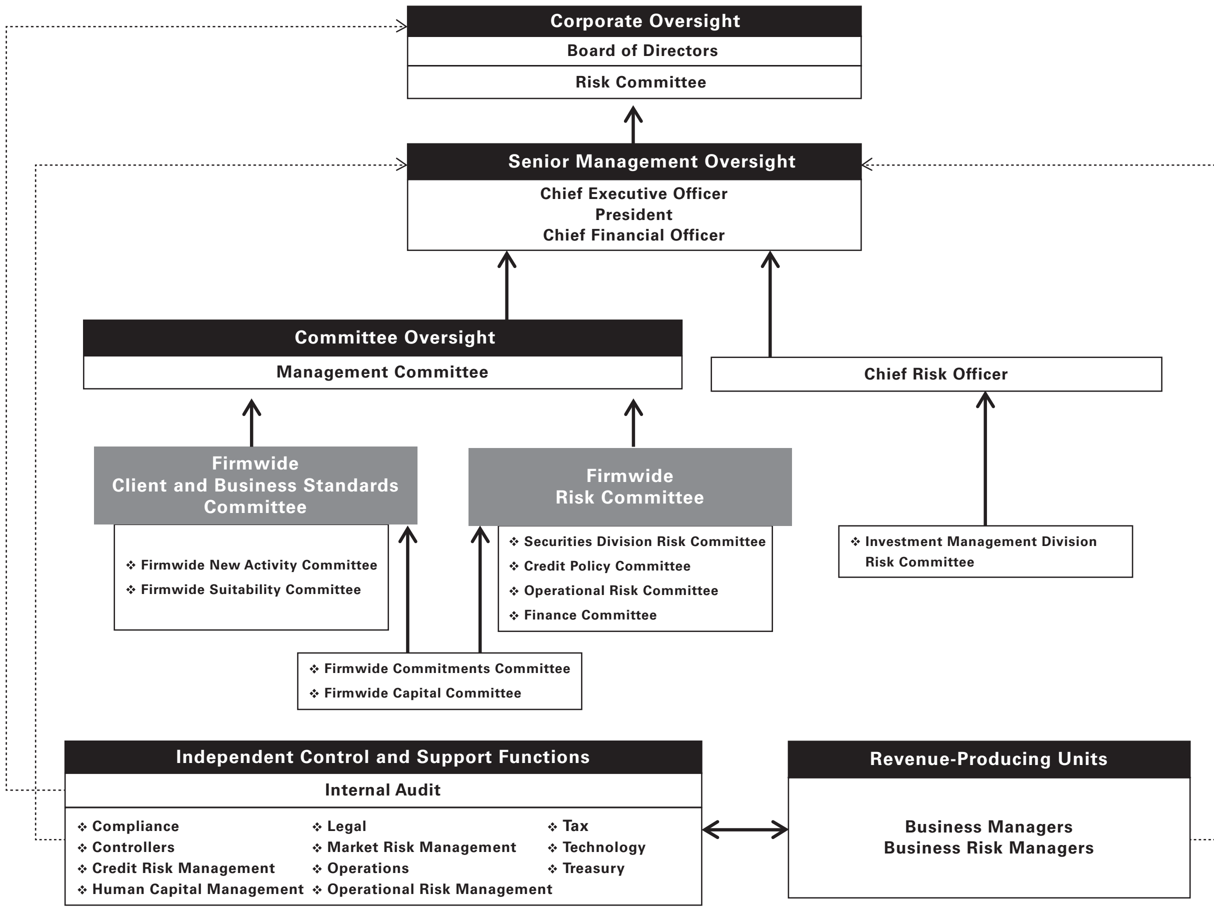
Structure

Ultimate oversight of risk is the responsibility of the firm's Board. The Board oversees risk both directly and through its Risk Committee. Within the firm, a series of committees with specific risk management mandates have oversight or decision-making responsibilities for risk management activities. Committee membership generally consists of senior managers from both our revenue-producing units and our independent control and support functions. We have established procedures for these committees to ensure that appropriate information barriers are in place. Our primary risk committees, most of which also have additional sub-committees or working groups, are described below. In addition to these committees, we have other risk-oriented committees which provide oversight for different businesses, activities, products, regions and legal entities.

Membership of the firm's risk committees is reviewed regularly and updated to reflect changes in the responsibilities of the committee members. Accordingly, the length of time that members serve on the respective committees varies as determined by the committee chairs and based on the responsibilities of the members within the firm.

In addition, independent control and support functions, which report to the chief financial officer, general counsel, chief administrative officer, or in the case of Internal Audit, to the Audit Committee of the Board, are responsible for day-to-day oversight of risk, as discussed in greater detail in the following sections.

The chart below presents an overview of our risk management governance structure, highlighting the oversight of our Board, our key risk-related committees and the independence of our control and support functions.



Management Committee. The Management Committee oversees the global activities of the firm, including all of the firm's independent control and support functions. It provides this oversight directly and through authority delegated to committees it has established. This committee is comprised of the most senior leaders of the firm, and is chaired by the firm's chief executive officer. The Management Committee has established various committees with delegated authority and the chairperson of the Management Committee appoints the chairpersons of these committees. Most members of the Management Committee are also members of other firmwide, divisional and regional committees. The following are the committees that are principally involved in firmwide risk management.

Firmwide Client and Business Standards Committee. The Firmwide Client and Business Standards Committee assesses and makes determinations regarding business standards and practices, reputational risk management, client relationships and client service, is chaired by the firm's president and chief operating officer, and reports to the Management Committee. This committee also has responsibility for overseeing the implementation of the recommendations of the Business Standards Committee. This committee has established the following two risk-related committees that report to it:

- **Firmwide New Activity Committee.** The Firmwide New Activity Committee is responsible for reviewing new activities and establishing a process to identify and review previously approved activities that are significant and that have changed in complexity and/or structure or present different reputational and suitability concerns over time to consider whether these activities remain appropriate. This committee is co-chaired by the firm's head of operations/chief operating officer for Europe, Middle East and Africa and the chief administrative officer of our Investment Management Division who are appointed by the Firmwide Client and Business Standards Committee chairperson.
- **Firmwide Suitability Committee.** The Firmwide Suitability Committee is responsible for setting standards and policies for product, transaction and client suitability and providing a forum for consistency across divisions, regions and products on suitability assessments. This committee also reviews suitability matters escalated from other firm committees. This committee is co-chaired by the firm's international general counsel and the co-head of our Investment Management Division who are appointed by the Firmwide Client and Business Standards Committee chairperson.

Firmwide Risk Committee. The Firmwide Risk Committee is responsible for the ongoing monitoring and control of the firm's global financial risks. Through both direct and delegated authority, the Firmwide Risk Committee approves firmwide, product, divisional and business-level limits for both market and credit risks, approves sovereign credit risk limits and reviews results of stress tests and scenario analyses. This committee is co-chaired by the firm's chief financial officer and a senior managing director from the firm's executive office, and reports to the Management Committee. The following four committees report to the Firmwide Risk Committee. The chairperson of the Finance Committee is appointed by the Firmwide Risk Committee; the chairperson of the Securities Division Risk Committee is appointed by the chairperson of the Firmwide Risk Committee; and the chairpersons of the Credit Policy and Operational Risk Committees are appointed by the firm's chief risk officer:

- **Securities Division Risk Committee.** The Securities Division Risk Committee sets market risk limits, subject to overall firmwide risk limits, for our Fixed Income, Currency and Commodities Client Execution and Equities Client Execution businesses based on a number of risk measures, including VaR, stress tests, scenario analyses, and inventory levels. This committee is chaired by the chief risk officer of our Securities Division.
- **Credit Policy Committee.** The Credit Policy Committee establishes and reviews broad credit policies and parameters that are implemented by our Credit Risk Management department (Credit Risk Management). This committee is chaired by the firm's chief credit officer.
- **Operational Risk Committee.** The Operational Risk Committee provides oversight of the ongoing development and implementation of our operational risk policies, framework and methodologies, and monitors the effectiveness of operational risk management. This committee is chaired by a managing director in Credit Risk Management.
- **Finance Committee.** The Finance Committee has oversight of firmwide liquidity, the size and composition of our balance sheet and capital base, and our credit ratings. This committee regularly reviews our liquidity, balance sheet, funding position and capitalization, and makes adjustments in light of current events, risks and exposures, and regulatory requirements. This committee is also responsible for reviewing and approving balance sheet limits and the size of our GCE. This committee is co-chaired by the firm's chief financial officer and the firm's global treasurer.

The following committees report jointly to the Firmwide Risk Committee and the Firmwide Client and Business Standards Committee:

- **Firmwide Commitments Committee.** The Firmwide Commitments Committee reviews the firm's underwriting and distribution activities with respect to equity and equity-related product offerings, and sets and maintains policies and procedures designed to ensure that legal, reputational, regulatory and business standards are maintained on a global basis. In addition to reviewing specific transactions, this committee periodically conducts general strategic reviews of sectors and products and establishes policies in connection with transaction practices. This committee is co-chaired by the firm's senior strategy officer and the head of Mergers & Acquisitions for Europe, Middle East, Africa and Asia Pacific for Investment Banking who are appointed by the Firmwide Client and Business Standards Committee chairperson.
- **Firmwide Capital Committee.** The Firmwide Capital Committee provides approval and oversight of debt-related underwriting transactions, including related commitments of the firm's capital. This committee aims to ensure that business and reputational standards for underwritings and capital commitments are maintained on a global basis. This committee is co-chaired by the firm's global treasurer and the head of credit finance for Europe, Middle East and Africa who are appointed by the Firmwide Risk Committee chairpersons.

Investment Management Division Risk Committee. The Investment Management Division Risk Committee is responsible for the ongoing monitoring and control of global market, counterparty credit and liquidity risks associated with the activities of our investment management businesses. The head of Investment Management Division risk management is the chair of this committee. The Investment Management Division Risk Committee reports to the firm's chief risk officer.

Conflicts Management

Conflicts of interest and the firm's approach to dealing with them are fundamental to our client relationships, our reputation and our long-term success. The term "conflict of interest" does not have a universally accepted meaning, and conflicts can arise in many forms within a business or between businesses. The responsibility for identifying potential conflicts, as well as complying with the firm's policies and procedures, is shared by the entire firm.

We have a multilayered approach to resolving conflicts and addressing reputational risk. The firm's senior management oversees policies related to conflicts resolution. The firm's senior management, the Business Selection and Conflicts Resolution Group, the Legal and Compliance departments, the Firmwide Client and Business Standards Committee and other internal committees all play roles in the formulation of policies, standards and principles and assist in making judgments regarding the appropriate resolution of particular conflicts. Resolving potential conflicts necessarily depends on the facts and circumstances of a particular situation and the application of experienced and informed judgment.

At the transaction level, various people and groups have roles. As a general matter, prior to businesses accepting mandates, or making new loans or investments, the Business Selection and Conflicts Resolution Group reviews the potential transaction. It reviews all financing and advisory assignments in Investment Banking and investing, lending and other activities of the firm. Various transaction oversight committees, such as the Firmwide Capital, Commitments and Suitability Committees and other committees across the firm, also review new underwritings, loans, investments and structured products. These committees work with internal and external lawyers and the Compliance department to evaluate and address any actual or potential conflicts.

We regularly assess our policies and procedures that address conflicts of interest in an effort to conduct our business in accordance with the highest ethical standards and in compliance with all applicable laws, rules, and regulations.

Liquidity Risk Management

Liquidity is of critical importance to financial institutions. Most of the recent failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the firm has in place a comprehensive and conservative set of liquidity and funding policies to address both firm-specific and broader industry or market liquidity events. Our principal objective is to be able to fund the firm and to enable our core businesses to continue to generate revenues, even under adverse circumstances.

We manage liquidity risk according to the following principles:

Excess Liquidity. We maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment.

Asset-Liability Management. We assess anticipated holding periods for our assets and their expected liquidity in a stressed environment. We manage the maturities and diversity of our funding across markets, products and counterparties, and seek to maintain liabilities of appropriate tenor relative to our asset base.

Contingency Funding Plan. We maintain a contingency funding plan to provide a framework for analyzing and responding to a liquidity crisis situation or periods of market stress. This framework sets forth the plan of action to fund normal business activity in emergency and stress situations. These principles are discussed in more detail below.

Excess Liquidity

Our most important liquidity policy is to pre-fund our estimated potential cash needs during a liquidity crisis and hold this excess liquidity in the form of unencumbered, highly liquid securities and cash. We believe that the securities held in our global core excess would be readily convertible to cash in a matter of days, through liquidation, by entering into repurchase agreements or from maturities of reverse repurchase agreements, and that this cash would allow us to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets.

As of March 2012 and December 2011, the fair value of the securities and certain overnight cash deposits included in our GCE totaled \$170.85 billion and \$171.58 billion, respectively. Based on the results of our internal liquidity risk model, discussed below, as well as our consideration of other factors including but not limited to a qualitative assessment of the condition of the financial markets and the firm, we believe our liquidity position as of March 2012 was appropriate.

The table below presents the fair value of the securities and certain overnight cash deposits that are included in our GCE.

	Average for the	
in millions	**Three Months Ended March 2012**	Year Ended December 2011
U.S. dollar-denominated	**\$118,929**	\$125,668
Non-U.S. dollar-denominated	**48,295**	40,291
Total	**\$167,224**	\$165,959

The U.S. dollar-denominated excess is composed of (i) unencumbered U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), all of which are eligible as collateral in Federal Reserve open market operations and (ii) certain overnight U.S. dollar cash deposits. The non-U.S. dollar-denominated excess is composed of only unencumbered German, French, Japanese and United Kingdom government obligations and certain overnight cash deposits in highly liquid currencies. We strictly limit our excess liquidity to this narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. We do not include other potential sources of excess liquidity, such as lower-quality unencumbered securities or committed credit facilities, in our GCE.

The table below presents the fair value of our GCE by asset class.

	Average for the	
in millions	**Three Months Ended March 2012**	Year Ended December 2011
Overnight cash deposits	**$ 46,190**	$ 34,622
U.S. government obligations	**73,547**	88,528
U.S. federal agency obligations, including highly liquid U.S. federal agency mortgage-backed obligations	**1,287**	5,018
German, French, Japanese and United Kingdom government obligations	**46,200**	37,791
Total	**$167,224**	$165,959

The GCE is held at Group Inc. and our major broker-dealer and bank subsidiaries, as presented in the table below.

	Average for the	
in millions	**Three Months Ended March 2012**	Year Ended December 2011
Group Inc.	**$ 41,802**	$ 49,548
Major broker-dealer subsidiaries	**74,515**	75,086
Major bank subsidiaries	**50,907**	41,325
Total	**$167,224**	$165,959

Our GCE reflects the following principles:

- The first days or weeks of a liquidity crisis are the most critical to a company's survival.
- Focus must be maintained on all potential cash and collateral outflows, not just disruptions to financing flows. Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment.
- During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change.
- As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and have larger debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater balances of highly liquid unencumbered securities, even though it increases our total assets and our funding costs.

We believe that our GCE provides us with a resilient source of funds that would be available in advance of potential cash and collateral outflows and gives us significant flexibility in managing through a difficult funding environment.

In order to determine the appropriate size of our GCE, we use an internal liquidity model, referred to as the Modeled Liquidity Outflow, which captures and quantifies the firm's liquidity risks. We also consider other factors including but not limited to a qualitative assessment of the condition of the financial markets and the firm.

We distribute our GCE across subsidiaries, asset types, and clearing agents to provide us with sufficient operating liquidity to ensure timely settlement in all major markets, even in a difficult funding environment.

We maintain our GCE to enable us to meet current and potential liquidity requirements of our parent company, Group Inc., and our major broker-dealer and bank subsidiaries. The Modeled Liquidity Outflow incorporates a consolidated requirement as well as a standalone requirement for each of our major broker-dealer and bank subsidiaries. Liquidity held directly in each of these subsidiaries is intended for use only by that subsidiary to meet its liquidity requirements and is assumed not to be available to Group Inc. unless (i) legally provided for and (ii) there are no additional regulatory, tax or other restrictions. We hold a portion of our GCE directly at Group Inc. to support consolidated requirements not accounted for in the major subsidiaries. In addition to the GCE, we maintain operating cash balances in several of our other operating entities, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.

In addition to our GCE, we have a significant amount of other unencumbered cash and financial instruments, including other government obligations, high-grade money market securities, corporate obligations, marginable equities, loans and cash deposits not included in our GCE. The fair value of these assets averaged $84.73 billion and $83.32 billion for the three months ended March 2012 and year ended December 2011, respectively. We do not consider these assets liquid enough to be eligible for our GCE liquidity pool and therefore conservatively do not assume we will generate liquidity from these assets in our Modeled Liquidity Outflow.

Modeled Liquidity Outflow. Our Modeled Liquidity Outflow is based on a scenario that includes both a market-wide stress and a firm-specific stress, characterized by some or all of the following qualitative elements:

- Global recession, default by a medium-sized sovereign, low consumer and corporate confidence, and general financial instability.
- Severely challenged market environment with material declines in equity markets and widening of credit spreads.
- Damaging follow-on impacts to financial institutions leading to the failure of a large bank.
- A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

The following are the critical modeling parameters of the Modeled Liquidity Outflow:

- Liquidity needs over a 30-day scenario.
- A two-notch downgrade of the firm's long-term senior unsecured credit ratings.
- A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis.
- No issuance of equity or unsecured debt.
- No support from government funding facilities. Although we have access to various central bank funding programs, we do not assume reliance on them as a source of funding in a liquidity crisis.
- No diversification benefit across liquidity risks. We assume that liquidity risks are additive.
- Maintenance of our normal business levels. We do not assume asset liquidation, other than the GCE.

The Modeled Liquidity Outflow is calculated and reported to senior management on a daily basis. We regularly refine our model to reflect changes in market or economic conditions and the firm's business mix.

The potential contractual and contingent cash and collateral outflows covered in our Modeled Liquidity Outflow include:

Unsecured Funding

- Contractual: All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products. We assume that we will be unable to issue new unsecured debt or rollover any maturing debt.
- Contingent: Repurchases of our outstanding long-term debt, commercial paper and hybrid financial instruments in the ordinary course of business as a market maker.

Deposits

- Contractual: All upcoming maturities of term deposits. We assume that we will be unable to raise new term deposits or rollover any maturing term deposits.
- Contingent: Withdrawals of bank deposits that have no contractual maturity. The withdrawal assumptions reflect, among other factors, the type of deposit, whether the deposit is insured or uninsured, and the firm's relationship with the depositor.

Secured Funding

- Contractual: A portion of upcoming contractual maturities of secured funding due to either the inability to refinance or the ability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral and counterparty concentration.
- Contingent: A decline in value of financial assets pledged as collateral for financing transactions, which would necessitate additional collateral postings under those transactions.

OTC Derivatives

- Contingent: Collateral postings to counterparties due to adverse changes in the value of our OTC derivatives.
- Contingent: Other outflows of cash or collateral related to OTC derivatives, including the impact of trade terminations, collateral substitutions, collateral disputes, collateral calls or termination payments required by a two-notch downgrade in our credit ratings, and collateral that has not been called by counterparties, but is available to them.

Exchange-Traded Derivatives

- Contingent: Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded derivatives.
- Contingent: An increase in initial margin and guaranty fund requirements by derivative clearing houses.

Customer Cash and Securities

- Contingent: Liquidity outflows associated with our prime brokerage business, including withdrawals of customer credit balances, and a reduction in customer short positions, which serve as a funding source for long positions.

Unfunded Commitments

- Contingent: Draws on our unfunded commitments. Draw assumptions reflect, among other things, the type of commitment and counterparty.

Other

- Other upcoming large cash outflows, such as tax payments.

Asset-Liability Management

Our liquidity risk management policies are designed to ensure we have a sufficient amount of financing, even when funding markets experience persistent stress. We seek to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of our assets.

Our approach to asset-liability management includes:

- Conservatively managing the overall characteristics of our funding book, with a focus on maintaining long-term, diversified sources of funding in excess of our current requirements. See "Balance Sheet and Funding Sources — Funding Sources" for additional details.
- Actively managing and monitoring our asset base, with particular focus on the liquidity, holding period and our ability to fund assets on a secured basis. This enables us to determine the most appropriate funding products and tenors. Less liquid assets are more difficult to fund and therefore require funding of longer tenor. See "Balance Sheet and Funding Sources — Balance Sheet Management" for more detail on our balance sheet management process.
- Raising secured and unsecured financing that has a sufficiently longer term than the anticipated holding period of our assets. This reduces the risk that our liabilities will come due in advance of our ability to generate liquidity from the sale of our assets. Because we maintain a highly liquid balance sheet, the holding period of certain of our assets may be materially shorter than their contractual maturity dates.

Our goal is to ensure that the firm maintains sufficient liquidity to fund its assets and meet its contractual and contingent obligations in normal times as well as during periods of market stress. Through our dynamic balance sheet management process, (see "Balance Sheet and Funding Sources — Balance Sheet Management"), we use actual and projected asset balances to determine secured and unsecured funding requirements. Funding plans are reviewed and approved by the Finance Committee on a quarterly basis. In addition, senior managers in our independent control and support functions regularly analyze, and the Finance Committee reviews, our consolidated total capital position (unsecured long-term borrowings plus total shareholders' equity) so that we maintain a level of long-term funding that is sufficient to meet our long-term financing requirements. In a liquidity crisis, we would first use our GCE in order to avoid reliance on asset sales (other than our GCE). However, we recognize that orderly asset sales may be prudent or necessary in a severe or persistent liquidity crisis.

Subsidiary Funding Policies. The majority of our unsecured funding is raised by Group Inc. which lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing, liquidity and capital requirements. In addition, Group Inc. provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of our subsidiaries. Funding is also raised at the subsidiary level through a variety of products, including secured funding, unsecured borrowings and deposits.

Our intercompany funding policies assume that, unless legally provided for, a subsidiary's funds or securities are not freely available to its parent company or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Group Inc. Regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on its obligations. Accordingly, we assume that the capital provided to our regulated subsidiaries is not available to Group Inc. or other subsidiaries and any other financing provided to our regulated subsidiaries is not available until the maturity of such financing.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries. For example, as of March 2012, Group Inc. had $28.87 billion of equity and subordinated indebtedness invested in GS&Co., its principal U.S. registered broker-dealer; $28.03 billion invested in GSI, a regulated U.K. broker-dealer; $2.67 billion invested in GSEC, a U.S. registered broker-dealer; $3.96 billion invested in Goldman Sachs Japan Co., Ltd., a regulated Japanese broker-dealer; and $19.75 billion invested in GS Bank USA, a regulated New York State-chartered bank. Group Inc. also provided, directly or indirectly, $82.77 billion of unsubordinated loans and $6.69 billion of collateral to these entities, substantially all of which was to GS&Co. and GSI, as of March 2012. In addition, as of March 2012, Group Inc. had significant amounts of capital invested in and loans to its other regulated subsidiaries.

Contingency Funding Plan

The Goldman Sachs contingency funding plan sets out the plan of action we would use to fund business activity in crisis situations and periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and/or market dislocation. The contingency funding plan also describes in detail the firm's potential responses if our assessments indicate that the firm has entered a liquidity crisis, which include pre-funding for what we estimate will be our potential cash and collateral needs as well as utilizing secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

The contingency funding plan identifies key groups of individuals to foster effective coordination, control and distribution of information, all of which are critical in the management of a crisis or period of market stress. The contingency funding plan also details the responsibilities of these groups and individuals, which include making and disseminating key decisions, coordinating all contingency activities throughout the duration of the crisis or period of market stress, implementing liquidity maintenance activities and managing internal and external communication.

Credit Ratings

The table below presents our unsecured credit ratings (excluding debt guaranteed by the FDIC under the TLGP) and outlook.

	As of March 2012					
	Short-Term Debt	Long-Term Debt	Subordinated Debt	Trust Preferred [1]	Preferred Stock	Rating Outlook
DBRS, Inc.	**R-1 (middle)**	**A (high)**	**A**	**A**	**BBB** [3]	**Stable**
Fitch, Inc.	**F1**	**A** [2]	**A-**	**BBB-**	**BB+** [4]	**Stable**
Moody's Investors Service	**P-1**	**A1** [2]	**A2**	**A3**	**Baa2** [3]	**Downgrade review** [5]
Standard & Poor's Ratings Services	**A-2**	**A-** [2]	**BBB+**	**BB+**	**BB+** [3]	**Negative**
Rating and Investment Information, Inc.	**a-1+**	**AA-**	**A+**	**N/A**	**N/A**	**Negative**

1. Trust preferred securities issued by Goldman Sachs Capital I.
2. Includes the senior guaranteed trust securities issued by Murray Street Investment Trust I.
3. Includes Group Inc.'s non-cumulative preferred stock and the APEX issued by Goldman Sachs Capital II and Goldman Sachs Capital III.
4. Includes Group Inc.'s non-cumulative preferred stock and the APEX issued by Goldman Sachs Capital II. The APEX issued by Goldman Sachs Capital III has been assigned a rating of BBB-.
5. On February 15, 2012, Moody's Investors Service placed the long- and short-tem debt ratings of Group Inc. under review for downgrade as part of a global review of financial institutions.

The table below presents the unsecured credit ratings of GS Bank USA, GS&Co. and GSI.

	As of March 2012			
	Short-Term Debt	Long-Term Debt	Short-Term Bank Deposits	Long-Term Bank Deposits
Fitch, Inc.				
GS Bank USA	**F1**	**A**	**F1**	**A+**
GS&Co.	**F1**	**A**	**N/A**	**N/A**
Moody's Investors Service				
GS Bank USA	**P-1**	**Aa3**	**P-1**	**Aa3**
Standard & Poor's Ratings Services				
GS Bank USA	**A-1**	**A**	**N/A**	**N/A**
GS&Co.	**A-1**	**A**	**N/A**	**N/A**
GSI	**A-1**	**A**	**N/A**	**N/A**

We rely on the short-term and long-term debt capital markets to fund a significant portion of our day-to-day operations and the cost and availability of debt financing is influenced by our credit ratings. Credit ratings are also important when we are competing in certain markets, such as OTC derivatives, and when we seek to engage in longer-term transactions. See "Certain Risk Factors That May Affect Our Businesses" below and "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for a discussion of the risks associated with a reduction in our credit ratings.

We believe our credit ratings are primarily based on the credit rating agencies' assessment of:

- our liquidity, market, credit and operational risk management practices;
- the level and variability of our earnings;
- our capital base;
- our franchise, reputation and management;
- our corporate governance; and
- the external operating environment, including the assumed level of government support.

We allocate a portion of our GCE to ensure we would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. The table below presents 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 our credit ratings.

	As of	
in millions	**March 2012**	December 2011
Additional collateral or termination payments for a one-notch downgrade	**$1,331**	$1,303
Additional collateral or termination payments for a two-notch downgrade	**2,207**	2,183

The Basel Committee on Banking Supervision's international framework for liquidity risk measurement, standards and monitoring calls for imposition of a liquidity coverage ratio, designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets based on expected cash outflows under an acute liquidity stress scenario, and a net stable funding ratio, designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. The liquidity coverage ratio is not expected to be introduced as a requirement until January 1, 2015, and the net stable funding ratio is not expected to be introduced as a requirement until January 1, 2018. While the principles behind the new framework are broadly consistent with our current liquidity management framework, it is possible that the implementation of these standards could impact our liquidity and funding requirements and practices.

Cash Flows

As a global financial institution, our cash flows are complex and bear little relation to our net earnings and net assets. Consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the excess liquidity and asset-liability management policies described above. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our businesses.

Three Months Ended March 2012. Our cash and cash equivalents increased by $1.13 billion to $57.14 billion at the end of the first quarter of 2012. We generated $3.54 billion in net cash from operating activities. We used net cash of $2.41 billion in investing and financing activities, primarily from the net repayments of secured and unsecured borrowings, partially offset by a net increase in bank deposits.

Three Months Ended March 2011. Our cash and cash equivalents increased by $2.90 billion to $42.68 billion at the end of the first quarter of 2011. We generated $1.90 billion in net cash from operating activities. We generated net cash of $1.00 billion in investing and financing activities, primarily from the net issuance of secured and unsecured borrowings.

Market Risk Management

Overview

Market risk is the risk of loss in the value of our inventory due to changes in market prices. We hold inventory primarily for market making for our clients and for our investing and lending activities. Our inventory therefore changes based on client demands and our investment opportunities. Our inventory is accounted for at fair value and therefore fluctuates on a daily basis. Categories of market risk include the following:

- Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads.
- Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices.
- Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates.
- Commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

Market Risk Management Process

We manage our market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This includes:

- accurate and timely exposure information incorporating multiple risk metrics;
- a dynamic limit setting framework; and
- constant communication among revenue-producing units, risk managers and senior management.

Market Risk Management, which is independent of the revenue-producing units and reports to the firm's chief risk officer, has primary responsibility for assessing, monitoring and managing market risk at the firm. We monitor and control risks through strong firmwide oversight and independent control and support functions across the firm's global businesses.

Managers in revenue-producing units are accountable for managing risk within prescribed limits. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

Managers in revenue-producing units and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

Risk Measures

Market Risk Management produces risk measures and monitors them against market risk limits set by our firm's risk committees. These measures reflect an extensive range of scenarios and the results are aggregated at trading desk, business and firmwide levels.

We use a variety of risk measures to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Risk measures used for shorter-term periods include VaR and sensitivity metrics. For longer-term horizons, our primary risk measures are stress tests. Our risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both our revenue-producing units and our independent control and support functions.

Systems

We have made a significant investment in technology to monitor market risk including:

- an independent calculation of VaR and stress measures;
- risk measures calculated at individual position levels;
- attribution of risk measures to individual risk factors of each position;
- the ability to report many different views of the risk measures (e.g., by desk, business, product type or legal entity); and
- the ability to produce ad hoc analyses in a timely manner.

Value-at-Risk

VaR is the potential loss in value of inventory positions due to adverse market movements over a defined time horizon with a specified confidence level. We typically employ a one-day time horizon with a 95% confidence level. The VaR model captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk at the firmwide level.

We are aware of the inherent limitations to VaR and therefore use a variety of risk measures in our market risk management process. Inherent limitations to VaR include:

- VaR does not estimate potential losses over longer time horizons where moves may be extreme.
- VaR does not take account of the relative liquidity of different risk positions.
- Previous moves in market risk factors may not produce accurate predictions of all future market moves.

When calculating VaR, we use historical simulations with full valuation of approximately 70,000 market factors. The historical data used in our VaR calculation is weighted to give greater importance to more recent observations and reflect current asset volatilities. This improves the accuracy of our estimates of potential loss. As a result, even if our inventory positions were unchanged, our VaR would increase with increasing market volatility and vice versa.

Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions.

We evaluate the accuracy of our VaR model through daily backtesting (i.e., comparing daily trading net revenues to the VaR measure calculated as of the prior business day) at the firmwide level and for each of our businesses and major regulated subsidiaries.

Our VaR measure does not include:

- positions that are best measured and monitored using sensitivity measures; and
- the impact of changes in counterparty and our own credit spreads on derivatives, as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected.

Stress Testing

We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the firm. We use a variety of scenarios to calculate the potential loss from a wide range of market moves on the firm's portfolios. These scenarios include the default of single corporate or sovereign entities, the impact of a move in a single risk factor across all positions (e.g., equity prices or credit spreads) or a combination of two or more risk factors. For example, for sovereign stress testing we calculate potential direct exposure associated with our sovereign inventory as well as the corresponding debt, equity and currency exposures associated with our non-sovereign inventory that may be impacted by the sovereign distress.

Unlike VaR measures, which have an implied probability because they are calculated at a specified confidence level, there is generally no implied probability that our stress test scenarios will occur. Instead, stress tests are used to model both moderate and more extreme moves in underlying market factors. When estimating potential loss, we generally assume that our positions cannot be reduced or hedged (although experience demonstrates that we are generally able to do so).

Stress test scenarios are conducted on a regular basis as part of the firm's routine risk management process and on an ad hoc basis in response to market events or concerns. Stress testing is an important part of the firm's risk management process because it allows us to highlight potential loss concentrations, undertake risk/reward analysis, and assess and mitigate our risk positions.

Limits

We use risk limits at various levels in the firm (including firmwide, product and business) to govern risk appetite by controlling the size of our exposures to market risk. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The Firmwide Risk Committee sets market risk limits at firmwide and product levels and our Securities Division Risk Committee sets sub-limits for market-making and investing activities at a business level. The purpose of the firmwide limits is to assist senior management in controlling the firm's overall risk profile. Sub-limits set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day trading decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Our market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. The business-level limits that are set by the Securities Division Risk Committee are subject to the same scrutiny and limit escalation policy as the firmwide limits.

When a risk limit has been exceeded (e.g., due to changes in market conditions, such as increased volatilities or changes in correlations), it is reported to the appropriate risk committee and a discussion takes place with the relevant desk managers, after which either the risk position is reduced or the risk limit is temporarily or permanently increased.

Metrics

We analyze VaR at the firmwide level and a variety of more detailed levels, including by risk category, business, and region. The tables below present, by risk category, average daily VaR and period-end VaR, as well as the high and low VaR for the period. Diversification effect in the tables below represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

Average Daily VaR

in millions	Three Months Ended March	
Risk Categories	**2012**	2011
Interest rates	**$ 90**	$ 87
Equity prices	**29**	49
Currency rates	**15**	24
Commodity prices	**26**	37
Diversification effect	**(65)**	(84)
Total	**$ 95**	$113

Our average daily VaR decreased to $95 million for the first quarter of 2012 from $113 million for the first quarter of 2011, reflecting decreases in the equity prices, commodity prices and currency rates categories, principally due to reduced exposures. These decreases were partially offset by a decrease in the diversification benefit across risk categories.

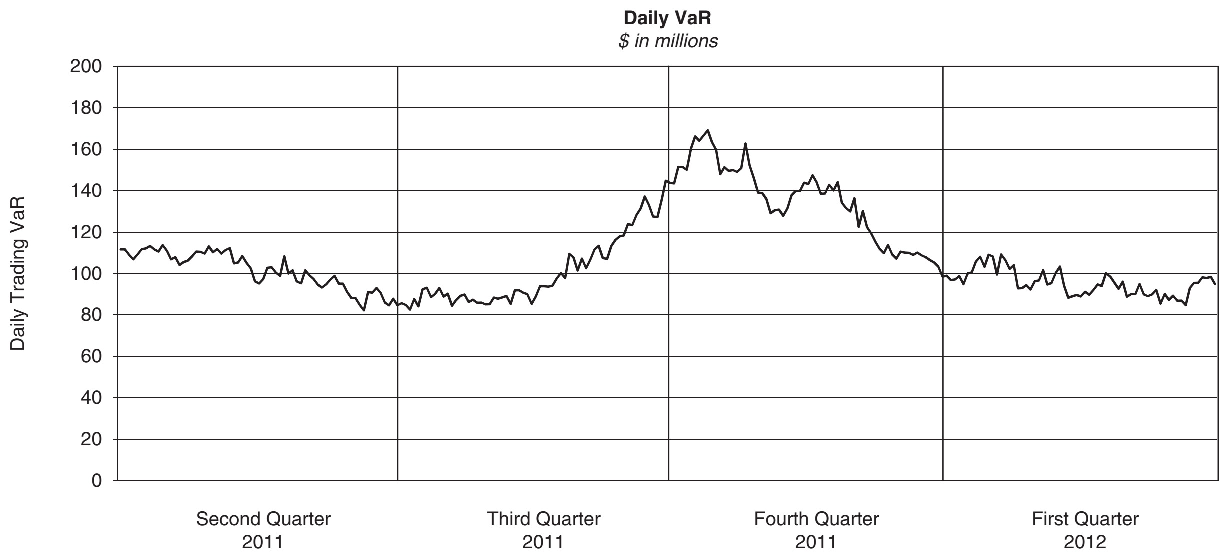
Quarter-End VaR and High and Low VaR

in millions	As of		**Three Months Ended March 2012**	
Risk Categories	**March 2012**	December 2011	**High**	**Low**
Interest rates	**$ 83**	$100	**$103**	**$80**
Equity prices	**29**	31	**45**	**19**
Currency rates	**15**	14	**22**	**12**
Commodity prices	**22**	23	**32**	**20**
Diversification effect	**(54)**	(69)		
Total	**$ 95**	$ 99	**$109**	**$85**

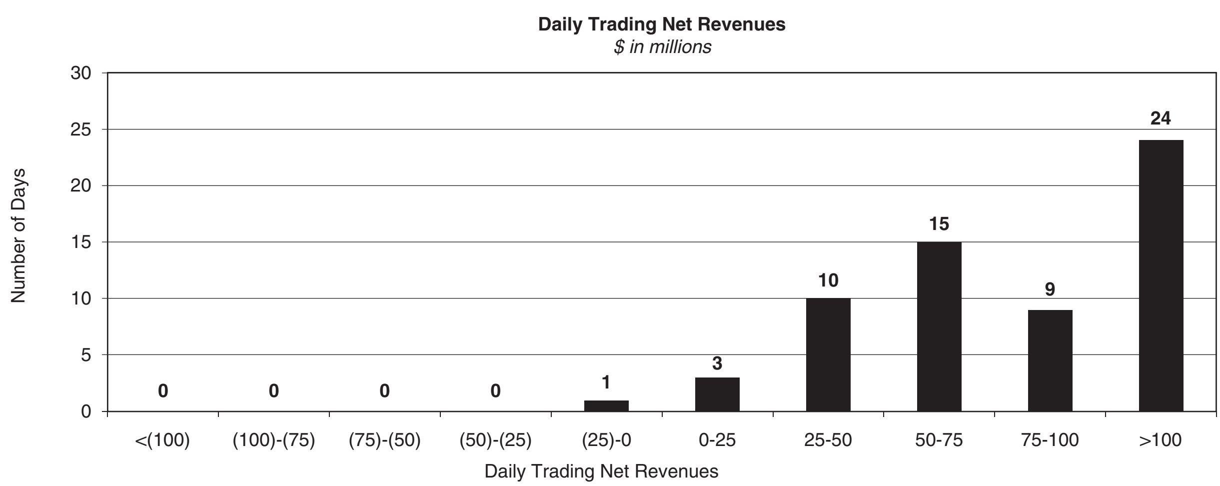
Our daily VaR decreased to $95 million as of March 2012 from $99 million as of December 2011, primarily reflecting a decrease in the interest rates category, largely offset by a decrease in the diversification benefit across risk categories. The decrease in the interest rates category was primarily due to tighter credit spreads and lower levels of volatility.

During the first quarter of 2012, the firmwide VaR risk limit was not exceeded, raised or reduced.

The chart below reflects the VaR over the last four quarters.



The chart below presents the frequency distribution of our daily trading net revenues for substantially all inventory positions included in VaR for the quarter ended March 2012.



Daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during the first quarter of 2012.

During periods in which the firm has significantly more positive net revenue days than net revenue loss days, we expect to have fewer VaR exceptions because, under normal conditions, our business model generally produces positive net revenues. In periods in which our franchise revenues are adversely affected, we generally have more loss days, resulting in more VaR exceptions. In addition, VaR backtesting is performed against total daily market-making revenues, including bid/offer net revenues, which are more likely than not to be positive by their nature.

Sensitivity Measures

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure. The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the underlying asset value.

The table below presents market risk for positions that are not included in VaR. These measures do not reflect diversification benefits across asset categories and therefore have not been aggregated.

Asset Categories	10% Sensitivity	
	Amount as of	
in millions	**March 2012**	December 2011
ICBC [1]	**$ 230**	$ 212
Equity (excluding ICBC) [2]	**2,496**	2,458
Debt [3]	**1,456**	1,521

1. Excludes third-party interests held by investment funds managed by Goldman Sachs.
2. Relates to private and restricted public equity securities, including interests in firm-sponsored funds that invest in corporate equities and real estate and interests in firm-sponsored hedge funds.
3. Relates to corporate bank debt, loans backed by commercial and residential real estate, and other corporate debt, including acquired portfolios of distressed loans and interests in our firm-sponsored funds that invest in corporate mezzanine and senior debt instruments.

VaR excludes the impact of changes in counterparty and our own credit spreads on derivatives as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected. The estimated sensitivity to a one basis point increase in credit spreads (counterparty and our own) on derivatives was a $3 million gain (including hedges) as of March 2012. In addition, the estimated sensitivity to a one basis point increase in our own credit spreads on unsecured borrowings for which the fair value option was elected was a $7 million gain (including hedges) as of March 2012. However, the actual net impact of a change in our own credit spreads is also affected by the liquidity, duration and convexity (as the sensitivity is not linear to changes in yields) of those unsecured borrowings for which the fair value option was elected, as well as the relative performance of any hedges undertaken.

The firm engages in insurance activities where we reinsure and purchase portfolios of insurance risk and pension liabilities. The risks associated with these activities include, but are not limited to: equity price, interest rate, reinvestment and mortality risk. The firm mitigates risks associated with insurance activities through the use of reinsurance and hedging. Certain of the assets associated with the firm's insurance activities are included in VaR. In addition to the positions included in VaR we held $4.69 billion of securities accounted for as available-for-sale as of March 2012, substantially all of which support the firm's insurance subsidiaries. As of March 2012, our available-for-sale securities primarily consisted of $1.62 billion of corporate debt securities with an average yield of 5%, the majority of which will mature after five years, $1.69 billion of mortgage and other asset-backed loans and securities with an average yield of 9%, the majority of which will mature after ten years, and $642 million of U.S. government and federal agency obligations with an average yield of 3%, the majority of which will mature after ten years. As of December 2011, we held $4.86 billion of securities accounted for as available-for-sale, primarily consisting of $1.81 billion of corporate debt securities with an average yield of 5%, the majority of which will mature after five years, $1.42 billion of mortgage and other asset-backed loans and securities with an average yield of 10%, the majority of which will mature after ten years, and $662 million of U.S. government and federal agency obligations with an average yield of 3%, the majority of which will mature after ten years.

In addition, as of March 2012 and December 2011, we had commitments and held loans for which we have obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 18 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for further information about such lending commitments.

Additionally, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in "Other assets" in the condensed consolidated statements of financial condition. Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 12 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information on "Other assets."

Credit Risk Management

Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold. Our exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and receivables from brokers, dealers, clearing organizations, customers and counterparties.

Credit Risk Management, which is independent of the revenue-producing units and reports to the firm's chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk at the firm. The Credit Policy Committee and the Firmwide Risk Committee establish and review credit policies and parameters. In addition, we hold other positions that give rise to credit risk (e.g., bonds held in our inventory and secondary bank loans). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions.

Policies authorized by the Firmwide Risk Committee and the Credit Policy Committee prescribe the level of formal approval required for the firm to assume credit exposure to a counterparty across all product areas, taking into account any enforceable netting provisions, collateral or other credit risk mitigants.

Credit Risk Management Process

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. Our process for managing credit risk includes:

- approving transactions and setting and communicating credit exposure limits;
- monitoring compliance with established credit exposure limits;
- assessing the likelihood that a counterparty will default on its payment obligations;
- measuring the firm's current and potential credit exposure and losses resulting from counterparty default;
- reporting of credit exposures to senior management, the Board and regulators;
- use of credit risk mitigants, including collateral and hedging; and
- communication and collaboration with other independent control and support functions such as operations, legal and compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of our counterparties. A credit review is an independent judgment about the capacity and willingness of a counterparty to meet its financial obligations. For substantially all of our credit exposures, the core of our process is an annual counterparty review. A counterparty review is a written analysis of a counterparty's business profile and financial strength resulting in an internal credit rating which represents the probability of default on financial obligations to the firm. The determination of internal credit ratings incorporates assumptions with respect to the counterparty's future business performance, the nature and outlook for the counterparty's industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

Our global credit risk management systems capture credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive information on our aggregate credit risk by product, internal credit rating, industry, country and region.

Risk Measures and Limits

We measure our credit risk based on the potential loss in an event of non-payment by a counterparty. For derivatives and securities financing transactions, the primary measure is potential exposure, which is our estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure takes into account netting and collateral arrangements. For loans and lending commitments, the primary measure is a function of the notional amount of the position. We also monitor credit risk in terms of current exposure, which is the amount presently owed to the firm after taking into account applicable netting and collateral.

We use credit limits at various levels (counterparty, economic group, industry, country) to control the size of our credit exposures. Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing appetites for a given counterparty or group of counterparties. Limits for industries and countries are based on the firm's risk tolerance and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations.

Stress Tests/Scenario Analysis

We use regular stress tests to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e.g., currency rates, interest rates, equity prices). These shocks include a wide range of moderate and more extreme market movements. Some of our stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. In the case of sovereign default, we estimate the direct impact of the default on our sovereign credit exposures, changes to our credit exposures arising from potential market moves in response to the default, and the impact of the credit market deterioration on corporate borrowers and counterparties that may result from the sovereign default. Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring.

We run stress tests on a regular basis as part of our routine risk management processes and conduct tailored stress tests on an ad hoc basis in response to market developments. Stress tests are regularly conducted jointly with the firm's market and liquidity risk functions.

Risk Mitigants

To reduce our credit exposures on derivatives and securities financing transactions, we may enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. We may also reduce credit risk with counterparties by entering into agreements that enable us to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty's credit rating falls below a specified level.

For loans and lending commitments, we typically employ a variety of potential risk mitigants, depending on the credit quality of the borrower and other characteristics of the transaction. Risk mitigants include: collateral provisions, guarantees, covenants, structural seniority of the bank loan claims and, for certain lending commitments, provisions in the legal documentation that allow the firm to adjust loan amounts, pricing, structure and other terms as market conditions change. The type and structure of risk mitigants employed can significantly influence the degree of credit risk involved in a loan.

When we do not have sufficient visibility into a counterparty's financial strength or when we believe a counterparty requires support from its parent company, we may obtain third-party guarantees of the counterparty's obligations. We may also mitigate our credit risk using credit derivatives or participation agreements.

Credit Exposures

The firm's credit exposures are described further below.

Cash and Cash Equivalents. Cash and cash equivalents include both interest-bearing and non-interest bearing deposits. To mitigate the risk of credit loss, we place substantially all of our deposits with highly rated banks and central banks.

OTC Derivatives. 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.

Derivatives are accounted for at fair value net of cash collateral received or posted under credit support agreements. As credit risk is an essential component of fair value, the firm includes a credit valuation adjustment (CVA) in the fair value of derivatives to reflect counterparty credit risk, as described in Note 7 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q. CVA is a function of the present value of expected exposure, the probability of counterparty default and the assumed recovery upon default.

The tables below present the distribution of our exposure to OTC derivatives by tenor, based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives, both before and after the effect of collateral and netting agreements. Receivable and payable balances for the same counterparty across tenor categories are netted under enforceable netting agreements, and cash collateral received is netted under credit support agreements. Receivable and payable balances with the same counterparty in the same tenor category are netted within such tenor category. The categories shown reflect our internally determined public rating agency equivalents.

in millions	As of March 2012						
Credit Rating Equivalent	**0 - 12 Months**	**1 - 5 Years**	**5 Years or Greater**	**Total**	**Netting**	**Exposure**	**Exposure Net of Collateral**
AAA/Aaa	**$ 528**	**$ 705**	**$ 2,046**	**$ 3,279**	**$ (721)**	**$ 2,558**	**$ 2,332**
AA/Aa2	**4,048**	**10,006**	**23,045**	**37,099**	**(18,652)**	**18,447**	**11,066**
A/A2	**15,896**	**32,991**	**46,682**	**95,569**	**(67,841)**	**27,728**	**15,745**
BBB/Baa2	**6,213**	**12,186**	**22,857**	**41,256**	**(32,952)**	**8,304**	**5,279**
BB/Ba2 or lower	**2,920**	**4,383**	**5,614**	**12,917**	**(5,725)**	**7,192**	**4,339**
Unrated	**447**	**872**	**368**	**1,687**	**(37)**	**1,650**	**1,278**
Total	**$30,052**	**$61,143**	**$100,612**	**$191,807**	**$(125,928)**	**$65,879**	**$40,039**

in millions	As of December 2011						
Credit Rating Equivalent	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Netting	Exposure	Exposure Net of Collateral
AAA/Aaa	$ 727	$ 786	$ 2,297	$ 3,810	$ (729)	$ 3,081	$ 2,770
AA/Aa2	4,661	10,198	28,094	42,953	(22,972)	19,981	12,954
A/A2	17,704	36,553	50,787	105,044	(73,873)	31,171	17,109
BBB/Baa2	7,376	14,222	25,612	47,210	(36,214)	10,996	6,895
BB/Ba2 or lower	2,896	4,497	6,597	13,990	(6,729)	7,261	4,527
Unrated	752	664	391	1,807	(149)	1,658	1,064
Total	$34,116	$66,920	$113,778	$214,814	$(140,666)	$74,148	$45,319

Lending Activities. We manage the firm's traditional credit origination activities, including funded loans and lending commitments (both fair value and held for investment loans and lending commitments), using the credit risk process, measures and limits described above. Other lending positions, including secondary trading positions, are risk-managed as a component of market risk.

Other Credit Exposures. The firm is exposed to credit risk from its receivables from brokers, dealers and clearing organizations and customers and counterparties. Receivables from brokers, dealers and clearing organizations are primarily comprised of initial margin placed with clearing organizations and receivables related to sales of securities which have traded, but not yet settled. These receivables have minimal credit risk due to the low probability of clearing organization default and the short-term nature of receivables related to securities settlements. Receivables from customers and counterparties are generally comprised of collateralized receivables related to customer securities transactions and have minimal credit risk due to both the value of the collateral received and the short-term nature of these receivables.

Credit Exposures

As of March 2012, our credit exposures decreased as compared with December 2011, primarily reflecting a decrease in OTC derivative exposures. The percentage of our credit exposure arising from non-investment-grade counterparties (based on our internally determined public rating agency equivalents) was essentially unchanged from December 2011. Counterparty defaults rose slightly during the three months ended March 2012; however, the associated credit losses were lower as compared with the same prior year period.

The tables below present the firm's credit exposures related to cash, OTC derivatives, and loans and lending commitments associated with traditional credit origination activities broken down by industry, region and internal credit rating.

Credit Exposure by Industry

in millions	Cash		OTC Derivatives		Loans and Lending Commitments [1]	
	As of		As of		As of	
	March 2012	December 2011	**March 2012**	December 2011	**March 2012**	December 2011
Asset Managers & Funds	**$ 27**	$ 64	**$ 9,206**	$10,582	**$ 1,687**	$ 1,290
Banks, Brokers & Other Financial Institutions	**12,671**	12,535	**21,639**	25,041	**3,570**	3,591
Consumer Products, Non-Durables & Retail	**—**	11	**1,153**	1,031	**12,187**	12,685
Government & Central Banks	**44,434**	43,389	**15,564**	16,642	**1,823**	1,828
Healthcare & Education	**—**	—	**2,854**	2,962	**7,269**	7,158
Insurance	**—**	—	**2,910**	2,828	**2,856**	2,891
Natural Resources & Utilities	**—**	—	**4,947**	4,803	**15,138**	14,795
Real Estate	**—**	—	**383**	327	**2,744**	2,695
Technology, Media, Telecommunications & Services	**—**	2	**2,037**	2,124	**13,404**	12,646
Transportation	**—**	—	**1,086**	1,104	**5,899**	5,753
Other	**6**	7	**4,100**	6,704	**5,157**	5,759
Total [2]	**$57,138**	$56,008	**$65,879**	$74,148	**$71,734**	$71,091

Credit Exposure by Region

in millions	Cash		OTC Derivatives		Loans and Lending Commitments [1]	
	As of		As of		As of	
	March 2012	December 2011	**March 2012**	December 2011	**March 2012**	December 2011
Americas	**$50,425**	$48,543	**$30,724**	$36,591	**$53,479**	$52,755
EMEA [3]	**1,881**	1,800	**27,388**	29,549	**16,816**	16,989
Asia	**4,832**	5,665	**7,767**	8,008	**1,439**	1,347
Total [2]	**$57,138**	$56,008	**$65,879**	$74,148	**$71,734**	$71,091

Credit Exposure by Credit Quality

in millions **Credit Rating Equivalent**	Cash		OTC Derivatives		Loans and Lending Commitments [1]	
	As of		As of		As of	
	March 2012	December 2011	**March 2012**	December 2011	**March 2012**	December 2011
AAA/Aaa	**$42,972**	$40,559	**$ 2,558**	$ 3,081	**$ 2,220**	$ 2,192
AA/Aa2	**5,744**	7,463	**18,447**	19,981	**6,871**	7,026
A/A2	**7,131**	6,464	**27,728**	31,171	**21,919**	21,055
BBB/Baa2	**164**	195	**8,304**	10,996	**24,019**	22,937
BB/Ba2 or lower	**1,024**	1,209	**7,192**	7,261	**16,705**	17,820
Unrated	**103**	118	**1,650**	1,658	**—**	61
Total [2]	**$57,138**	$56,008	**$65,879**	$74,148	**$71,734**	$71,091

1. Includes approximately $9 billion and $10 billion of loans as of March 2012 and December 2011, respectively, and approximately $63 billion and $61 billion of lending commitments as of March 2012 and December 2011, respectively. Excludes approximately $10 billion and $10 billion of loans as of March 2012 and December 2011, respectively, and lending commitments with a total notional value of approximately $4 billion and $5 billion as of March 2012 and December 2011, respectively, that are risk managed as part of market risk using VaR and sensitivity measures.

2. The firm bears credit risk related to resale agreements and securities borrowed only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. The firm also has credit exposure on repurchase agreements and securities loaned to the extent that the value of securities pledged or delivered to the counterparty for these transactions exceeds the amount of cash or collateral received. We had approximately $42 billion and $41 billion as of March 2012 and December 2011, respectively, in credit exposure related to securities financing transactions reflecting enforceable netting agreements.

3. EMEA (Europe, Middle East and Africa).

Selected Country Exposures

During 2011 and continuing into 2012, there have been concerns about European sovereign debt risk and its impact on the European banking system and a number of European member states have been experiencing significant credit deterioration. The most pronounced market concerns relate to Greece, Ireland, Italy, Portugal and Spain. The tables below present our credit exposure (both gross and net of hedges) to all sovereigns, financial institutions and corporate counterparties or borrowers in these countries. Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or borrower. In addition, the tables include the market exposure of our long and short inventory in which the issuer or underlier is located in these countries. Market exposure represents the potential for loss in value of our inventory due to changes in market prices. There is no overlap between the credit and market exposures in the tables below.

The country of risk is determined by the location of the counterparty, issuer or underlier's assets, where they generate revenue, the country in which they are headquartered, and/or the government whose policies affect their ability to repay their obligations.

	As of March 2012											
	Credit Exposure								Market Exposure			
in millions	Loans	OTC Derivatives	Other	Gross Funded	Hedges	Total Net Funded Credit Exposure	Unfunded Credit Exposure	Total Credit Exposure	Bonds	Equities and Other	Credit Derivatives	Total Market Exposure
Greece												
Sovereign	$ —	$ 4	$ —	$ 4	$ —	$ 4	$ —	$ 4	$ 143	$ —	$ (14)	$ 129
Non-Sovereign	22	40	—	62	—	62	—	62	62	(1)	54	115
Total Greece	22	44	—	66	—	66	—	66	205	(1)	40	244
Ireland												
Sovereign	—	4	124	128	—	128	—	128	(39)	—	(332)	(371)
Non-Sovereign	—	306	41	347	(7)	340	57	397	535	100	(72)	563
Total Ireland	—	310	165	475	(7)	468	57	525	496	100	(404)	192
Italy												
Sovereign	—	1,844	1	1,845	(1,543)	302	—	302	2,510	—	170	2,680
Non-Sovereign	180	372	1	553	(37)	516	351	867	367	255	(907)	(285)
Total Italy	180	2,216	2	2,398	(1,580)	818	351	1,169	2,877	255	(737)	2,395
Portugal												
Sovereign	—	101	—	101	—	101	—	101	44	—	(173)	(129)
Non-Sovereign	—	19	2	21	—	21	—	21	607	1	(577)	31
Total Portugal	—	120	2	122	—	122	—	122	651	1	(750)	(98)
Spain												
Sovereign	—	68	—	68	—	68	—	68	(446)	—	(515)	(961)
Non-Sovereign	109	189	3	301	(268)	33	538	571	1,459	234	(782)	911
Total Spain	109	257	3	369	(268)	101	538	639	1,013	234	(1,297)	(50)
Subtotal	$311	$2,947 [1]	$172	$3,430 [1]	$(1,855) [2]	$1,575	$946	$2,521	$5,242	$589	$(3,148) [2]	$2,683

1. Includes the benefit of $6.3 billion of cash and U.S. Treasury securities collateral and excludes non-U.S. government and corporate securities collateral of $252 million.

2. Includes written and purchased credit derivative notionals reduced by the fair values of such credit derivatives.

	As of December 2011											
	Credit Exposure								Market Exposure			
in millions	Loans	OTC Derivatives	Other	Gross Funded	Hedges	Total Net Funded Credit Exposure	Unfunded Credit Exposure	Total Credit Exposure	Bonds	Equities and Other	Credit Derivatives	Total Market Exposure
Greece												
Sovereign	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 329	$ —	$ (22)	$ 307
Non-Sovereign	20	53	—	73	—	73	—	73	32	11	18	61
Total Greece	20	53	—	73	—	73	—	73	361	11	(4)	368
Ireland												
Sovereign	—	1	256	257	—	257	—	257	411	—	(352)	59
Non-Sovereign	—	542	66	608	(8)	600	57	657	412	85	115	612
Total Ireland	—	543	322	865	(8)	857	57	914	823	85	(237)	671
Italy												
Sovereign	—	1,666	3	1,669	(1,410)	259	—	259	210	—	200	410
Non-Sovereign	126	457	—	583	(25)	558	408	966	190	297	(896)	(409)
Total Italy	126	2,123	3	2,252	(1,435)	817	408	1,225	400	297	(696)	1
Portugal												
Sovereign	—	151	—	151	—	151	—	151	(98)	—	23	(75)
Non-Sovereign	—	53	2	55	—	55	—	55	230	13	(179)	64
Total Portugal	—	204	2	206	—	206	—	206	132	13	(156)	(11)
Spain												
Sovereign	—	88	—	88	—	88	—	88	151	—	(550)	(399)
Non-Sovereign	153	254	11	418	(141)	277	146	423	345	239	(629)	(45)
Total Spain	153	342	11	506	(141)	365	146	511	496	239	(1,179)	(444)
Subtotal	$299	$3,265 [1]	$338	$3,902 [1]	$(1,584)	$2,318	$611	$2,929	$2,212	$645	$(2,272) [2]	$ 585

1. Includes the benefit of $6.5 billion of cash and U.S. Treasury securities collateral and excludes non-U.S. government and corporate securities collateral of $341 million.

2. Includes written and purchased credit derivative notionals reduced by the fair values of such credit derivatives.

We economically hedge our exposure to written credit derivatives by entering into offsetting purchased credit derivatives with identical underlyings. Where possible, we endeavor to match the tenor and credit default terms of such hedges to that of our written credit derivatives. Substantially all purchased credit derivatives included above are bought from investment-grade counterparties domiciled outside of these countries and are collateralized with cash or U.S. Treasury securities. The gross purchased and written credit derivative notionals across the above countries for single-name and index credit default swaps (included in Hedges and Credit Derivatives in the tables above) were $175.0 billion and $163.6 billion, respectively, as of March 2012, and $177.8 billion and $167.3 billion, respectively, as of December 2011. Including netting under legally enforceable netting agreements, within each and across all of the countries above, the purchased and written credit derivative notionals for single-name and index credit default swaps were $27.3 billion and $16.0 billion, respectively, as of March 2012, and $28.2 billion and $17.7 billion, respectively, as of December 2011. These notionals are not representative of our exposure because they exclude available netting under legally enforceable netting agreements on other derivatives outside of these countries and collateral received or posted under credit support agreements.

For information about the nature of or payout under trigger events related to written and purchased credit protection contracts see Note 7 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

We evaluate and monitor the effects of indirect exposure from these countries. See "Liquidity Risk Management — Modeled Liquidity Outflow," "Market Risk Management — Stress Testing" and "Credit Risk Management — Stress Tests/Scenario Analysis" for further discussion.

Credit events which occurred subsequent to March 2012 related to these countries did not have a material effect on our financial condition, results of operations, liquidity or capital resources.

Operational Risk Management

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Our exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. Potential types of loss events related to internal and external operational risk include:

- clients, products and business practices;
- execution, delivery and process management;
- business disruption and system failures;
- employment practices and workplace safety;
- damage to physical assets;
- internal fraud; and
- external fraud.

The firm maintains a comprehensive control framework designed to provide a well-controlled environment to minimize operational risks. The Firmwide Operational Risk Committee, along with the support of regional or entity-specific working groups or committees, provides oversight of the ongoing development and implementation of our operational risk policies and framework. Our Operational Risk Management department (Operational Risk Management) is a risk management function independent of our revenue-producing units, reports to the firm's chief risk officer, and is responsible for developing and implementing policies, methodologies and a formalized framework for operational risk management with the goal of minimizing our exposure to operational risk.

Operational Risk Management Process

Managing operational risk requires timely and accurate information as well as a strong control culture. We seek to manage our operational risk through:

- the training, supervision and development of our people;
- the active participation of senior management in identifying and mitigating key operational risks across the firm;
- independent control and support functions that monitor operational risk on a daily basis and have instituted extensive policies and procedures and implemented controls designed to prevent the occurrence of operational risk events;
- proactive communication between our revenue-producing units and our independent control and support functions; and
- a network of systems throughout the firm to facilitate the collection of data used to analyze and assess our operational risk exposure.

We combine top-down and bottom-up approaches to manage and measure operational risk. From a top-down perspective, the firm's senior management assesses firmwide and business level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions are responsible for risk management on a day-to-day basis, including identifying, mitigating, and escalating operational risks to senior management.

Our operational risk framework is in part designed to comply with the operational risk measurement rules under Basel 2 and has evolved based on the changing needs of our businesses and regulatory guidance. Our framework includes the following practices:

- Risk identification and reporting;
- Risk measurement; and
- Risk monitoring.

Internal Audit performs a review of our operational risk framework, including our key controls, processes and applications, on an annual basis to ensure the effectiveness of our framework.

Risk Identification and Reporting

The core of our operational risk management framework is risk identification and reporting. We have a comprehensive data collection process, including firmwide policies and procedures, for operational risk events.

We have established policies that require managers in our revenue-producing units and our independent control and support functions to escalate operational risk events. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in the firm's systems and/or processes to further mitigate the risk of future events.

In addition, our firmwide systems capture internal operational risk event data, key metrics such as transaction volumes, and statistical information such as performance trends. We use an internally-developed operational risk management application to aggregate and organize this information. Managers from both revenue-producing units and independent control and support functions analyze the information to evaluate operational risk exposures and identify businesses, activities or products with heightened levels of operational risk. We also provide operational risk reports to senior management, risk committees and the Board periodically.

Risk Measurement

We measure the firm's operational risk exposure over a twelve-month time horizon using both statistical modeling and scenario analyses, which involve qualitative assessments of the potential frequency and extent of potential operational risk losses, for each of the firm's businesses. Operational risk measurement incorporates qualitative and quantitative assessments of factors including:

- internal and external operational risk event data;
- assessments of the firm's internal controls;
- evaluations of the complexity of the firm's business activities;
- the degree of and potential for automation in the firm's processes;
- new product information;
- the legal and regulatory environment;
- changes in the markets for the firm's products and services, including the diversity and sophistication of the firm's customers and counterparties; and
- the liquidity of the capital markets and the reliability of the infrastructure that supports the capital markets.

The results from these scenario analyses are used to monitor changes in operational risk and to determine business lines that may have heightened exposure to operational risk. These analyses ultimately are used to determine the appropriate level of operational risk capital to hold.

Risk Monitoring

We evaluate changes in the operational risk profile of the firm and its businesses, including changes in business mix or jurisdictions in which the firm operates, by monitoring these factors at a firmwide, entity and business level. The firm has both detective and preventive internal controls, which are designed to reduce the frequency and severity of operational risk losses and the probability of operational risk events. We monitor the results of assessments and independent internal audits of these internal controls.

Recent Accounting Developments

See Note 3 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for information about Recent Accounting Developments.

Certain Risk Factors That May Affect Our Businesses

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal, regulatory and reputational risks. For a discussion of how management seeks to manage some of these risks, see "Overview and Structure of Risk Management." A summary of the more important factors that could affect our businesses follows. For a further discussion of these and other important factors that could affect our businesses, financial condition, results of operations, cash flows and liquidity, see "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K.

- Our businesses have been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.
- Our businesses have been and may be adversely affected by declining asset values. This is particularly true for those businesses in which we have net "long" positions, receive fees based on the value of assets managed, or receive or post collateral.
- Our businesses have been and may be adversely affected by disruptions in the credit markets, including reduced access to credit and higher costs of obtaining credit.
- Our market-making activities have been and may be affected by changes in the levels of market volatility.
- Our investment banking, client execution and investment management businesses have been adversely affected and may continue to be adversely affected by market uncertainty or lack of confidence among investors and CEOs due to general declines in economic activity and other unfavorable economic, geopolitical or market conditions.
- Our investment management business may be affected by the poor investment performance of our investment products.
- We may incur losses as a result of ineffective risk management processes and strategies.
- Our liquidity, profitability and businesses may be adversely affected by an inability to access the debt capital markets or to sell assets or by a reduction in our credit ratings or by an increase in our credit spreads.
- Conflicts of interest are increasing and a failure to appropriately identify and address conflicts of interest could adversely affect our businesses.
- Group Inc. is a holding company and is dependent for liquidity on payments from its subsidiaries, many of which are subject to restrictions.
- Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold.
- Concentration of risk increases the potential for significant losses in our market-making, underwriting, investing and lending activities.
- The financial services industry is highly competitive.
- We face enhanced risks as new business initiatives lead us to transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.
- Derivative transactions and delayed settlements may expose us to unexpected risk and potential losses.
- Our businesses may be adversely affected if we are unable to hire and retain qualified employees.
- Our businesses and those of our clients are subject to extensive and pervasive regulation around the world.
- We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.
- A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, result in the disclosure of confidential information, damage our reputation and cause losses.
- Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause us significant reputational harm, which in turn could seriously harm our business prospects.
- The growth of electronic trading and the introduction of new trading technology may adversely affect our business and may increase competition.
- Our commodities activities, particularly our power generation interests and our physical commodities activities, subject us to extensive regulation, potential catastrophic events and environmental, reputational and other risks that may expose us to significant liabilities and costs.
- In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks that are inherent in operating in many countries.
- We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks or natural disasters.

Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995

We have included or incorporated by reference in this Form 10-Q, and from time to time our management may make, statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. For a discussion of some of the risks and important factors that could affect our future results and financial condition, see "Certain Risk Factors That May Affect Our Businesses" above, as well as "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K.

Statements about our investment banking transaction backlog also may constitute forward-looking statements. Such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues, if any, that we actually earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline or continued weakness in general economic conditions, outbreak of hostilities, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an inability to obtain adequate financing, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. For a discussion of other important factors that could adversely affect our investment banking transactions, see "Certain Risk Factors That May Affect Our Businesses" above, as well as "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risk Management" in Part I, Item 2 above.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by Goldman Sachs' management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth the information with respect to purchases made by or on behalf of The Goldman Sachs Group, Inc. (Group Inc.) or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the three months ended March 31, 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [1]
Month #1 (January 1, 2012 to January 31, 2012)	**2,102,163 [2]**	**$108.70**	**2,068,686**	**61,454,653**
Month #2 (February 1, 2012 to February 29, 2012)	**1,184,270**	**115.74**	**1,184,270**	**60,270,383**
Month #3 (March 1, 2012 to March 31, 2012)	**9**	**123.70**	**9**	**60,270,374**
Total	**3,286,442**		**3,252,965**	

1. On March 21, 2000, we announced that the Board of Directors of Group Inc. (Board) had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 325 million shares by resolutions of our Board adopted on June 18, 2001, March 18, 2002, November 20, 2002, January 30, 2004, January 25, 2005, September 16, 2005, September 11, 2006, December 17, 2007 and July 18, 2011. We use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm's current and projected capital position (i.e., comparisons of our desired level and composition of capital to our actual level and composition of capital) and its issuance of shares resulting from employee share-based compensation, but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock. The repurchase program has no set expiration or termination date. Any repurchase of our common stock requires approval by the Federal Reserve Board.
2. Includes 33,477 shares remitted by employees to satisfy minimum statutory withholding taxes on equity-based awards that were delivered to employees during the period.

Item 6. Exhibits

Exhibits

12.1	Statement re: Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
15.1	Letter re: Unaudited Interim Financial Information.
31.1	Rule 13a-14(a) Certifications.
32.1	Section 1350 Certifications.*
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Earnings for the three months ended March 31, 2012 and March 31, 2011, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and March 31, 2011, (iii) the Condensed Consolidated Statements of Financial Condition as of March 31, 2012 and December 31, 2011, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2012 and year ended December 31, 2011, (v) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and March 31, 2011, and (vi) the notes to the Condensed Consolidated Financial Statements.

* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ David A. Viniar

Name: David A. Viniar
Title: Chief Financial Officer

By: /s/ Sarah E. Smith

Name: Sarah E. Smith
Title: Principal Accounting Officer

Date: May 9, 2012

EXHIBIT 12.1

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

$ in millions	Three Months Ended March **2012**	Year Ended December 2011	2010	2009	Year Ended November 2008	2007	One Month Ended December 2008
Net earnings/(loss)	**$2,109**	$ 4,442	$ 8,354	$13,385	$ 2,322	$11,599	$ (780)
Add:							
Provision/(benefit) for taxes	**1,072**	1,727	4,538	6,444	14	6,005	(478)
Portion of rents representative of an interest factor	**31**	159	169	145	146	137	13
Interest expense on all indebtedness	**1,852**	7,982	6,806	6,500	31,357	41,981	1,002
Pre-tax earnings/(loss), as adjusted	**$5,064**	$14,310	$19,867	$26,474	$33,839	$59,722	$ (243)
Fixed charges [1]:							
Portion of rents representative of an interest factor	**$ 31**	$ 159	$ 169	$ 145	$ 146	$ 137	$ 13
Interest expense on all indebtedness	**1,855**	7,987	6,810	6,570	31,444	42,051	1,008
Total fixed charges	**$1,886**	$ 8,146	$ 6,979	$ 6,715	$31,590	$42,188	$1,021
Preferred stock dividend requirements	**53**	2,683	989	1,767	283	291	400
Total combined fixed charges and preferred stock dividends	**$1,939**	$10,829	$ 7,968	$ 8,482	$31,873	$42,479	$1,421
Ratio of earnings to fixed charges	**2.69x**	1.76x	2.85x	3.94x	1.07x	1.42x	N/A [2]
Ratio of earnings to combined fixed charges and preferred stock dividends	**2.61x**	1.32x	2.49x	3.12x	1.06x	1.41x	N/A [2]

1. Fixed charges include capitalized interest of $3 million, $5 million, $4 million, $70 million, $87 million, $70 million and $6 million for the three months ended March 2012, years ended December 2011, December 2010, December 2009, November 2008, November 2007 and one month ended December 2008, respectively.

2. Earnings for the one month ended December 2008 were inadequate to cover total fixed charges and total combined fixed charges and preferred stock dividends. The coverage deficiencies for total fixed charges and total combined fixed charges and preferred stock dividends were $1.26 billion and $1.66 billion, respectively.

EXHIBIT 15.1

May 9, 2012

Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

Re: The Goldman Sachs Group, Inc.
Registration Statements on Form S-8
(No. 333-80839)
(No. 333-42068)
(No. 333-106430)
(No. 333-120802)

Registration Statements on Form S-3
(No. 333-159143)
(No. 333-176914)

Commissioners:

We are aware that our report dated May 9, 2012 on our review of the condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and subsidiaries (the Company) as of March 31, 2012, the related condensed consolidated statements of earnings for the three months ended March 31, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three months ended March 31, 2012 and 2011, the condensed consolidated statement of changes in shareholders' equity for the three months ended March 31, 2012, and the condensed consolidated statements of cash flows for the three months ended March 31, 2012 and 2011 included in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2012 is incorporated by reference in the registration statements referred to above. Pursuant to Rule 436(c) under the Securities Act of 1933 (the "Act"), such report should not be considered a part of such registration statements, and is not a report within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ PRICEWATERHOUSECOOPERS LLP

EXHIBIT 31.1

CERTIFICATIONS

I, Lloyd C. Blankfein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 of The Goldman Sachs Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Lloyd C. Blankfein

Name: Lloyd C. Blankfein
Title: Chief Executive Officer

Date: May 9, 2012

CERTIFICATIONS

I, David A. Viniar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 of The Goldman Sachs Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David A. Viniar

Name: David A. Viniar
Title: Chief Financial Officer

Date: May 9, 2012

EXHIBIT 32.1

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2012

/s/ Lloyd C. Blankfein

Name: Lloyd C. Blankfein
Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2012

/s/ David A. Viniar

Name: David A. Viniar
Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.