

GOLDMAN SACHS GROUP INC
Form 10-Q
August 07, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

or

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

For the transition period from

to

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

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

13-4019460
(I.R.S. Employer

Identification No.)

10282
(Zip Code)

(212) 902-1000

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer

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

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of July 25, 2014, there were 440,579,936 shares of the registrant's common stock outstanding.

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THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

	Three Months		Six Months	
	Ended June		Ended June	
<i>in millions, except per share amounts</i>	2014	2013	2014	2013
Revenues				
Investment banking	\$1,781	\$1,552	\$ 3,560	\$ 3,120
Investment management	1,378	1,267	2,876	2,517
Commissions and fees	786	873	1,658	1,702
Market making	2,185	2,692	4,824	6,129
Other principal transactions	1,995	1,402	3,498	3,483
Total non-interest revenues	8,125	7,786	16,416	16,951
Interest income	2,579	2,663	5,173	5,271
Interest expense	1,579	1,837	3,136	3,520
Net interest income	1,000	826	2,037	1,751
Net revenues, including net interest income	9,125	8,612	18,453	18,702
Operating expenses				
Compensation and benefits	3,924	3,703	7,935	8,042
Brokerage, clearing, exchange and distribution fees	613	613	1,208	1,174
Market development	141	140	279	281
Communications and technology	186	182	386	370
Depreciation and amortization	294	266	684	568
Occupancy	205	210	415	428
Professional fees	224	218	436	464

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Insurance reserves		49		176
Other expenses	717	586	1,268	1,181
Total non-compensation expenses	2,380	2,264	4,676	4,642
Total operating expenses	6,304	5,967	12,611	12,684
Pre-tax earnings	2,821	2,645	5,842	6,018
Provision for taxes	784	714	1,772	1,827
Net earnings	2,037	1,931	4,070	4,191
Preferred stock dividends	84	70	168	142
Net earnings applicable to common shareholders	\$1,953	\$1,861	\$ 3,902	\$ 4,049
Earnings per common share				
Basic	\$ 4.21	\$ 3.92	\$ 8.36	\$ 8.45
Diluted	4.10	3.70	8.13	7.99
Dividends declared per common share	\$ 0.55	\$ 0.50	\$ 1.10	\$ 1.00
Average common shares outstanding				
Basic	461.7	473.2	465.1	477.5
Diluted	475.9	503.5	480.1	506.6

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

<i>in millions</i>	Three Months		Six Months	
	Ended June 2014	2013	Ended June 2014	2013
Net earnings	\$2,037	\$1,931	\$4,070	\$4,191
Other comprehensive income/(loss) adjustments, net of tax:				
Currency translation	(30)	(30)	(59)	(56)
Pension and postretirement liabilities	(6)	(3)	(14)	(7)
Available-for-sale securities		(342)		(327)
Cash flow hedges	1		2	
Other comprehensive loss	(35)	(375)	(71)	(390)
Comprehensive income	\$2,002	\$1,556	\$3,999	\$3,801

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

	As of	
	June	December
<i>in millions, except share and per share amounts</i>	2014	2013
Assets		
Cash and cash equivalents	\$ 56,983	\$ 61,133
Cash and securities segregated for regulatory and other purposes (includes \$23,947 and \$31,937 at fair value as of June 2014 and December 2013, respectively)	40,668	49,671
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$108,504 and \$161,297 at fair value as of June 2014 and December 2013, respectively)	109,103	161,732
Securities borrowed (includes \$51,971 and \$60,384 at fair value as of June 2014 and December 2013, respectively)	164,719	164,566
Receivables from:		
Brokers, dealers and clearing organizations	28,233	23,840
Customers and counterparties (includes \$7,010 and \$7,416 at fair value as of June 2014 and December 2013, respectively)	91,011	88,935
Financial instruments owned, at fair value (includes \$72,244 and \$62,348 pledged as collateral as of June 2014 and December 2013, respectively)	345,806	339,121
Other assets (includes \$18 at fair value as of December 2013)	23,391	22,509
Total assets	\$859,914	\$911,507
Liabilities and shareholders' equity		
Deposits (includes \$10,134 and \$7,255 at fair value as of June 2014 and December 2013, respectively)	\$ 73,750	\$ 70,807
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	106,966	164,782
Securities loaned (includes \$1,529 and \$973 at fair value as of June 2014 and December 2013, respectively)	9,440	18,745
Other secured financings (includes \$23,846 and \$23,591 at fair value as of June 2014 and December 2013, respectively)	25,178	24,814
Payables to:		
Brokers, dealers and clearing organizations	12,263	5,349
Customers and counterparties	199,253	199,416
Financial instruments sold, but not yet purchased, at fair value	124,162	127,426
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$17,617 and \$19,067 at fair value as of June 2014 and December 2013, respectively)	45,755	44,692

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Unsecured long-term borrowings (includes \$14,703 and \$11,691 at fair value as of June 2014 and December 2013, respectively)	167,019	160,965
Other liabilities and accrued expenses (includes \$488 and \$388 at fair value as of June 2014 and December 2013, respectively)	14,499	16,044
Total liabilities	778,285	833,040

Commitments, contingencies and guarantees

Shareholders' equity

Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$9,200 and \$7,200 as of June 2014 and December 2013, respectively	9,200	7,200
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 849,565,423 and 837,219,068 shares issued as of June 2014 and December 2013, respectively, and 440,734,836 and 446,359,012 shares outstanding as of June 2014 and December 2013, respectively	8	8
Restricted stock units and employee stock options	3,709	3,839
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	49,942	48,998
Retained earnings	75,340	71,961
Accumulated other comprehensive loss	(595)	(524)
Stock held in treasury, at cost, par value \$0.01 per share; 408,830,589 and 390,860,058 shares as of June 2014 and December 2013, respectively	(55,975)	(53,015)
Total shareholders' equity	81,629	78,467
Total liabilities and shareholders' equity	\$859,914	\$911,507

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

	Six Months Ended June 2014	Year Ended December 2013
<i>in millions</i>		
Preferred stock		
Balance, beginning of year	\$ 7,200	\$ 6,200
Issued	2,000	1,000
Balance, end of period	9,200	7,200
Common stock		
Balance, beginning of year	8	8
Issued		
Balance, end of period	8	8
Restricted stock units and employee stock options		
Balance, beginning of year	3,839	3,298
Issuance and amortization of restricted stock units and employee stock options	1,734	2,017
Delivery of common stock underlying restricted stock units	(1,633)	(1,378)
Forfeiture of restricted stock units and employee stock options	(32)	(79)
Exercise of employee stock options	(199)	(19)
Balance, end of period	3,709	3,839
Additional paid-in capital		
Balance, beginning of year	48,998	48,030
Delivery of common stock underlying share-based awards	1,919	1,483
Cancellation of restricted stock units and employee stock options in satisfaction of withholding tax requirements	(1,503)	(599)
Preferred stock issuance costs	(20)	(9)
Excess net tax benefit related to share-based awards	549	94
Cash settlement of share-based compensation	(1)	(1)
Balance, end of period	49,942	48,998
Retained earnings		
Balance, beginning of year	71,961	65,223
Net earnings	4,070	8,040
Dividends and dividend equivalents declared on common stock and restricted stock units	(523)	(988)

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Dividends declared on preferred stock	(168)	(314)
Balance, end of period	75,340	71,961
Accumulated other comprehensive loss		
Balance, beginning of year	(524)	(193)
Other comprehensive loss	(71)	(331)
Balance, end of period	(595)	(524)
Stock held in treasury, at cost		
Balance, beginning of year	(53,015)	(46,850)
Repurchased	(2,969)	(6,175)
Reissued	40	40
Other	(31)	(30)
Balance, end of period	(55,975)	(53,015)
Total shareholders equity	\$ 81,629	\$ 78,467

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

	Six Months	
<i>in millions</i>	Ended June 2014	2013
Cash flows from operating activities		
Net earnings	\$ 4,070	\$ 4,191
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities		
Depreciation and amortization	684	568
Share-based compensation	1,775	1,669
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	9,003	(2,399)
Receivables and payables, net	6,772	10,066
Collateralized transactions (excluding other secured financings), net	(14,645)	(56,114)
Financial instruments owned, at fair value	(4,531)	36,071
Financial instruments sold, but not yet purchased, at fair value	(3,279)	18,792
Other, net	(3,541)	(7,210)
Net cash provided by/(used for) operating activities	(3,692)	5,634
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(353)	(329)
Proceeds from sales of property, leasehold improvements and equipment	10	33
Business acquisitions, net of cash acquired	(449)	(446)
Proceeds from sales of investments	469	1,521
Purchase of available-for-sale securities		(738)
Proceeds from sales of available-for-sale securities		817
Loans held for investment, net	(6,490)	(2,518)
Net cash used for investing activities	(6,813)	(1,660)
Cash flows from financing activities		
Unsecured short-term borrowings, net	1,077	622
Other secured financings (short-term), net	1,141	(3,764)
Proceeds from issuance of other secured financings (long-term)	3,413	2,641

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Repayment of other secured financings (long-term), including the current portion	(4,840)	(1,466)
Proceeds from issuance of unsecured long-term borrowings	19,804	18,502
Repayment of unsecured long-term borrowings, including the current portion	(15,320)	(18,152)
Purchase of trust preferred securities	(1,362)	
Derivative contracts with a financing element, net	574	761
Deposits, net	2,943	(729)
Common stock repurchased	(2,969)	(3,125)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(691)	(631)
Proceeds from issuance of preferred stock, net of issuance costs	1,980	991
Proceeds from issuance of common stock, including stock option exercises	56	34
Excess tax benefit related to share-based compensation	550	71
Cash settlement of share-based compensation	(1)	
Net cash provided by/(used for) financing activities	6,355	(4,245)
Net decrease in cash and cash equivalents	(4,150)	(271)
Cash and cash equivalents, beginning of year	61,133	72,669
Cash and cash equivalents, end of period	\$ 56,983	\$ 72,398

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were \$3.26 billion and \$3.33 billion during the six months ended June 2014 and June 2013, respectively.

Cash payments for income taxes, net of refunds, were \$2.06 billion and \$2.61 billion during the six months ended June 2014 and June 2013, respectively.

Non-cash activities:

The firm exchanged \$175 million of senior guaranteed trust securities held by the firm for \$175 million of the firm's junior subordinated debt securities held by the issuing trust during the six months ended June 2014. As a result of this exchange, these senior guaranteed trust securities and junior subordinated debt securities were extinguished.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1.

Description of Business

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

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

Investment Banking

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

Institutional Client Services

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

Investing & Lending

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

Investment Management

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

Note 2.

Basis of Presentation

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

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These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm's Annual Report on Form 10-K for the year ended December 31, 2013. References to the 2013 Form 10-K are to the firm's Annual Report on Form 10-K for the year ended December 31, 2013. The condensed consolidated financial information as of December 31, 2013 has been derived from audited consolidated financial statements not included herein.

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

All references to June 2014, March 2014, December 2013 and June 2013 refer to the firm's periods ended, or the dates, as the context requires, June 30, 2014, March 31, 2014, December 31, 2013 and June 30, 2013, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

Financial Instruments Owned, at Fair Value	
and Financial Instruments Sold, But Not Yet	
Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
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Consolidation	

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

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

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

Use of Estimates

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

Revenue Recognition

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

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

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

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

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Transfers of Assets

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

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of June 2014 and December 2013, Cash and cash equivalents included \$6.26 billion and \$4.14 billion, respectively, of cash and due from banks, and \$50.72 billion and \$56.99 billion, respectively, of interest-bearing deposits with banks.

Receivables from Customers and Counterparties

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

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these receivables and payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of June 2014 and December 2013.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm's prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of June 2014 and December 2013.

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Offsetting Assets and Liabilities

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

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) in the condensed consolidated statements of financial condition when a legal right of setoff exists under an enforceable netting agreement. Resale and repurchase agreements and securities borrowed and loaned transactions with the same term and currency are presented on a net-by-counterparty basis in the condensed consolidated statements of financial condition when such transactions meet certain settlement criteria and are subject to netting agreements.

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

Share-based Compensation

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

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

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

Foreign Currency Translation

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

the condensed consolidated statements of comprehensive income.

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Recent Accounting Developments

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

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

Revenue from Contracts with Customers (ASC 606). In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The firm is still evaluating the effect of the ASU on its financial condition, results of operations, and cash flows.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (ASC 860). In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. ASU No. 2014-11 changes the accounting for repurchase- and resale-to-maturity agreements by requiring that such agreements be recognized as financing arrangements, and requires that a transfer of a financial asset and a repurchase agreement entered into contemporaneously be accounted for separately. ASU No. 2014-11 also requires additional disclosures about certain transferred financial assets accounted for as sales and certain securities financing transactions. The accounting changes and additional disclosures about certain transferred financial assets accounted for as sales are effective for the first interim and annual reporting periods beginning after December 15, 2014. The additional disclosures for securities financing transactions are required for annual reporting periods beginning after December 15, 2014 and for interim reporting periods beginning after March 15, 2015. Early adoption is not permitted. Adoption of ASU No. 2014-11 is not expected to materially affect the firm's financial condition, results of operations, or cash flows.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about other financial assets and

financial liabilities accounted for at fair value primarily under the fair value option. The table below presents the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value.

<i>in millions</i>	As of June 2014		As of December 2013	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 6,537	\$	\$ 8,608	\$
U.S. government and federal agency obligations	75,648	15,734	71,072	20,920
Non-U.S. government and agency obligations	44,787	24,786	40,944	26,999
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	6,374	21	6,596	1
Loans and securities backed by residential real estate	9,857	1	9,025	2
Bank loans and bridge loans	18,731	732 ¹	17,400	925 ¹
Corporate debt securities	23,459	5,505	17,412	5,253
State and municipal obligations	1,406		1,476	51
Other debt obligations	3,645	31	3,129	4
Equities and convertible debentures	97,462	29,331	101,024	22,583

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Commodities	4,057	1,826	4,556	966
Subtotal	291,963	77,967	281,242	77,704
Derivatives	53,843	46,195	57,879	49,722
Total	\$345,806	\$124,162	\$339,121	\$127,426

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

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

<i>in millions</i>	Three Months		Six Months	
	Ended June		Ended June	
Product Type	2014	2013	2014	2013
Interest rates	\$ (176)	\$ 131	\$ (456)	\$(1,033)
Credit	1,022	(5)	2,202	1,454
Currencies	561	851	856	3,360
Equities	544	767	1,227	1,269
Commodities	234	261	995	649
Other		687 ²		430 ²
Market making	2,185	2,692	4,824	6,129
Other principal transactions¹	1,995	1,402	3,498	3,483
Total	\$4,180	\$4,094	\$8,322	\$ 9,612

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

2. Includes gains on insurance liabilities related to the firm's European insurance business, which were offset by losses on the related hedges in other product types.
Note 5.

Fair Value Measurements

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The fair value hierarchy is as follows:

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

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

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

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

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

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

	June	As of March	December
<i>\$ in millions</i>	2014	2014	2013
Total level 1 financial assets	\$153,025	\$153,199	\$156,030
Total level 2 financial assets	441,295	484,573	499,480
Total level 3 financial assets	39,760	40,923	40,013
Counterparty and cash collateral netting	(96,842)	(92,834)	(95,350)
Total financial assets at fair value	\$537,238	\$585,861	\$600,173
Total assets ¹	\$859,914	\$915,665	\$911,507
Total level 3 financial assets as a percentage of Total assets	4.6%	4.5%	4.4%
Total level 3 financial assets as a percentage of Total financial assets at fair value	7.4%	7.0%	6.7%
Total level 1 financial liabilities	\$ 67,579	\$ 71,973	\$ 68,412
Total level 2 financial liabilities	247,288	273,929	300,583

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Total level 3 financial liabilities	12,389	13,208	12,046
Counterparty and cash collateral netting	(27,811)	(25,415)	(25,868)
Total financial liabilities at fair value	\$299,445	\$333,695	\$355,173
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	4.1%	4.0%	3.4%

1. Includes approximately \$837 billion, \$892 billion and \$890 billion as of June 2014, March 2014 and December 2013, respectively, that is carried at fair value or at amounts that generally approximate fair value.

Level 3 financial assets as of June 2014 decreased compared with March 2014, primarily reflecting a decrease in bank loans and bridge loans and derivative assets. The decrease in bank loans and bridge loans primarily reflected settlements and sales, partially offset by purchases, realized gains and net transfers from level 2. The decrease in derivative assets primarily reflected a decline in credit derivative assets, principally due to settlements and unrealized losses.

Level 3 financial assets as of June 2014 were essentially unchanged compared with December 2013.

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Note 6.

Cash Instruments

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

Level 1 Cash Instruments

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

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

Level 2 Cash Instruments

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

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

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

Level 3 Cash Instruments

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

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Valuation Techniques and Significant Inputs

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

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
<p>Loans and securities backed by commercial real estate</p> <p>Collateralized by a single commercial real estate property or a portfolio of properties</p> <p>May include tranches of varying levels of subordination</p>	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.</p> <p>Significant inputs are generally determined based on relative value analyses and include:</p> <p>Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices</p> <p>Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds)</p> <p>A measure of expected future cash flows in a default scenario (recovery rates) implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples. Recovery rates are expressed as a percentage of notional or face value of the instrument and reflect the benefit of credit enhancements on certain instruments</p> <p>Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds)</p>

<p>Loans and securities backed by residential real estate</p> <p>Collateralized by portfolios of residential real estate</p>	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.</p> <p>Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Significant inputs include:</p>
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Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral

May include tranches of varying levels of subordination

Market yields implied by transactions of similar or related assets

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

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

Bank loans and bridge loans

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

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

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

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

Duration

Non-U.S. government and agency obligations

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

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

Corporate debt securities

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

State and municipal obligations

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

Other debt obligations

Duration

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

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

Industry multiples (primarily EBITDA multiples) and public comparables

Transactions in similar instruments

Discounted cash flow techniques

Third-party appraisals

Net asset value per share (NAV)

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

Market and transaction multiples

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

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

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Significant Unobservable Inputs

The tables below present the ranges of significant unobservable inputs used to value the firm's level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. Weighted averages in the tables below are calculated by weighting each input by the relative fair value of the respective financial instruments. The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when

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

Level 3 Cash Instruments	Level 3 Assets	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average)
	as of June 2014		as of June 2014
	(in millions)		
Loans and securities backed by commercial real estate	\$2,620	Discounted cash flows:	
		Yield	3.5% to 20.0% (10.0%)
Collateralized by a single commercial real estate property or a portfolio of properties		Recovery rate	24.6% to 97.4% (70.8%)
		Duration (years)	0.2 to 5.3 (2.2)
May include tranches of varying levels of subordination		Basis	(2) points to 18 points (4 points)
Loans and securities backed by residential real estate	\$2,039	Discounted cash flows:	
		Yield	2.9% to 17.5% (9.1%)

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Collateralized by portfolios of residential real estate

Cumulative loss rate 8.0% to 89.6% (25.4%)

May include tranches of varying levels of subordination

Duration (years) 1.2 to 10.5 (3.1)

Bank loans and bridge loans

\$8,947

Discounted cash flows:

Yield 1.6% to 23.4% (8.2%)

Recovery rate 34.7% to 87.1% (60.5%)

Duration (years) 0.4 to 4.5 (1.7)

Non-U.S. government and agency obligations

\$3,181

Discounted cash flows:

Yield 1.0% to 24.0% (8.5%)

Corporate debt securities

Recovery rate 0.0% to 70.0% (63.2%)

State and municipal obligations

Duration (years) 1.0 to 16.7 (4.5)

Other debt obligations

Equities and convertible debentures

\$16,259¹

Comparable multiples:

(including private equity investments and investments in real estate entities)

Multiples 0.8x to 19.0x (6.6x)

Discounted cash flows:

Discount rate/yield 5.5% to 25.0% (14.6%)

Long-term growth rate/compound annual growth rate (3.5)% to 20.0% (7.1%)

Capitalization rate	5.1% to 12.1% (7.2%)
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1. The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

Recovery rate 40.0% to 85.0% (54.9%)

Duration (years) 0.5 to 5.3 (2.1)

Non-U.S. government and agency obligations

\$3,977

Discounted cash flows:

Yield 1.5% to 40.2% (8.9%)

Corporate debt securities

Recovery rate 0.0% to 70.0% (61.9%)

State and municipal obligations

Duration (years) 0.6 to 16.1 (4.2)

Other debt obligations

Equities and convertible debentures

\$14,685 ¹

Comparable multiples:

(including private equity investments and investments in real estate entities)

Multiples 0.6x to 18.8x (6.9x)

Discounted cash flows:

Discount rate/yield 6.0% to 29.1% (14.6%)

Long-term growth rate/compound annual growth rate 1.0% to 19.0% (8.1%)

Capitalization rate 4.6% to 11.3% (7.1%)

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

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

<i>in millions</i>	Cash Instrument Assets at Fair Value as of June 2014			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 183	\$ 6,354	\$	\$ 6,537
U.S. government and federal agency obligations	29,912	45,736		75,648
Non-U.S. government and agency obligations	34,522	10,212	53	44,787
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		3,754	2,620	6,374
Loans and securities backed by residential real estate		7,818	2,039	9,857
Bank loans and bridge loans		9,784	8,947	18,731
Corporate debt securities ²	272	20,857	2,330	23,459
State and municipal obligations		1,237	169	1,406
Other debt obligations ²		3,016	629	3,645
Equities and convertible debentures	70,611	10,592	16,259 ³	97,462
Commodities		4,057		4,057
Total	\$135,500	\$123,417	\$33,046	\$291,963

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of June 2014			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 15,616	\$ 118	\$	\$ 15,734
Non-U.S. government and agency obligations	22,997	1,789		24,786
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate		14	7	21
Loans and securities backed by residential real estate		1		1

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Bank loans and bridge loans		554	178	732
Corporate debt securities	10	5,492	3	5,505
Other debt obligations		29	2	31
Equities and convertible debentures	28,901	423	7	29,331
Commodities		1,826		1,826
Total	\$ 67,524	\$ 10,246	\$ 197	\$ 77,967

1. Includes \$317 million and \$570 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.

2. Includes \$364 million and \$1.05 billion of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations in level 2 and level 3, respectively.

3. Includes \$14.41 billion of private equity investments, \$1.43 billion of investments in real estate entities and \$416 million of convertible debentures.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

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

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

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

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

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

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. During the three months ended June 2014, transfers into level 2 from level 1 of cash instruments were \$552 million, including \$346 million of public equity securities and \$206 million of U.S. government and federal agency obligations primarily due to decreased market activity in these instruments. During the three months ended June 2014, transfers into level 1 from level 2 of cash instruments were \$7 million, reflecting transfers of public equity securities due to increased market activity in these instruments. During the three months ended June 2013, transfers into level 2 from level 1 of cash instruments were \$51 million, primarily including transfers of public equity securities of \$48 million due to decreased market activity in these instruments. During the three months ended June 2013, transfers into level 1 from level 2 of cash instruments were \$105 million, reflecting transfers of public equity securities, primarily due to increased market activity in these instruments.

During the six months ended June 2014, transfers into level 2 from level 1 of cash instruments were \$67 million, including \$49 million of public equity securities and \$18 million of U.S. government and federal agency obligations primarily due to decreased market activity in these instruments. During the six months ended June 2014, transfers into level 1 from level 2 of cash instruments were \$81 million, reflecting transfers of public equity securities, due to increased market activity in these instruments. During the six months ended June 2013, transfers into level 2 from level 1 of cash instruments were \$5 million, reflecting transfers of public equity securities due to decreased market activity in these instruments. During the six months ended June 2013, transfers into level 1 from level 2 of cash instruments were \$77 million, reflecting transfers of public equity securities, primarily reflecting increased market activity in these instruments.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

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

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

The tables below present changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the period. Purchases in the tables below include both originations and secondary market purchases.

Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended June 2014									
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Non-U.S. government and agency obligations	\$ 45	\$ 1	\$ 1	\$ 9	\$ (1)	\$ (2)	\$	\$	\$ 53
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	2,626	31	90	114	(155)	(304)	417	(199)	2,620
Loans and securities backed by residential real estate	2,065	34	90	149	(194)	(3)	27	(129)	2,039
Bank loans and bridge loans	9,687	130	116	798	(272)	(1,641)	990	(861)	8,947
Corporate debt securities	2,632	86	34	211	(666)	(177)	401	(191)	2,330
State and municipal obligations	242	1	2	28	(41)		1	(64)	169
Other debt obligations	640	5	32	53	(51)	(25)	41	(66)	629

Equities and convertible debentures	15,807	76	939	590	(606)	(328)	796	(1,015)	16,259
Total	\$33,744	\$364¹	\$1,304¹	\$1,952	\$(1,986)	\$(2,480)	\$2,673	\$(2,525)	\$33,046

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

<i>in millions</i>	Balance, Beginning of period	Net realized (gains)/losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Total	\$ 204	\$ (6)	\$ (9)	\$ (49)	\$ 51	\$ 11	\$ 15	\$ (20)	\$ 197

1. The aggregate amounts include gains of approximately \$232 million, \$1.11 billion and \$326 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain on level 3 cash instruments of \$1.31 billion (reflecting \$1.30 billion on cash instrument assets and \$9 million on cash instrument liabilities) for the three months ended June 2014 primarily consisted of gains on private equity investments principally driven by company-specific events and strong corporate performance.

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Level 3 Cash Instrument Assets at Fair Value for the Six Months Ended June 2014**

<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Non-U.S. government and agency obligations	\$ 40	\$ 1	\$	\$ 22	\$ (18)	\$ (1)	\$ 9	\$	\$ 53
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	2,692	66	165	366	(259)	(461)	404	(353)	2,620
Loans and securities backed by residential real estate	1,961	68	132	252	(177)	(178)	199	(218)	2,039
Bank loans and bridge loans	9,324	244	236	2,250	(855)	(2,213)	651	(690)	8,947
Corporate debt securities	2,873	155	66	629	(713)	(405)	100	(375)	2,330
State and municipal obligations	257	2	4	34	(82)	(2)	1	(45)	169
Other debt obligations	807	15	38	122	(160)	(76)	38	(155)	629
Equities and convertible debentures	14,685	102	1,262	1,886	(1,025)	(597)	1,515	(1,569)	16,259
Total	\$32,639	\$653¹	\$1,903¹	\$5,561	\$(3,289)	\$(3,933)	\$2,917	\$(3,405)	\$33,046

Level 3 Cash Instrument Liabilities at Fair Value for the Six Months Ended June 2014

<i>in millions</i>	Balance, Beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Total	\$ 297	\$ (6)	\$ (70)	\$ (110)	\$ 71	\$ 11	\$ 5	\$ (1)	\$ 197

1. The aggregate amounts include gains of approximately \$400 million, \$1.56 billion and \$597 million reported in Market making, Other principal transactions and Interest income, respectively.

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The net unrealized gain on level 3 cash instruments of \$1.97 billion (reflecting \$1.90 billion on cash instrument assets and \$70 million on cash instrument liabilities) for the six months ended June 2014 primarily consisted of gains on private equity investments and bank loans and bridge loans, principally driven by company-specific events and strong corporate performance.

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

Transfers out of level 3 during the six months ended June 2014 primarily reflected transfers of certain private equity investments and bank loans and bridge loans to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended June 2013									
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Non-U.S. government and agency obligations	\$ 47	\$ 2	\$ 3	\$ 42	\$ (95)	\$	\$ 92	\$ (1)	\$ 90
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,164	44	75	216	(431)	(258)	305	(146)	2,969
Loans and securities backed by residential real estate	1,683	30	61	223	(163)	(156)	106	(46)	1,738
Bank loans and bridge loans	11,688	160	180	1,530	(1,217)	(1,780)	518	(1,082)	9,997
Corporate debt securities	2,442	63	58	365	(364)	(90)	187	(169)	2,492
State and municipal obligations	334	2	3	58	(162)		93	(6)	322
Other debt obligations	855	9	(3)	183	(92)	(132)	260	(204)	876
Equities and convertible debentures	15,224	42	346	740	(178)	(330)	349	(776)	15,417
Total	\$35,437	\$352 ¹	\$723 ¹	\$3,357	\$(2,702)	\$(2,746)	\$1,910	\$(2,430)	\$33,901

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended June 2013									
<i>in millions</i>	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Total	\$ 441	\$ 14	\$	\$ (210)	\$ 89	\$ 3	\$ 75	\$ (27)	\$ 385

1. The aggregate amounts include gains of approximately \$241 million, \$612 million and \$222 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain on level 3 cash instrument assets of \$723 million for the three months ended June 2013 primarily consisted of gains on private equity investments, primarily driven by company-specific events and strong corporate performance, and bank loans and bridge loans, primarily driven by company-specific events.

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Transfers into level 3 during the three months ended June 2013 primarily reflected transfers from level 2 of certain bank loans and bridge loans, private equity investments and investment in real estate entities, loans and securities backed by commercial real estate, and other debt obligations due to a lack of market transactions in these instruments.

Transfers out of level 3 during the three months ended June 2013 primarily reflected transfers of certain bank loans and bridge loans and private equity investments to level 2, principally due to increased transparency of market prices as a result of market transactions in these instruments, and transfers related to the firm's European insurance business of certain level 3 bank loans and bridge loans within cash instruments to level 3 other assets within other financial assets at fair value, as this business was classified as held for sale during the period.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Level 3 Cash Instrument Assets at Fair Value for the Six Months Ended June 2013									
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Non-U.S. government and agency obligations	\$ 26	\$ 3	\$ 6	\$ 64	\$ (9)	\$ (2)	\$ 5	\$ (3)	\$ 90
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,389	60	132	391	(569)	(624)	385	(195)	2,969
Loans and securities backed by residential real estate	1,619	65	79	475	(365)	(182)	124	(77)	1,738
Bank loans and bridge loans	11,235	289	220	2,669	(1,163)	(3,007)	969	(1,215)	9,997
Corporate debt securities	2,821	187	347	502	(1,183)	(290)	268	(160)	2,492
State and municipal obligations	619	6	4	118	(421)	(2)	6	(8)	322
Other debt obligations	1,185	22	18	423	(390)	(104)	160	(438)	876
Equities and convertible debentures	14,855	86	920	968	(491)	(916)	1,097	(1,102)	15,417
Total	\$35,749	\$718 ¹	\$1,726 ¹	\$5,610	\$(4,591)	\$(5,127)	\$3,014	\$(3,198)	\$33,901

Level 3 Cash Instrument Liabilities at Fair Value for the Six Months Ended June 2013									
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Total	\$ 642	\$ 47	\$	\$ (423)	\$ 172	\$ 7	\$ 64	\$ (124)	\$ 385

1. The aggregate amounts include gains of approximately \$662 million, \$1.38 billion and \$400 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain on level 3 cash instrument assets of \$1.73 billion for the six months ended June 2013 primarily consisted of gains on private equity investments, primarily driven by company-specific events and strong corporate performance, corporate debt securities, primarily due to tighter credit spreads, and bank loans and bridge loans, primarily driven by company-specific events.

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

Transfers out of level 3 during the six months ended June 2013 primarily reflected transfers of certain bank loans and bridge loans, private equity investments and other debt obligations to level 2, principally due to increased transparency of market prices as a result of market transactions in these instruments, and transfers related to the firm's European insurance business of certain level 3 bank loans and bridge loans within cash instruments to level 3 other assets within other financial assets at fair value, as this business was classified as held for sale during the period.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Cash instruments at fair value include investments in funds that are calculated 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 are calculated using NAV primarily consist of investments in firm-sponsored private equity, credit, real estate and hedge funds where the firm co-invests with third-party investors.

Private equity funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations, growth investments and distressed investments. Credit funds generally invest in loans and other fixed income instruments and are focused on providing private high-yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers. Real estate funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and property. The private equity, credit and real estate funds are primarily closed-end funds in which the firm's investments are generally not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated.

The firm also invests in hedge funds, primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage. These investments in hedge funds are generally redeemable on a quarterly basis with 91 days' notice, subject to a maximum redemption level of 25% of the firm's initial investments at any quarter-end; however, these investments also include interests where the underlying assets are illiquid in nature, and proceeds from redemptions will not be distributed until the underlying assets are liquidated.

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

The firm continues to manage its existing funds, taking into account the transition periods under the Volcker Rule.

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

Since March 2012, the firm has redeemed approximately \$2.25 billion of its interests in hedge funds, including approximately \$20 million and \$60 million during the three and six months ended June 2014, respectively.

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

<i>in millions</i>	As of June 2014	
	Fair Value of Investments	Unfunded Commitments
Private equity funds	\$ 7,510	\$2,351
Credit funds	3,001	1,683

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Hedge funds	1,461	
Real estate funds	1,773	382
Total	\$13,745	\$4,416

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 7.

Derivatives and Hedging Activities

Derivative Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives. Certain of the firm's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

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

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

The firm enters into various types of derivatives, including:

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

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

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

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement (counterparty netting). Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements (cash collateral netting). Derivative assets and liabilities are included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, respectively. Substantially all gains and losses on derivatives not designated as hedges under ASC 815 are included in Market making and Other principal transactions.

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

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	As of June 2014	
<i>in millions</i>	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 3,059	\$ 2,666
OTC	50,784	43,529
Total	\$53,843	\$46,195

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

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

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

<i>in millions</i>	As of June 2014			As of December 2013		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives not accounted for as hedges						
Interest rates	\$ 626,078	\$ 573,843	\$47,606,176	\$ 641,186	\$ 587,110	\$44,110,483
Exchange-traded	163	231	3,429,506	157	271	2,366,448
OTC-cleared	232,572	216,279	28,501,398	266,230	252,596	24,888,301
Bilateral OTC	393,343	357,333	15,675,272	374,799	334,243	16,855,734
Credit	53,990	51,338	2,754,868	60,751	56,340	2,946,376
OTC-cleared	5,433	5,332	381,086	3,943	4,482	348,848
Bilateral OTC	48,557	46,006	2,373,782	56,808	51,858	2,597,528
Currencies	59,009	51,532	5,123,746	70,757	63,659	4,311,971
Exchange-traded	68	63	14,698	98	122	23,908
OTC-cleared	116	125	13,404	88	97	11,319
Bilateral OTC	58,825	51,344	5,095,644	70,571	63,440	4,276,744
Commodities	17,711	17,515	719,827	18,007	18,228	701,101
Exchange-traded	4,863	3,790	367,968	4,323	3,661	346,057
OTC-cleared	266	298	3,267	11	12	135
Bilateral OTC	12,582	13,427	348,592	13,673	14,555	354,909

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Equities	54,644	52,771	1,523,954	56,719	55,472	1,406,499
Exchange-traded	9,963	10,580	551,650	10,544	13,157	534,840
OTC-cleared	10	1	299			
Bilateral OTC	44,671	42,190	972,005	46,175	42,315	871,659
Subtotal	811,432	746,999	57,728,571	847,420	780,809	53,476,430
Derivatives accounted for as hedges						
Interest rates	12,609	303	124,034	11,403	429	132,879
OTC-cleared	4,056	26	38,365	1,327	27	10,637
Bilateral OTC	8,553	277	85,669	10,076	402	122,242
Currencies	16	116	9,684	74	56	9,296
OTC-cleared	3	14	1,442	1	10	869
Bilateral OTC	13	102	8,242	73	46	8,427
Commodities	40		147	36		335
Exchange-traded						23
Bilateral OTC	40		147	36		312
Subtotal	12,665	419	133,865	11,513	485	142,510
Gross fair value/notional amount of derivatives	\$ 824,097¹	\$ 747,418¹	\$57,862,436	\$ 858,933¹	\$ 781,294¹	\$53,618,940
Amounts that have been offset in the condensed consolidated statements of financial condition						
Counterparty netting	(674,863)	(674,863)		(707,411)	(707,411)	
Exchange-traded	(11,998)	(11,998)		(10,845)	(10,845)	
OTC-cleared	(220,564)	(220,564)		(254,756)	(254,756)	
Bilateral OTC	(442,301)	(442,301)		(441,810)	(441,810)	
Cash collateral netting	(95,391)	(26,360)		(93,643)	(24,161)	
OTC-cleared	(21,460)	(1,428)		(16,353)	(2,515)	
Bilateral OTC	(73,931)	(24,932)		(77,290)	(21,646)	
Fair value included in financial instruments owned/financial instruments sold, but not yet purchased	\$ 53,843	\$ 46,195		\$ 57,879	\$ 49,722	
Amounts that have not been offset in the condensed consolidated statements of financial condition						
Cash collateral received/posted	(692)	(2,166)		(636)	(2,806)	
Securities collateral received/posted	(10,951)	(10,331)		(13,225)	(10,521)	
Total	\$ 42,200	\$ 33,698		\$ 44,018	\$ 36,395	

1. Includes derivative assets and derivative liabilities of \$24.49 billion and \$23.37 billion, respectively, as of June 2014, and derivative assets and derivative liabilities of \$23.18 billion and \$23.46 billion, respectively, as of December 2013, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the firm has not yet determined to be enforceable.

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Valuation Techniques for Derivatives

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

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

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

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

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

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

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

Level 1 Derivatives

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

Level 2 Derivatives

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

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

Valuation models require a variety of inputs, such as contractual terms, market prices, yield curves, discount rates (including those derived from interest rates on collateral received and posted as specified in credit support agreements for collateralized derivatives), credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. Significant inputs to the valuations of level 2 derivatives can be verified to market transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Level 3 Derivatives

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

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

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

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

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

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

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralized portion of derivative portfolios. The firm also makes funding valuation adjustments to collateralized derivatives where the terms

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of the agreement do not permit the firm to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

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

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

The tables below present the ranges of significant unobservable inputs used to value the firm's level 3 derivatives as well as averages and medians of these inputs. The ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average. The ranges, averages and medians of these

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

Net Level 3			
Assets/(Liabilities)			
Level 3 Derivative	as of June 2014	Valuation Techniques and	Range of Significant Unobservable Inputs
Product Type	(in millions)	Significant Unobservable Inputs	(Average / Median) as of June 2014
Interest rates	\$ (129)	Option pricing models:	
		Correlation ²	(16)% to 84% (46% / 60%)
		Volatility	36 basis points per annum (bpa) to 165 bpa (107 bpa / 130 bpa)
Credit	\$3,900 ¹	Option pricing models, correlation models and discounted cash flows models:	

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Correlation ²

5% to 95% (62% / 63%)

Credit spreads

1 basis points (bps) to 616 bps (124 bps / 84 bps) ³

Upfront credit points

0 points to 99 points (40 points / 35 points)

Recovery rates

20% to 90% (47% / 40%)

Currencies

\$(81)

Option pricing models:

Correlation ²

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

Commodities

\$(7) ¹

Option pricing models and discounted cash flows models:

9% to 43% (21% / 19%)

Volatility

\$(2.31) to \$4.55 (\$0.08) / \$(0.03)

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

Spread per Metric Tonne (MT) of coal

\$(13.38) to \$0.50 (\$7.05) / \$(10.35)

Equities

\$(1,499)

Option pricing models:

Correlation ²

25% to 99% (55% / 54%)

Volatility

5% to 69% (19% / 19%)

1. The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
2. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (40)% to 78% (Average: 28% / Median: 34%) as of June 2014.
3. The difference between the average and the median for the credit spreads input indicates that the majority of the inputs fall in the lower end of the range.

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Level 3 Derivative Product Type	Net Level 3 Assets/(Liabilities) as of December 2013	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Average / Median) as of December 2013
	(in millions)		
Interest rates	\$(86)	Option pricing models: Correlation ² Volatility	 22% to 84% (58% / 60%) 36 bpa to 165 bpa (107 bpa / 112 bpa)
Credit	\$4,176 ¹	Option pricing models, correlation models and discounted cash flows models: Correlation ² Credit spreads Upfront credit points Recovery rates	 5% to 93% (61% / 61%) 1 bps to 1,395 bps (153 bps / 116 bps) ³ 0 points to 100 points (46 points / 43 points) 20% to 85% (50% / 40%)

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Currencies	\$(200)	Option pricing models:	
		Correlation ²	65% to 79% (72% / 72%)

Commodities	\$60 ¹	Option pricing models and discounted cash flows models:	
		Volatility	15% to 52% (23% / 21%)
		Spread per MMBTU of natural gas	\$(1.74) to \$5.62 (\$(0.11) / \$(0.04))
		Spread per MT of coal	\$(17.00) to \$0.50 (\$(6.54) / \$(5.00))

Equities	\$(959)	Option pricing models:	
		Correlation ²	23% to 99% (58% / 59%)
		Volatility	6% to 63% (20% / 20%)

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

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

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

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Range of Significant Unobservable Inputs

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

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

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

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

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

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

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

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

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

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

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

The tables below present the fair value of derivatives on a gross basis by level and major product type as well as the impact of netting. The gross fair values exclude the effects of both counterparty netting and collateral netting, and therefore are not representative of the firm's exposure.

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

<i>in millions</i>	Derivative Assets at Fair Value as of June 2014					
	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$ 4	\$ 638,313	\$ 370	\$	\$	\$ 638,687
Credit		46,655	7,335			53,990
Currencies		58,699	326			59,025
Commodities	2	17,278	471			17,751
Equities	10	53,649	985			54,644
Gross fair value of derivative assets	16	814,594	9,487			824,097
Counterparty and cash collateral netting		(670,534)	(2,878)	(1,451)	(95,391)	(770,254)
Fair value included in financial instruments owned	\$16	\$ 144,060	\$ 6,609	\$(1,451)	\$(95,391)	\$ 53,843

<i>in millions</i>	Derivative Liabilities at Fair Value as of June 2014					
	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$41	\$ 573,606	\$ 499	\$	\$	\$ 574,146
Credit		47,903	3,435			51,338
Currencies		51,241	407			51,648
Commodities		17,037	478			17,515
Equities	14	50,273	2,484			52,771
Gross fair value of derivative liabilities	55	740,060	7,303			747,418
Counterparty and cash collateral netting		(670,534)	(2,878)	(1,451)	(26,360)	(701,223)
	\$55	\$ 69,526	\$ 4,425	\$(1,451)	\$(26,360)	\$ 46,195

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**Fair value included in financial instruments sold,
but not yet purchased**

<i>in millions</i>	Derivative Assets at Fair Value as of December 2013					
	Level 1	Level 2	Level 3	Cross-Level		Total
				Netting	Cash Collateral	
Interest rates	\$91	\$ 652,104	\$ 394	\$	\$	\$ 652,589
Credit		52,834	7,917			60,751
Currencies		70,481	350			70,831
Commodities		17,517	526			18,043
Equities	3	55,826	890			56,719
Gross fair value of derivative assets	94	848,762	10,077			858,933
Counterparty and cash collateral netting		(702,703)	(3,001)	(1,707)	(93,643)	(801,054)
Fair value included in financial instruments owned	\$94	\$ 146,059	\$ 7,076	\$(1,707)	\$(93,643)	\$ 57,879

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

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

If a derivative was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are reported at the beginning of the reporting period in which they occur. In the tables below, negative amounts for transfers into level 3 and positive amounts for transfers out of level 3 represent net transfers of derivative liabilities.

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

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

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

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

Level 3 Derivative Assets and Liabilities at Fair Value for the Three Months Ended June 2014

		Net unrealized								
Asset/ (liability)		gains/(losses)						Asset/ (liability)		
balance, beginning		Net realized 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	
<i>in millions</i>	net	of period	period-end							
Interest rates	net	\$ (31)	\$ (10)	\$ (51)	\$ 2	\$ (6)	\$ 4	\$ (5)	\$ (32)	\$ (129)
Credit	net	3,958	26	233	122	(110)	(429)	195	(95)	3,900
Currencies	net	(143)	(17)	(36)	2		120		(7)	(81)
Commodities	net	43	5	(42)		(9)	(22)	(3)	21	(7)
Equities	net	(1,883)	(25)	1,004	144	(1,110)	2	(23)	392	(1,499)
Total derivatives	net	\$ 1,944	\$ (21)¹	\$1,108¹	\$270	\$(1,235)	\$(325)	\$164	\$279	\$ 2,184

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1. The aggregate amounts include gains/(losses) of approximately \$1.11 billion and \$(26) million reported in Market making and Other principal transactions, respectively.

The net unrealized gain on level 3 derivatives of \$1.11 billion for the three months ended June 2014 principally resulted from changes in observable inputs and was primarily attributable to the impact of an increase in equity prices on certain equity derivatives.

Transfers into level 3 derivatives during the three months ended June 2014 primarily reflected transfers of certain credit derivative assets from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these derivatives and reduced transparency of upfront credit point inputs used to value certain other credit derivatives.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Level 3 Derivative Assets and Liabilities at Fair Value for the Six Months Ended June 2014**
Net unrealized

<i>in millions</i>		Asset/	Net unrealized			Purchases	Sales	Settlements	Transfers	Transfers	Asset/
		(liability)	Net	gains/(losses)	relating to						(liability)
		balance,	realized	instruments	still held at				into	out of	balance,
		beginning	gains/	period-end	period-end				level 3	level 3	end of
		of period	(losses)						into	out of	period
Interest rates	net	\$ (86)	\$(34)	\$ (83)	\$ (83)	\$ 4	\$ (7)	\$ 81	\$ 13	\$ (17)	\$ (129)
Credit	net	4,176	69	564	564	90	(122)	(891)	117	(103)	3,900
Currencies	net	(200)	(43)	(3)	(3)	6	(15)	177	(2)	(1)	(81)
Commodities	net	60	64	(91)	(91)	10	(38)	39	(12)	(39)	(7)
Equities	net	(959)	(33)	1,393	1,393	155	(2,210)	217	(45)	(17)	(1,499)
Total derivatives	net	\$2,991	\$ 23¹	\$1,780¹	\$1,780¹	\$265	\$(2,392)	\$(377)	\$ 71	\$(177)	\$ 2,184

1. The aggregate amounts include gains/(losses) of approximately \$1.85 billion and \$(49) million reported in Market making and Other principal transactions, respectively.

The net unrealized gain on level 3 derivatives of \$1.78 billion for the six months ended June 2014 principally resulted from changes in observable inputs and was primarily attributable to the impact of an increase in equity prices on certain equity derivatives.

Transfers into level 3 derivatives during the six months ended June 2014 primarily reflected transfers from level 2 of certain credit derivative assets, principally due to reduced

transparency of upfront credit point inputs used to value these derivatives.

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

Level 3 Derivative Assets and Liabilities at Fair Value for the Three Months Ended June 2013

<i>in millions</i>	Asset/	Net	Net unrealized	Purchases	Sales	Settlements	Transfers	Transfers	Asset/
	(liability)	realized	gains/(losses)				into	out of	(liability)

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	balance, beginning of period	gains/ (losses)	relating to instruments still held at period-end	level 3	level 3	level 3	level 3	level 3	level 3	balance, end of period
Interest rates net	\$ (305)	\$ 2	\$ 77	\$ 1	\$ 5	\$(22)	\$ 12	\$ (230)		
Credit net	5,882	31	(599)	109	(307)	(314)	77	(258)		4,621
Currencies net	(289)	(18)	96	6	(3)	156	84	(2)		30
Commodities net	(27)	15	133	14	(50)	19	(80)	1		25
Equities net	(1,135)	12	204	130	(2,290)	198	16	260		(2,605)
Total derivatives net	\$ 4,126	\$ 42 ¹	\$ (89) ¹	\$260	\$(2,650)	\$ 64	\$75	\$ 13		\$ 1,841

1. The aggregate amounts include gains/(losses) of approximately \$16 million and \$(63) million reported in Market making and Other principal transactions, respectively.

The net unrealized loss on level 3 derivatives of \$89 million for the three months ended June 2013 principally resulted from changes in level 2 inputs and reflected losses on credit derivatives, primarily reflecting the impact of an increase in interest rates, tighter credit spreads and changes in foreign exchange rates. These losses were partially offset by the impact of an increase in equity prices on certain equity derivatives, a decrease in metal prices on certain commodity derivatives, and changes in foreign exchange rates and an increase in interest rates on certain currency derivatives.

Transfers into level 3 derivatives during the three months ended June 2013 primarily reflected transfers of certain currency derivative assets from level 2, primarily due to unobservable correlation inputs becoming significant to the valuation of these derivatives, transfers of certain credit

derivative assets from level 2, primarily due to unobservable inputs becoming significant to the valuation of these derivatives, and transfers of certain commodity derivative liabilities from level 2, principally due to unobservable volatility inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during the three months ended June 2013 reflected transfers of certain equity derivative liabilities to level 2, principally due to unobservable correlation inputs no longer being significant to the valuation of these derivatives, and transfers of credit derivatives to level 2, principally due to unobservable inputs not being significant to the net risk of certain portfolios.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Level 3 Derivative Assets and Liabilities at Fair Value for the Six Months Ended June 2013									
Net unrealized									
	Asset/ (liability) balance, beginning	Net realized gains/ (losses) of period	gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of period
<i>in millions</i>									
Interest rates net	\$ (355)	\$ (19)	\$ 86	\$ 2	\$	\$ 56	\$	\$	\$ (230)
Credit net	6,228	10	(463)	183	(362)	(740)	295	(530)	4,621
Currencies net	35	(45)	(192)	6	(5)	63	162	6	30
Commodities net	(304)	(5)	62	9	(2)	55	19	191	25
Equities net	(1,248)	(86)	90	169	(2,382)	943	(29)	(62)	(2,605)
Total derivatives net	\$ 4,356	\$(145) ¹	\$(417) ¹	\$369	\$(2,751)	\$ 377	\$447	\$(395)	\$ 1,841

1. The aggregate amounts include losses of approximately \$375 million and \$187 million reported in Market making and Other principal transactions, respectively.

The net unrealized loss on level 3 derivatives of \$417 million for the six months ended June 2013 principally resulted from changes in level 2 inputs and reflected losses on credit derivatives, primarily due to the impact of tighter credit spreads, and losses on currency derivatives, primarily due to the impact of changes in foreign exchange rates, partially offset by the impact of an increase in interest rates.

Transfers into level 3 derivatives during the six months ended June 2013 primarily reflected transfers of certain credit derivative assets from level 2, principally due to unobservable inputs becoming significant to the valuation of these derivatives, and transfers of certain currency derivative assets from level 2, primarily due to unobservable correlation inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during the six months ended June 2013 primarily reflected transfers of credit derivatives to level 2, principally due to unobservable inputs not being significant to the net risk of certain portfolios, and transfers of certain commodity derivative liabilities to level 2, as unobservable volatility inputs were no longer significant to the valuation of these derivatives.

Impact of Credit Spreads on Derivatives

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

The net gain, including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was \$56 million and \$120 million for the three months ended June 2014 and June 2013, respectively, and \$149 million and \$37 million for the six months ended June 2014 and June 2013, respectively.

Bifurcated Embedded Derivatives

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

	June	As of December
<i>in millions</i>	2014	2013
Fair value of assets	\$ 249	\$ 285
Fair value of liabilities	440	373
Net liability	\$ 191	\$ 88
Notional amount	\$8,124	\$7,580

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

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

<i>in millions</i>	OTC Derivative Assets as of June 2014					Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting	
Interest rates	\$ 5,747	\$26,406	\$82,235	\$	\$	\$ 114,388
Credit	1,646	6,476	5,537			13,659
Currencies	6,172	7,732	8,200			22,104
Commodities	3,076	3,553	176			6,805
Equities	5,778	9,702	4,974			20,454
Counterparty and cash collateral netting	(2,359)	(4,330)	(3,520)	(21,026)	(95,391)	(126,626)
Total	\$20,060	\$49,539	\$97,602	\$(21,026)	\$(95,391)	\$ 50,784

<i>in millions</i>	OTC Derivative Liabilities as of June 2014					Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting	
Interest rates	\$ 5,443	\$17,288	\$26,544	\$	\$	\$ 49,275
Credit	3,490	5,411	2,357			