GOLDMAN SACHS GROUP INC
Form 10-Q
May 09, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2014

or

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

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

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

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

(212) 902-1000

(Registrant s telephone number, including area code)

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

x 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).

x 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 x 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 x No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of April 25, 2014, there were 447,176,397 shares of the registrant s common stock outstanding.

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THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings

(Unaudited)

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

(Unaudited)

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

Other liabilities and accrued expenses (includes $382 and $388 at fair value as of March 2014 and December 2013, respectively)	**12,119**	16,044
Total liabilities	**836,566**	833,040
Commitments, contingencies and guarantees		
Shareholders equity		
Preferred stock, par value $0.01 per share; aggregate liquidation preference of $7,200 as of both March 2014 and December 2013	**7,200**	7,200
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 849,104,281 and 837,219,068 shares issued as of March 2014 and December 2013, respectively, and 448,032,463 and 446,359,012 shares outstanding as of March 2014 and December 2013, respectively	**8**	8
Restricted stock units and employee stock options	**3,572**	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	**49,959**	48,998
Retained earnings	**73,646**	71,961
Accumulated other comprehensive loss	**(560)**	(524)
Stock held in treasury, at cost, par value $0.01 per share; 401,071,820 and 390,860,058 shares as of March 2014 and December 2013, respectively	**(54,726)**	(53,015)
Total shareholders equity	**79,099**	78,467
Total liabilities and shareholders equity	**$915,665**	$911,507

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)

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

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

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

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1.

Description of Business

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

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

Investment Banking

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

Institutional Client Services

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

Investing & Lending

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

Investment Management

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

Note 2.

Basis of Presentation

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

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3.

Significant Accounting Policies

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

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
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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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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Transfers of Assets

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

Cash and Cash Equivalents

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

Receivables from Customers and Counterparties

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

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

Payables to Customers and Counterparties

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

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Offsetting Assets and Liabilities

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

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

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

Share-based Compensation

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

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

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

Foreign Currency Translation

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

the condensed consolidated statements of comprehensive income.

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Recent Accounting Developments

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

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

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Note 4.

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

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

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

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

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

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

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Gains and Losses from Market Making and Other Principal Transactions

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

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

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

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

Note 5.

Fair Value Measurements

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

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 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.

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

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

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

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

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

	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

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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Significant Unobservable Inputs

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

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

Level 3 Cash Instruments	Level 3 Assets as of March 2014 *(in millions)*	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average) as of March 2014
Loans and securities backed by commercial real estate	**$2,626**	Discounted cash flows:	
Collateralized by a single commercial real estate property or a portfolio of properties		Yield	2.5% to 29.6% (10.6%)
		Recovery rate	26.0% to 95.6% (71.1%)
May include tranches of varying levels of subordination		Duration (years)	0.2 to 4.9 (1.9)
		Basis	(5) points to 19 points (4 points)
Loans and securities backed by residential real estate	**$2,065**	Discounted cash flows:	
		Yield	3.4% to 30.2% (9.8%)

Collateralized by portfolios of residential real estate			
		Cumulative loss rate	0.0% to 89.7% (23.4%)
May include tranches of varying levels of subordination			
		Duration (years)	1.2 to 17.7 (3.6)
Bank loans and bridge loans	**$9,687**	Discounted cash flows:	
		Yield	1.0% to 27.9% (8.5%)
		Recovery rate	40.0% to 92.1% (55.9%)
		Duration (years)	0.3 to 6.6 (1.9)
Non-U.S. government and agency obligations	**$3,559**	Discounted cash flows:	
		Yield	1.7% to 32.5% (8.9%)
Corporate debt securities			
		Recovery rate	0.0% to 84.0% (64.1%)
State and municipal obligations			
		Duration (years)	0.7 to 16.8 (4.7)
Other debt obligations			
Equities and convertible debentures (including private equity investments and investments in real estate entities)	**$15,807** [1]	Comparable multiples:	
		Multiples	0.7x to 22.7x (6.8x)
		Discounted cash flows:	
		Discount rate/yield	5.0% to 34.5% (15.1%)
		Long-term growth rate/compound annual growth rate	(3.5)% to 19.0% (7.3%)

	Capitalization rate	4.2% to 11.3% (7.3%)

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

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Level 3 Cash Instruments	Level 3 Assets as of December 2013 *(in millions)*	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:	
Collateralized by a single commercial real estate property or a portfolio of properties		Yield	2.7% to 29.1% (10.1%)
		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 (including private equity investments and investments in real estate entities)	$14,685 [1]	Comparable multiples:	
		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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Fair Value of Cash Instruments by Level

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

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

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

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

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

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

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

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

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	Cash Instrument Assets at Fair Value as of December 2013			
in millions	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

	Cash Instrument Liabilities at Fair Value as of December 2013			
in millions	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

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

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

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

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

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. During the three months ended March 2014, transfers into level 2 from level 1 of cash instruments were $37 million, reflecting transfers of public equity securities due to decreased market activity in these instruments.

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

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

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

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Level 3 Rollforward

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

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

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

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

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

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

Other debt obligations	**807**	**9**	**7**	**56**	**(101)**	**(72)**	**28**	**(94)**	**640**
Equities and convertible debentures	**14,685**	**22**	**457**	**624**	**(221)**	**(245)**	**1,501**	**(1,016)**	**15,807**
Total	**$32,639**	**$244** [1]	**$831** [1]	**$2,654**	**$(1,444)**	**$(1,833)**	**$2,827**	**$(2,174)**	**$33,744**

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

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

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

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

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

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

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Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended March 2013

in millions	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Non-U.S. government and agency obligations	$ 26	$ 3	$ 2	$ 28	$ (9)	$ (1)	$ 1	$ (3)	$ 47
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,389	36	91	50	(249)	(277)	318	(194)	3,164
Loans and securities backed by residential real estate	1,619	38	25	268	(172)	(56)	104	(143)	1,683
Bank loans and bridge loans	11,235	153	97	1,460	(543)	(1,361)	1,688	(1,041)	11,688
Corporate debt securities	2,821	116	157	301	(728)	(141)	116	(200)	2,442
State and municipal obligations	619	2	1	19	(269)	(1)		(37)	334
Other debt obligations	1,185	19	21	192	(210)	(201)	61	(212)	855
Equities and convertible debentures	14,855	70	481	185	(378)	(543)	1,000	(446)	15,224
Total	$35,749	$437 [1]	$875 [1]	$2,503	$(2,558)	$(2,581)	$3,288	$(2,276)	$35,437

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 2013

in millions	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period

Total	$ 642	$ (4)	$ (11)	$ (147)	$ 97	$ 3	$ 22	$ (161)	$ 441

1. The aggregate amounts include gains of approximately $317 million, $687 million and $308 million reported in Market making, Other principal transactions and Interest income, respectively.

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

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

Transfers out of level 3 during the three months ended March 2013 primarily reflected transfers of certain bank loans and bridge loans and private equity investments to level 2. Transfers of bank loans and bridge loans to level 2 were principally due to market transactions in certain loans and unobservable inputs no longer being significant to the valuation of other loans. Transfers of private equity investments to level 2 were principally due to market transactions in these instruments.

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Investments in Funds That Calculate Net Asset Value Per Share

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

The firm s investments in funds that calculate NAV primarily consist of investments in firm-sponsored private equity, credit, real estate and hedge funds where the firm co-invests with third-party investors.

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

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

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

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

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

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

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

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

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

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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.

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

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

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The 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.

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

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

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

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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

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

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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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.

Level 3 Derivative Product Type	Net Level 3 Assets/(Liabilities) as of March 2014 *(in millions)*	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Average / Median) as of March 2014
Interest rates	**$(31)**	Option pricing models:	
		Correlation [2]	22% to 84% (58% / 60%)
		Volatility	36 basis points per annum (bpa) to 165 bpa (107 bpa / 130 bpa)
Credit	**$3,958** [1]	Option pricing models, correlation models and discounted cash flows models:	

		Correlation [2]	
			5% to 89% (59% / 60%)
		Credit spreads	
			3 basis points (bps) to 748 bps
			(147 bps / 108 bps) [3]
		Upfront credit points	
			0 points to 99 points (43 points / 38 points)
		Recovery rates	
			20% to 85% (47% / 40%)
Currencies	**$(143)**	Option pricing models:	
		Correlation [2]	65% to 79% (72% / 72%)
Commodities	**$43** [1]	Option pricing models and discounted cash flows models:	
		Volatility	
			13% to 47% (23% / 21%)
		Spread per million British Thermal units (MMBTU) of natural gas	
			$(2.27) to $4.63 ($(0.08) / $(0.05))
		Spread per Metric Tonne (MT) of coal	
			$(15.35) to $0.50 ($(6.23) / $(8.00))
Equities	**$(1,883)**	Option pricing models:	

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

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

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

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

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

			20% to 85% (50% / 40%)
Currencies	$(200)	Option pricing models:	
		Correlation [2]	65% to 79% (72% / 72%)
Commodities	$60 [1]	Option pricing models and discounted cash flows models:	
		Volatility	15% to 52% (23% / 21%)
		Spread per MMBTU of natural gas	$(1.74) to $5.62 ($(0.11) / $(0.04))
		Spread per MT of coal	$(17.00) to $0.50 ($(6.54) / $(5.00))
Equities	$(959)	Option pricing models:	
		Correlation [2]	23% to 99% (58% / 59%)
		Volatility	6% to 63% (20% / 20%)

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

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

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

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Range of Significant Unobservable Inputs

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

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

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

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

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

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

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

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

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

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

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Fair Value of Derivatives by Level

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

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

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

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

Derivative Assets at Fair Value as of December 2013

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

Derivative Liabilities at Fair Value as of December 2013

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

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Level 3 Rollforward

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

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

A derivative with level 1 and/or level 2 inputs is classified in level 3 in its entirety if it has at least one significant level 3 input.
If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified as level 3.

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

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

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

in millions	Asset/ (liability) balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of period
Interest rates net	$ (86)	$(15)	$ (35)	$ 7	$ (7)	$ 54	$ 24	$ 27	$ (31)
Credit net	4,176	(23)	330	179	(40)	(491)	85	(258)	3,958
Currencies net	(200)	(28)	5	4	(15)	49	(3)	45	(143)
Commodities net	60	97	23	9	(83)	(69)	(15)	21	43
Equities net	(959)	4	356	35	(1,453)	187	(46)	(7)	(1,883)
Total derivatives net	$2,991	$ 35 [1]	$679 [1]	$234	$(1,598)	$(270)	$ 45	$(172)	$ 1,944

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

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

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

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

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

in millions	Asset/ (liability) balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of period
Interest rates net	$ (355)	$ (6)	$ 30	$ 5	$	$ 51	$ (14)	$ (16)	$ (305)
Credit net	6,228	(3)	18	75	(46)	(527)	230	(93)	5,882
Currencies net	35	(8)	(329)	2	(3)	26	40	(52)	(289)
Commodities net	(304)	22	167	38	(21)	(22)	19	74	(27)
Equities net	(1,248)	(32)	(170)	39	(488)	141	(51)	674	(1,135)
Total derivatives net	$ 4,356	$(27) [1]	$(284) [1]	$159	$(558)	$(331)	$224	$587	$ 4,126

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

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

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

Transfers out of level 3 derivatives during the three months ended March 2013 primarily reflected transfers of certain equity derivative liabilities to level 2, principally due to unobservable inputs no longer being significant to the valuation of these derivatives.

Impact of Credit Spreads on Derivatives

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

The net gain/(loss), including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm s) on derivatives was $93 million and $(83) million for the three months ended March 2014 and March 2013, respectively.

Bifurcated Embedded Derivatives

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

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

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OTC Derivatives

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

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

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

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

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

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

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

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Derivatives with Credit-Related Contingent Features

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

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

Credit Derivatives

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

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

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

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

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

obligation, plus any increase in the fair value of the reference obligation.

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

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

As of March 2014, written and purchased credit derivatives had total gross notional amounts of $1.41 trillion and $1.49 trillion, respectively, for total net notional purchased protection of $79.56 billion. As of December 2013, written and purchased credit derivatives had total gross notional amounts of $1.43 trillion and $1.52 trillion, respectively, for total net notional purchased protection of $81.55 billion.

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

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

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives		
$ in millions	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives [1]	Other Purchased Credit Derivatives [2]	Asset	Liability	Net Asset/ (Liability)
As of March 2014									
Credit spread on underlying (basis points)									

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

As of December 2013

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

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

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

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Hedge Accounting

The firm applies hedge accounting for (i) certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate unsecured long-term and short-term borrowings and certain fixed-rate certificates of deposit, (ii) certain foreign currency forward contracts and foreign currency-denominated debt used to manage foreign currency exposures on the firm s net investment in certain non-U.S. operations and (iii) certain commodities-related swap and forward contracts used to manage the exposure to the variability in cash flows associated with the forecasted sales of certain energy commodities by one of the firm s consolidated investments.

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

Fair Value Hedges

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

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

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

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged borrowings and bank deposits, and the hedge ineffectiveness on these derivatives, which primarily consists of amortization of prepaid credit spreads resulting from the passage of time.

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

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Net Investment Hedges

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

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

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

	Three Months Ended March	
in millions	**2014**	2013
Currency hedges	**$(112)**	$220
Foreign currency-denominated debt hedges	**(39)**	220

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

As of March 2014 and December 2013, the firm had designated $2.01 billion and $1.97 billion, respectively, of foreign currency-denominated debt, included in Unsecured long-term borrowings and Unsecured short-term borrowings, as hedges of net investments in non-U.S. subsidiaries.

Cash Flow Hedges

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

The firm applies a statistical method that utilizes regression analysis when assessing hedge effectiveness. A cash flow hedge is considered highly effective in offsetting changes in forecasted cash flows attributable to the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

For qualifying cash flow hedges, the gains or losses on derivatives, to the extent effective, are included in Cash flow hedges within the condensed consolidated statements of comprehensive income. Such gains or losses are reclassified to Other principal transactions within the condensed consolidated statements of earnings when the hedged commodities are sold or it becomes probable that the hedged forecasted sales will not occur. Gains or losses resulting from hedge ineffectiveness are included in Other principal transactions.

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

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Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

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

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

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

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

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

- repurchase agreements and substantially all resale agreements;
- securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;
- substantially all other secured financings, including transfers of assets accounted for as financings rather than sales;

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

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

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

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

certain subordinated liabilities issued by consolidated VIEs.

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

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

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

As of March 2014:

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

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

As of December 2013:

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

Duration: 0.2 to 2.7 years (weighted average: 2.5 years)

Generally, increases in yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm s level 3 resale and repurchase agreements, the interrelationship of inputs is not necessarily uniform across such agreements. See Note 9 for further information about collateralized agreements and financings.

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

As of March 2014:

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

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

Duration: 0.5 to 16.8 years (weighted average: 4. 5 years)

As of December 2013:

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

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

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

Generally, increases in funding spreads, yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm s level 3 other secured financings, the interrelationship of inputs is not necessarily uniform across such financings. See Note 9 for further information about collateralized agreements and financings.

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

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

Receivables from Customers and Counterparties. Receivables from customers and counterparties at fair value are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads. As of March 2014, the firm s level 3 receivables from customers and counterparties were not material. The range of significant unobservable inputs used to value level 3 secured loans as of December 2013 is as follows:

Funding spreads: 40 bps to 477 bps (weighted average: 142 bps)

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

Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Such receivables are primarily comprised of customer margin loans and collateral posted in connection with certain derivative transactions. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these items been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of March 2014.

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

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

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

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Fair Value of Other Financial Assets and Financial Liabilities by Level

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

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

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

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

Other assets		18		18
Total	$19,502	$241,252	$ 298	$261,052

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

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

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Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 during the three months ended March 2014 and March 2013. The tables below present information about transfers between level 2 and level 3.

Level 3 Rollforward

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

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

Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 2014

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

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

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Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2014

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transfers out of level 3 of other financial liabilities during the three months ended March 2013 primarily reflected transfers of certain hybrid financial instruments to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value certain instruments, and unobservable inputs no longer being significant to the valuation of other instruments.

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Gains and Losses on Financial Assets and Financial Liabilities Accounted for at Fair Value Under the Fair Value Option

The table below presents the gains and losses recognized as a result of the firm electing to apply the fair value option to certain financial assets and financial liabilities. These gains and losses are included in Market making and Other principal transactions. The table below also includes gains and losses on the embedded derivative component of hybrid financial instruments included in unsecured short-term borrowings, unsecured long-term borrowings and deposits. These gains and losses would have been recognized under other U.S. GAAP even if the firm had not elected to account for the entire hybrid financial instrument at fair value.

The amounts in the table exclude contractual interest, which is included in Interest income and Interest expense, for all instruments other than hybrid financial instruments. See Note 23 for further information about interest income and interest expense.

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

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

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

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

4.

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

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

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

Loans and Lending Commitments

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

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

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

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

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Long-Term Debt Instruments

The aggregate contractual principal amount of long-term other secured financings for which the fair value option was elected exceeded the related fair value by $83 million and $154 million as of March 2014 and December 2013, respectively. The aggregate contractual principal amount of unsecured long-term borrowings for which the fair value option was elected exceeded the related fair value by $224 million and $92 million as of March 2014 and December 2013, respectively. The amounts above include both principal and non-principal-protected long-term borrowings.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was $616 million and $794 million for the three months ended March 2014 and March 2013, respectively. Changes in the fair value of loans and lending commitments are primarily attributable to changes in instrument-specific credit spreads. Substantially all of the firm s performing loans and lending commitments are floating-rate.

Impact of Credit Spreads on Borrowings

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

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

Note 9.

Collateralized Agreements and Financings

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

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

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

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

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

2. As of March 2014 and December 2013, $71.24 billion and $60.38 billion of securities borrowed and $596 million and $973 million of securities loaned were at fair value, respectively.

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Resale and Repurchase Agreements

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

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

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

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

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, repos to maturity are accounted for as sales. A repo to maturity is a transaction in which the firm transfers a security under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the firm effectively no longer has a repurchase obligation and has relinquished control over the underlying security and, accordingly, accounts for the transaction as a sale. The firm had no repos to maturity outstanding as of March 2014 or December 2013.

Securities Borrowed and Loaned Transactions

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

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

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

Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution are recorded at fair value under the fair value option. See Note 8 for further information about securities borrowed and loaned accounted for at fair value.

Securities borrowed and loaned within Securities Services are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such arrangements approximates fair value. While these arrangements are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these arrangements been included in the firm s fair value hierarchy, they would have been classified in level 2 as of March 2014 and December 2013.

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Offsetting Arrangements

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

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

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

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

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

1. As of March 2014 and December 2013, the firm had $6.72 billion and $9.67 billion, respectively, of securities received under resale agreements and $8.01 billion and $2.77 billion, respectively, of securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in Cash and securities segregated for regulatory and other purposes.

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Other Secured Financings

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

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

Other secured financings include arrangements that are nonrecourse. As of March 2014 and December 2013, nonrecourse other secured financings were $1.74 billion and $1.54 billion, respectively.

The firm has elected to apply the fair value option to substantially all other secured financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. See Note 8 for further information about other secured financings that are accounted for at fair value.

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. While these financings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these financings been included in the firm s fair value hierarchy, they would have primarily been classified in level 2 as of March 2014 and December 2013.

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

- short-term secured financings include financings maturing within one year of the financial statement date and financings that are redeemable within one year of the financial statement date at the option of the holder;
- long-term secured financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates; long-term secured financings that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable; and
- weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.

$ in millions	As of March 2014 U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):			
At fair value	**$ 8,461**	**$ 9,613**	**$18,074**
At amortized cost	**39**		**39**
Weighted average interest rates	***5.38%***	***%***	
Other secured financings (long-term):			
At fair value	**3,595**	**2,084**	**5,679**
At amortized cost	**450**	**743**	**1,193**
Weighted average interest rates	***3.30%***	***1.53%***	
Total [1]	**$12,545**	**$12,440**	**$24,985**
Amount of other secured financings collateralized by:			
Financial instruments [2]	**$12,343**	**$11,811**	**$24,154**
Other assets	**202**	**629**	**831**

$ in millions	As of December 2013 U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):			
At fair value	$ 9,374	$ 7,828	$17,202
At amortized cost	88		88
Weighted average interest rates	*2.86%*	*%*	
Other secured financings (long-term):			
At fair value	3,711	2,678	6,389
At amortized cost	372	763	1,135
Weighted average interest rates	*3.78%*	*1.53%*	
Total [1]	$13,545	$11,269	$24,814
Amount of other secured financings collateralized by:			
Financial instruments [2]	$13,366	$10,880	$24,246
Other assets	179	389	568

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

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

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The table below presents other secured financings by maturity.

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

Collateral Received and Pledged

The firm receives cash and securities (e.g., U.S. government and federal agency, other sovereign and corporate obligations, as well as equities and convertible debentures) as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. The firm obtains cash and securities as collateral on an upfront or contingent basis for derivative instruments and collateralized agreements to reduce its credit exposure to individual counterparties.

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

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

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

	As of	
in millions	**March 2014**	December 2013
Collateral available to be delivered or repledged	**$638,169**	$608,390

Collateral that was delivered or repledged	**484,728**	450,127

The table below presents information about assets pledged.

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

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Note 10.

Securitization Activities

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

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

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

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

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

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

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

	Three Months Ended March	
in millions	**2014**	2013
Residential mortgages	**$6,421**	$7,387
Commercial mortgages		2,352

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

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

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

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

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

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

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

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

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

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

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

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

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

The tables below present the weighted average key economic assumptions used in measuring the fair value of retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions. In the tables below, the constant prepayment rate is included only for positions for which it is a key assumption in the determination of fair value. The discount rate for retained interests that relate to U.S. government agency-issued collateralized mortgage obligations does not include any credit loss. Expected credit loss assumptions are reflected in the discount rate for the remainder of retained interests.

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

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

Impact of 10% adverse change	$ (85)	N.M.
Impact of 20% adverse change	(164)	N.M.

1. Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of March 2014 and December 2013. The firm s maximum exposure to adverse changes in the value of these interests is the carrying value of $46 million and $86 million as of March 2014 and December 2013, respectively.

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Note 11.

Variable Interest Entities

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

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

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

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

Real Estate, Credit-Related and Other Investing VIEs. The firm purchases equity and debt securities issued by and makes loans to VIEs that hold real estate, performing and nonperforming debt, distressed loans and equity securities. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

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

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

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

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

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VIE Consolidation Analysis

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

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

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

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

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

Nonconsolidated VIEs

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

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

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

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

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

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

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

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

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

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			Nonconsolidated VIEs As of March 2014				
in millions	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Power-related	Investment funds	Total
Assets in VIE	**$81,477** [2]	**$16,888**	**$9,293**	**$4,459**	**$906**	**$2,299**	**$115,322**
Carrying Value of the Firm s Variable Interests							
Assets	**4,334**	**881**	**2,785**	**246**	**116**	**49**	**8,411**
Liabilities		**5**	**1**	**17**			**23**
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	**2,963**	**35**		**11**			**3,009**
Purchased interests	**1,371**	**573**		**119**			**2,063**
Commitments and guarantees [1]			**502**	**160**	**452**	**3**	**1,117**
Derivatives [1]	**518**	**4,877**	**62**	**1,819**			**7,276**
Loans and investments			**2,785**		**116**	**49**	**2,950**
Total	**$ 4,852** [2]	**$ 5,485**	**$3,349**	**$2,109**	**$568**	**$ 52**	**$ 16,415**

			Nonconsolidated VIEs As of December 2013				
in millions	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Power-related	Investment funds	Total
Assets in VIE	$86,562 [2]	$19,761	$8,599	$4,401	$593	$2,332	$122,248
Carrying Value of the Firm s Variable Interests							
Assets	5,269	1,063	2,756	284	116	49	9,537
Liabilities		3	2	40			45
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	3,641	80		6			3,727
Purchased interests	1,627	659		142			2,428
Commitments and guarantees [1]			485		278	3	766
Derivatives [1]	586	4,809		2,115			7,510
Loans and investments			2,756		116	49	2,921
Total	$ 5,854 [2]	$ 5,548	$3,241	$2,263	$394	$ 52	$ 17,352

1. The aggregate amounts include $1.67 billion and $2.01 billion as of March 2014 and December 2013, respectively, related to derivative transactions with VIEs to which the firm transferred assets.

2. Assets in VIE and maximum exposure to loss include $4.62 billion and $860 million, respectively, as of March 2014, and $4.55 billion and $900 million, respectively, as of December 2013, related to CDOs backed by mortgage obligations.

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Consolidated VIEs

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

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

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

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

	Consolidated VIEs As of March 2014			
in millions	**Real estate, credit-related and other investing**	**CDOs, mortgage-backed and other asset-backed**	**Principal-protected notes**	**Total**
Assets				
Cash and cash equivalents	**$ 77**	**$**	**$**	**$ 77**
Cash and securities segregated for regulatory and other purposes	**72**		**63**	**135**
Receivables from customers and counterparties	**51**			**51**
Financial instruments owned, at fair value	**1,438**	**324**	**159**	**1,921**
Other assets	**640**			**640**
Total	**$2,278**	**$324**	**$ 222**	**$2,824**
Liabilities				
Other secured financings	**$ 304**	**$222**	**$ 403**	**$ 929**
Financial Instruments sold, but not yet purchased, at fair value		**15**		**15**
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings			**1,224**	**1,224**
Unsecured long-term borrowings	**42**		**176**	**218**
Other liabilities and accrued expenses	**349**			**349**
Total	**$ 695**	**$237**	**$1,803**	**$2,735**

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

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Note 12.

Other Assets

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

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

1. See Note 24 for information about income taxes.

2. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of $5.96 billion and $6.07 billion as of March 2014 and December 2013, respectively, which are included in Financial instruments owned, at fair value. The firm has generally elected the fair value option for such investments acquired after the fair value option became available.

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

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment in the table above is presented net of accumulated depreciation and amortization of $9.29 billion and $9.04 billion as of March 2014 and December 2013, respectively. Property, leasehold improvements and equipment included $5.98 billion and $6.02 billion as of March 2014 and December 2013, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities, including VIEs, consolidated by the firm.

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

Impairments

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

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

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

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Note 13.

Goodwill and Identifiable Intangible Assets

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

	Goodwill As of	
in millions	**March 2014**	December 2013
Investment Banking:		
Financial Advisory	**$ 98**	$ 98
Underwriting	**183**	183
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	**269**	269
Equities Client Execution	**2,404**	2,404
Securities Services	**105**	105
Investing & Lending	**60**	60
Investment Management	**587**	586
Total	**$3,706**	$3,705

	Identifiable Intangible Assets As of	
in millions	**March 2014**	December 2013
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution [1]	**$ 175**	$ 35
Equities Client Execution	**334**	348
Investing & Lending	**152**	180
Investment Management	**119**	108
Total	**$ 780**	$ 671

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

Goodwill

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

When assessing goodwill for impairment, first, qualitative factors are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If results of the qualitative assessment are not conclusive, a quantitative test would be performed.

The quantitative goodwill impairment test consists of two steps.

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill is assessed annually in the fourth quarter for impairment or more frequently if events occur or circumstances change that indicate an impairment may exist. There were no events or changes in circumstances during the three months ended March 2014 that would indicate that it was more likely than not that the fair value of each of the reporting units did not exceed its respective carrying amount as of March 2014.

Identifiable Intangible Assets

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

$ in millions	As of **March 2014**	Weighted Average	December 2013

		Remaining Lives (years)	
Customer lists			
Gross carrying amount	**$ 1,117**		$ 1,102
Accumulated amortization	**(723)**		(706)
Net carrying amount	**394**	**7**	396
Commodities-related [1]			
Gross carrying amount	**652**		510
Accumulated amortization	**(369)**		(341)
Net carrying amount	**283**	**8**	169
Other [2]			
Gross carrying amount	**906**		906
Accumulated amortization	**(803)**		(800)
Net carrying amount	**103**	**11**	106
Total			
Gross carrying amount	**2,675**		2,518
Accumulated amortization	**(1,895)**		(1,847)
Net carrying amount	**$ 780**	**8**	$ 671

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

2. Primarily includes the firm s exchange-traded fund lead market maker rights.

Substantially all of the firm s identifiable intangible assets are considered to have finite lives and are amortized over their estimated lives or based on economic usage for certain commodities-related intangibles. Substantially all of the amortization for identifiable intangible assets is included in Depreciation and amortization.

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The tables below present amortization for identifiable intangible assets for the three months ended March 2014 and March 2013, and the estimated future amortization through 2019 for identifiable intangible assets as of March 2014.

	Three Months Ended March	
in millions	**2014**	2013
Amortization	**$48**	$42

in millions

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

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

Note 14.

Deposits

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

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

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

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

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

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

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

As of March 2014 and December 2013, savings and demand deposits, which represent deposits with no stated maturity, were $46.11 billion and $46.02 billion, respectively, which were recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the firm designates certain derivatives as fair value hedges on substantially all of its time deposits for which it has not elected the fair value option. Accordingly, $17.64 billion and $17.53 billion as of March 2014 and December 2013, respectively, of time deposits were effectively converted from fixed-rate obligations to floating-rate obligations and were recorded at amounts that generally approximate fair value. While these savings and demand deposits and time deposits are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these deposits been included in the firm s fair value hierarchy, they would have been classified in level 2.

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Note 15.

Short-Term Borrowings

Short-term borrowings were comprised of the following:

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

See Note 9 for further information about other secured financings.

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

The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under the fair value option. See Note 8 for further information about unsecured short-term borrowings that are accounted for at fair value. The carrying value of unsecured short-term borrowings that are not recorded at fair value generally approximates fair value due to the short-term nature of the obligations. While these unsecured short-term borrowings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these borrowings been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of March 2014 and December 2013.

The table below presents unsecured short-term borrowings.

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

Total	**$46,391**	$44,692
Weighted average interest rate [1]	**1.55%**	1.65%

1. The weighted average interest rates for these borrowings include the effect of hedging activities and exclude financial instruments accounted for at fair value under the fair value option. See Note 7 for further information about hedging activities.

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Note 16.

Long-Term Borrowings

Long-term borrowings were comprised of the following:

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

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

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

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

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

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

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

in millions	As of March 2014
2015	**$ 14,099**
2016	**23,119**
2017	**20,876**
2018	**23,724**
2019	**9,886**
2020 - thereafter	**73,923**
Total [1]	**$165,627**

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

In the table above:

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

The firm designates certain derivatives as fair value hedges to effectively convert a substantial portion of its fixed-rate unsecured long-term borrowings which are not accounted for at fair value into floating-rate obligations. Accordingly, excluding the cumulative impact of changes in the firm s credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of March 2014 and December 2013. See Note 7 for further information about hedging activities. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to changes in the firm s own credit spreads would be an increase of approximately 3% in the carrying value of total unsecured long-term borrowings as of both March 2014 and December 2013. As these borrowings are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these borrowings been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of March 2014 and December 2013.

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

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

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

Subordinated Borrowings

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated borrowings, which are junior to senior borrowings. As of March 2014 and December 2013, subordinated debt had maturities ranging from 2017 to 2038, and 2015 to 2038, respectively. The tables below present subordinated borrowings.

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

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

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

Junior Subordinated Debt

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

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

The 2012 Trusts are required to pay distributions on their senior guaranteed trust securities in the same amounts and on the same dates that they are scheduled to receive interest on the junior subordinated debt they hold, and are required to redeem their respective senior guaranteed trust securities upon the maturity or earlier redemption of the junior subordinated debt they hold.

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

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

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

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

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

Note 17.

Other Liabilities and Accrued Expenses

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

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

1. Primarily relates to consolidated investment funds.

2. See Note 24 for information about income taxes.

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Note 18.

Commitments, Contingencies and Guarantees

Commitments

The table below presents the firm s commitments.

	Commitment Amount by Period of Expiration as of March 2014				Total Commitments as of	
in millions	**Remainder of 2014**	**2015-2016**	**2017-2018**	**2019-Thereafter**	**March 2014**	December 2013
Commitments to extend credit						
Commercial lending:						
Investment-grade	**$ 8,296**	**$15,942**	**$30,254**	**$ 5,656**	**$ 60,148**	$ 60,499
Non-investment-grade	**1,742**	**8,706**	**11,097**	**13,561**	**35,106**	25,412
Warehouse financing	**804**	**919**	**65**	**441**	**2,229**	1,716
Total commitments to extend credit	**10,842**	**25,567**	**41,416**	**19,658**	**97,483**	87,627
Contingent and forward starting resale and securities borrowing agreements	**59,016**	**3**	**36**		**59,055**	34,410
Forward starting repurchase and secured lending agreements	**12,822**				**12,822**	8,256
Letters of credit [1]	**254**	**201**	**10**	**5**	**470**	501
Investment commitments	**1,377**	**4,208**	**99**	**313**	**5,997**	7,116
Other	**3,928**	**118**	**54**	**65**	**4,165**	3,955
Total commitments	**$88,239**	**$30,097**	**$41,615**	**$20,041**	**$179,992**	$141,865

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

Commitments to Extend Credit

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

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

As of March 2014 and December 2013, approximately $40.17 billion and $35.66 billion, respectively, of the firm s lending commitments were held for investment and were accounted for on an accrual basis. The carrying value and the estimated fair value of such lending commitments were liabilities of $164 million and $1.13 billion, respectively, as of March 2014, and $132 million and $1.02 billion,

respectively, as of December 2013. As these lending commitments are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these commitments been included in the firm s fair value hierarchy, they would have primarily been classified in level 3 as of March 2014 and December 2013.

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

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Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was $29.13 billion and $29.24 billion as of March 2014 and December 2013, respectively. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the firm realizes on such commitments, up to a maximum of approximately $950 million. In addition, subject to the satisfaction of certain conditions, upon the firm s request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of $1.13 billion, of which $870 million of protection had been provided as of both March 2014 and December 2013. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG. These instruments primarily include credit default swaps that reference the same or similar underlying instrument or entity, or credit default swaps that reference a market index.

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

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

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

Investment Commitments

The firm s investment commitments consist of commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages. These commitments include $489 million and $659 million as of March 2014 and December 2013, respectively, related to real estate private investments and $5.51 billion and $6.46 billion as of March 2014 and December 2013, respectively, related to corporate and other private investments. Of these amounts, $4.30 billion and $5.48 billion as of March 2014 and December 2013, respectively, relate to commitments to invest in funds managed by the firm. If these commitments are called, they would be funded at market value on the date of investment.

Leases

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

in millions	**As of March 2014**
Remainder of 2014	**$ 279**
2015	**341**
2016	**289**
2017	**275**

2018	**226**
2019	**253**
2020 - thereafter	**940**
Total	**$2,603**

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

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Contingencies

Legal Proceedings. See Note 27 for information about legal proceedings, including certain mortgage-related matters, and agreements the firm has entered into to toll the statute of limitations.

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

Representations and Warranties. The firm has not been a significant originator of residential mortgage loans. The firm did purchase loans originated by others and generally received loan-level representations of the type described below from the originators. During the period 2005 through 2008, the firm sold approximately $10 billion of loans to government-sponsored enterprises and approximately $11 billion of loans to other third parties. In addition, the firm transferred loans to trusts and other mortgage securitization vehicles. As of March 2014 and December 2013, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately $28 billion and $29 billion, respectively. These amounts reflect paydowns and cumulative losses of approximately $97 billion ($22 billion of which are cumulative losses) as of March 2014 and approximately $96 billion ($22 billion of which are cumulative losses) as of December 2013. A small number of these Goldman Sachs-issued securitizations with an outstanding principal balance of $447 million and total paydowns and cumulative losses of $1.61 billion ($539 million of which are cumulative losses) as of March 2014, and an outstanding principal balance of $463 million and total paydowns and cumulative losses of $1.60 billion ($534 million of which are cumulative losses) as of December 2013, were structured with credit protection obtained from monoline insurers. In connection with both sales of loans and securitizations, the firm provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the firm purchased the loans.

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

The firm has received repurchase claims for residential mortgage loans based on alleged breaches of representations from government-sponsored enterprises, other third parties, trusts and other mortgage securitization vehicles, which have not been significant. During both the three months ended March 2014 and March 2013, the firm repurchased loans with an unpaid principal balance of less than $10 million and related losses were not material. The firm has received a communication from counsel purporting to represent certain institutional investors in portions of Goldman Sachs-issued securitizations between 2003 and 2007, such securitizations having a total original notional face amount of approximately $150 billion, offering to enter into a settlement dialogue with respect to alleged breaches of representations made by Goldman Sachs in connection with such offerings.

Ultimately, the firm s exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors including the following: (i) the extent to which these claims are actually made within the statute of limitations taking into consideration the agreements to toll the statute of limitations the firm has entered into with trustees representing trusts; (ii) the extent to which there are underlying breaches of representations that give rise to valid claims for repurchase; (iii) in the case of loans originated by others, the extent to which the firm could be held liable and, if it is, the firm s ability to pursue and collect on any claims against the parties who made representations to the firm; (iv) macroeconomic factors, including developments in the residential real estate market; and (v) legal and regulatory developments. Based upon the large number of defaults in residential mortgages, including those sold or securitized by the

firm, there is a potential for increasing claims for repurchases. However, the firm is not in a position to make a meaningful estimate of that exposure at this time.

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

In connection with the sale of Litton, the firm provided customary representations and warranties, and indemnities for breaches of these representations and warranties, to Ocwen. These indemnities are subject to various limitations, and are capped at approximately $50 million. The firm has not yet received any claims under these indemnities. The firm also agreed to provide specific indemnities to Ocwen related to claims made by third parties with respect to servicing activities during the period that Litton was owned by the firm and which are in excess of the related reserves accrued for such matters by Litton at the time of the sale. These indemnities are capped at approximately $125 million. The firm has recorded a reserve for the portion of these potential losses that it believes is probable and can be reasonably estimated. As of March 2014, claims received and payments made in connection with these claims were not material to the firm.

The firm further agreed to provide indemnities to Ocwen not subject to a cap, which primarily relate to potential liabilities constituting fines or civil monetary penalties which could be imposed in settlements with certain terms with U.S. states attorneys general or in consent orders with certain terms with the Federal Reserve, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the FDIC or the New York State Department of Financial Services, in each case relating to Litton s foreclosure and servicing practices while it was owned by the firm. The firm has entered into a settlement with the Board of Governors of the Federal Reserve System (Federal Reserve Board) relating to foreclosure and servicing matters as described below.

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

On September 1, 2011, Group Inc. and GS Bank USA entered into a Consent Order (the Order) with the Federal Reserve Board relating to the servicing of residential mortgage loans. The terms of the Order were substantially similar and, in many respects, identical to the orders entered into with the Federal Reserve Board by other large U.S. financial institutions. The Order set forth various allegations of improper conduct in servicing by Litton, requires that Group Inc. and GS Bank USA cease and desist such conduct, and required that Group Inc. and GS Bank USA, and their boards of directors, take various affirmative steps. The Order required (i) Group Inc. and GS Bank USA to engage a third-party consultant to conduct a review of certain foreclosure actions or proceedings that occurred or were pending between January 1, 2009 and December 31, 2010; (ii) the adoption of policies and procedures related to management of third parties used to outsource residential mortgage servicing, loss mitigation or foreclosure; (iii) a validation report from an independent third-party consultant regarding compliance with the Order for the first year; and (iv) submission of quarterly progress reports as to compliance with the Order by the boards of directors (or committees thereof) of Group Inc. and GS Bank USA. In February 2013, Group Inc. and GS Bank USA entered into a settlement with the Federal Reserve Board relating to the servicing of residential mortgage loans and foreclosure processing. This settlement amends the Order which is described above, provides for the termination of the independent foreclosure review under the Order and calls for Group Inc. and GS Bank USA collectively to: (i) make cash payments into a settlement fund for distribution to eligible borrowers; and (ii) provide other assistance for foreclosure prevention and loss mitigation through January 2015. The other provisions of the Order remain in effect.

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Guarantees

Derivative Guarantees. The firm enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore the amounts in the tables below do not reflect the firm s overall risk related to its derivative activities. Disclosures about derivatives are not required if they may be cash settled and the firm has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties, central clearing counterparties and certain other counterparties. Accordingly, the firm has not included such contracts in the tables below.

Derivatives are accounted for at fair value and therefore the carrying value is considered the best indication of payment/performance risk for individual contracts. However, the carrying values in the tables below exclude the effect of counterparty and cash collateral netting.

Securities Lending Indemnifications. The firm, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed. Collateral held by the lenders in connection with securities lending indemnifications was $34.20 billion and $27.14 billion as of March 2014 and as of December 2013, respectively. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.

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

The tables below present information about certain derivatives that meet the definition of a guarantee, securities lending indemnifications and certain other guarantees. The maximum payout in the tables below is based on the notional amount of the contract and therefore does not represent anticipated losses. See Note 7 for information about credit derivatives that meet the definition of a guarantee which are not included below. The tables below also exclude certain commitments to issue standby letters of credit that are included in Commitments to extend credit. See the table in Commitments above for a summary of the firm s commitments.

		As of March 2014 Maximum Payout/Notional Amount by Period of Expiration				
in millions	Carrying Value of Net Liability	Remainder of 2014	2015-2016	2017-2018	2019-Thereafter	Total
Derivatives	**$6,733**	**$367,991**	**$285,788**	**$39,355**	**$66,354**	**$759,488**
Securities lending indemnifications		**33,101**				**33,101**
Other financial guarantees	**183**	**1,221**	**547**	**1,338**	**1,256**	**4,362**

As of December 2013
Maximum Payout/Notional Amount by Period of Expiration

in millions	Carrying Value of Net Liability	2014	2015-2016	2017-2018	2019-Thereafter	Total
Derivatives	$7,634	$517,634	$180,543	$39,367	$57,736	$795,280
Securities lending indemnifications		26,384				26,384
Other financial guarantees	213	1,361	620	1,140	1,046	4,167

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

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

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

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

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

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

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the condensed consolidated statements of financial condition as of March 2014 and December 2013.

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

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

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the condensed consolidated statements of financial condition as of March 2014 or December 2013.

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

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

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

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

Note 19.

Shareholders Equity

Common Equity

On April 16, 2014, Group Inc. declared a dividend of $0.55 per common share to be paid on June 27, 2014 to common shareholders of record on May 30, 2014.

The firm s share repurchase program is intended to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm s current and projected capital position, but which may also be influenced by general market conditions and the prevailing price and trading volumes of the firm s common stock. Any repurchase of the firm s common stock requires approval by the Federal Reserve Board.

During the three months ended March 2014, the firm repurchased 10.3 million shares of its common stock at an average cost per share of $166.58, for a total cost of $1.72 billion, under the share repurchase program. In addition, pursuant to the terms of certain share-based compensation plans, employees may remit shares to the firm or the firm may cancel restricted stock units (RSUs) or stock options to satisfy minimum statutory employee tax withholding requirements and the exercise price of stock options. Under these plans, during the three months ended March 2014, employees remitted 173,875 shares with a total value of $30 million, and the firm cancelled 5.6 million of RSUs with a total value of $936 million and 8.8 million stock options with a total value of $1.46 billion.

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Preferred Equity

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

Each share of non-cumulative Series E and Series F Preferred Stock issued and outstanding has a liquidation preference of $100,000 and is redeemable at the option of the firm at any time, subject to certain covenant restrictions governing the firm s ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics, at a redemption price equal to $100,000 plus declared and unpaid dividends. See Note 16 for information about the replacement capital covenants applicable to the Series E and Series F Preferred Stock.

Each share of non-cumulative Series I and Series J Preferred Stock issued and outstanding has a liquidation preference of $25,000 and is represented by 1,000 depositary shares. The Series I Preferred Stock is redeemable at the firm s option beginning November 10, 2017 and the Series J Preferred Stock is redeemable at the firm s option beginning May 10, 2023, both at a redemption price equal to $25,000 plus accrued and unpaid dividends.

In April 2014, Group Inc. issued 28,000 shares of Series K perpetual 6.375% Fixed-to-Floating Rate Non-Cumulative Preferred Stock (Series K Preferred Stock) out of a total of 32,200 shares of Series K Preferred Stock authorized for issuance. Each share of Series K Preferred Stock issued and outstanding has a liquidation preference of $25,000, is

represented by 1,000 depositary shares and is redeemable at the firm s option beginning May 10, 2024 at a redemption price equal to $25,000 plus accrued and unpaid dividends. Dividends on Series K Preferred Stock, if declared, are payable quarterly at 6.375% per annum from the issuance date to, but excluding, May 10, 2024, and thereafter at three-month LIBOR plus 3.55% per annum.

In April 2014, Group Inc. authorized and issued 52,000 shares of Series L perpetual 5.70% Fixed-to-Floating Rate Non-Cumulative Preferred Stock (Series L Preferred Stock). Each share of Series L Preferred Stock issued and outstanding has a liquidation preference of $25,000, is represented by 25 depositary shares and is redeemable at the firm s option beginning May 10, 2019 at a redemption price equal to $25,000 plus accrued and unpaid dividends. Dividends on Series L Preferred Stock, if declared, are payable semi-annually at 5.70% per annum from the issuance date to, but excluding, May 10, 2019, and thereafter quarterly at three-month LIBOR plus 3.884% per annum.

Any redemption of preferred stock by the firm requires the approval of the Federal Reserve Board. All series of preferred stock are pari passu and have a preference over the firm s common stock on liquidation. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. The firm s ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the firm fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period. All shares of preferred stock have a par value of $0.01 per share.

The table below presents perpetual preferred stock issued and outstanding as of March 2014.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Dividend Rate	Redemption Value *(in millions)*

A	50,000	30,000	29,999	3 month LIBOR + 0.75%, with floor of 3.75% per annum	**$ 750**
B	50,000	32,000	32,000	6.20% per annum	**800**
C	25,000	8,000	8,000	3 month LIBOR + 0.75%, with floor of 4.00% per annum	**200**
D	60,000	54,000	53,999	3 month LIBOR + 0.67%, with floor of 4.00% per annum	**1,350**
E	17,500	17,500	17,500	3 month LIBOR + 0.77%, with floor of 4.00% per annum	**1,750**
F	5,000	5,000	5,000	3 month LIBOR + 0.77%, with floor of 4.00% per annum	**500**
I	34,500	34,000	34,000	5.95% per annum	**850**
J	46,000	40,000	40,000	5.50% per annum to, but excluding, May 10, 2023; 3 month LIBOR + 3.64% per annum thereafter	**1,000**
	288,000	**220,500**	**220,498**		**$7,200**

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The table below presents preferred dividends declared on preferred stock.

	Three Months Ended March			
	2014		2013	
Series	*per share*	*in millions*	*per share*	*in millions*
A	**$ 234.38**	**$ 7**	$234.38	$ 7
B	**387.50**	**12**	387.50	12
C	**250.00**	**2**	250.00	2
D	**250.00**	**13**	250.00	14
E	**1,011.11**	**18**	977.78	17
F	**1,011.11**	**5**	977.78	5
I	**371.88**	**13**	437.99	15
J	**343.75**	**14**		
Total		**$84**		$72

Accumulated Other Comprehensive Loss

The tables below present accumulated other comprehensive loss, net of tax by type.

	As of March 2014		
in millions	**Balance, beginning of year**	**Other comprehensive income/(loss) adjustments, net of tax**	**Balance, end of period**
Currency translation	**$(364)**	**$(29)**	**$(393)**
Pension and postretirement liabilities	**(168)**	**(8)**	**(176)**
Cash flow hedges	**8**	**1**	**9**
Accumulated other comprehensive loss, net of tax	**$(524)**	**$(36)**	**$(560)**

	As of December 2013		
in millions	Balance, beginning of year	Other comprehensive income/(loss) adjustments, net of tax	Balance, end of year

Currency translation	$(314)	$ (50)	$(364)
Pension and postretirement liabilities	(206)	38	(168)
Available-for-sale securities	327	(327)	
Cash flow hedges		8	8
Accumulated other comprehensive loss, net of tax	$(193)	$(331)	$(524)

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Note 20.

Regulation and Capital Adequacy

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, the firm is subject to consolidated risk-based regulatory capital requirements which are computed in accordance with the applicable risk-based capital regulations of the Federal Reserve Board. Below are the applicable regulatory frameworks for each period presented:

As of and for the period ended March 2014, the firm was subject to the Revised Capital Framework described below.

As of and for the period ended December 2013, the firm was subject to the Federal Reserve Board s regulations based on the Basel I Capital Accord of the Basel Committee (Basel I), inclusive of the revised market risk regulatory capital requirements, which became effective on January 1, 2013.

These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). The capital regulations also include requirements with respect to leverage.

The firm s capital levels are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

Certain of the firm s subsidiaries are subject to separate regulation and capital requirements as described below.

Revised Capital Framework

During 2013, the U.S. federal bank regulatory agencies (Agencies) approved revised risk-based capital and leverage ratio regulations establishing a new comprehensive capital framework for U.S. banking organizations (Revised Capital Framework), which became effective for the firm beginning January 1, 2014. These regulations are largely based on the Basel Committee s December 2010 final capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act.

Under the Revised Capital Framework, Group Inc. is an Advanced approach banking organization. Below are the aspects of the rules that are most relevant to the firm, as an Advanced approach banking organization.

Definition of Capital and Capital Ratios. The Revised Capital Framework introduced changes to the definition of regulatory capital, which, subject to transitional provisions, became effective across the firm s regulatory capital and leverage ratios on January 1, 2014. These changes include the introduction of a new capital measure called Common Equity Tier 1 (CET1) and the related regulatory capital ratio of CET1 to RWAs (CET1 ratio), as well as changes to the definition of Tier 1 capital.

Certain aspects of the revised requirements phase in over time (transitional provisions). These include, but are not limited to, increases in the minimum capital ratio requirements and the introduction of new capital buffers and certain deductions from CET1 (such as investments in nonconsolidated financial institutions). In addition, junior subordinated debt issued to trusts is being phased out of regulatory capital.

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The table below presents the minimum capital ratios currently applicable under the Revised Capital Framework.

	March 2014 Minimum Ratio
CET1 ratio	**4.0%**
Tier 1 capital ratio	**5.5%**
Total capital ratio	**8.0%**
Tier 1 leverage ratio [1]	**4.0%**

1. Tier 1 leverage ratio is defined as Tier 1 capital divided by average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and certain investments in nonconsolidated financial institutions).

The minimum CET1, Tier 1 capital and Total capital ratios that the firm is required to meet will increase in the future as new requirements phase in over time and as regulators finalize additional capital buffers.

Additionally, in order to meet the quantitative requirements for being well-capitalized under the Federal Reserve Board rules, bank holding companies must meet a required minimum Tier 1 capital ratio of 6.0% and Total capital ratio of 10.0%. Bank holding companies may be expected to maintain ratios well above these minimum levels, depending on their particular condition, risk profile and growth plans.

Definition of Risk-Weighted Assets. RWAs are calculated based on measures of credit risk and market risk in accordance with the Federal Reserve Board s risk-based capital requirements:

As of March 2014, RWAs are calculated under the Basel I Adjusted approach. This approach is based on Basel I and the revised market risk capital requirements, adjusted for certain items related to capital deductions under the previous framework and for the phase-in of new capital deductions. Certain amounts not required to be deducted from CET1 are either deducted from Tier 1 capital or are risk weighted.

As of December 2013, RWAs are calculated under Basel I, inclusive of the revised market risk regulatory capital requirements.

In both periods, RWAs for credit risk reflect amounts for on-balance-sheet and off-balance-sheet exposures. Credit risk requirements for on-balance-sheet assets, such as receivables and cash, are generally based on the balance sheet value. Credit risk requirements for securities financing transactions are determined based upon the positive net exposure for each trade, and include the effect of counterparty netting and collateral, as applicable. For off-balance-sheet exposures, including commitments and guarantees, a credit equivalent amount is calculated based on the notional amount of each trade. Requirements for derivatives are based on a combination of positive net exposure and a percentage of the notional amount of each trade, and include the effect of counterparty netting and collateral, as applicable. All such assets and exposures are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or a qualifying securities firm or other entity (and if collateral is held, depending on the nature of the collateral).

In both periods, RWAs for market risk are determined using Value-at-Risk (VaR), stressed VaR, incremental risk, comprehensive risk and a standardized measurement method for specific risk.

VaR is the potential loss in value of inventory positions, as well as certain other financial assets and financial liabilities, due to adverse market movements over a defined time horizon with a specified confidence level. For both risk management purposes and regulatory capital calculations the firm uses a single VaR model which captures risks including interest rates, equity prices, currency rates and commodity prices. VaR used for regulatory capital requirements (regulatory VaR) differs from risk management VaR due to different time horizons and confidence levels (10-day and 99% for regulatory VaR vs. one-day and 95% for risk management VaR), as well as differences in the scope of positions on which VaR is calculated. Stressed VaR is the potential loss in value of inventory positions during a period of significant market stress. Incremental risk is the potential loss in value of non-securitized inventory positions due to the default or credit migration of issuers of financial instruments over a one-year time horizon. Comprehensive risk is the potential loss in value, due to price risk and defaults, within the firm s credit correlation positions. The standardized measurement method is used to determine RWAs for specific risk for certain positions by applying supervisory defined risk-weighting factors to such positions after applicable netting is performed.

In both periods, there is no explicit requirement for Operational risk.

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Consolidated Regulatory Capital Ratios

March 2014 Capital Ratios and RWAs. The table below presents information about Group Inc. s regulatory ratios as of March 2014.

$ in millions	As of March 2014
Common shareholders equity	$ 71,899
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(2,953)
Deductions for investments in nonconsolidated financial institutions	(1,818)
Other adjustments	287
Common Equity Tier 1	67,415
Perpetual non-cumulative preferred stock	7,200
Junior subordinated debt issued to trusts	1,375
Other adjustments	(582)
Tier 1 capital	75,408
Qualifying subordinated debt	12,321
Junior subordinated debt issued to trusts	1,375
Other adjustments	197
Tier 2 capital	13,893
Total capital	$ 89,301
Credit RWAs	$308,102
Market RWAs	154,221
Total RWAs	$462,323
CET1 ratio	14.6%
Tier 1 capital ratio	16.3%
Total capital ratio	19.3%
Tier 1 leverage ratio	8.2%

In the table above:

The deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities represents goodwill of $3.71 billion and identifiable intangible assets of $156 million (20% of $780 million) net of associated deferred tax liabilities of $909 million. The remainder of the deduction of identifiable intangible assets will be phased in at a rate of 20% per year from 2015 to 2018. Identifiable intangible assets that are not deducted during the transitional period are risk weighted.

The deduction for investments in nonconsolidated financial institutions represents the amount by which the firm s investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. As of March 2014, 20% of the deduction was reflected (calculated based on transitional thresholds). The remainder of this deduction will be phased in at a rate of 20% per year from 2015 to 2018. The balance that is not deducted during the transitional period is risk weighted.

Other adjustments within CET1 primarily include accumulated other comprehensive loss, the overfunded portion of the firm s defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets. As of March 2014, 20% of the overfunded portion of the firm s defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets were included in CET1 and 80% of the deductions were included in other adjustments within Tier 1 capital. Most of the deductions that were included in other adjustments within Tier 1 capital will be phased into CET1 at a rate of 20% per year from 2015 to 2018.

Junior subordinated debt issued to trusts is reflected in both Tier 1 capital (50%) and Tier 2 capital (50%) and it will be fully phased out of Tier 1 capital by 2016, and then also from Tier 2 capital by 2022. See Note 16 for additional information about the firm s junior subordinated debt issued to trusts.

Qualifying subordinated debt represents subordinated debt issued by Group Inc. with an original term to maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced, or discounted, upon reaching a remaining maturity of five years. See Note 16 for additional information about the firm s subordinated debt.

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The table below presents the changes in CET1, Tier 1 capital and Tier 2 capital for the period ended March 2014.

in millions	Period Ended March 2014
Common Equity Tier 1	
Balance, December 31, 2013	**$63,248**
Change in CET1 related to the transition to the Revised Capital Framework	**3,656**
Increase in common shareholders equity	**632**
Change in deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities	**(22)**
Change in deductions for investments in nonconsolidated financial institutions	**(26)**
Change in other adjustments	**(73)**
Balance, March 31, 2014	**67,415**
Tier 1 capital	
Balance, December 31, 2013	**72,471**
Change in CET1 related to the transition to the Revised Capital Framework	**3,656**
Change in Tier 1 capital related to the transition to the Revised Capital Framework	**(219)**
Other net increase in Common Equity Tier 1	**511**
Redesignation of junior subordinated debt issued to trusts	**(688)**
Change in other adjustments	**(323)**
Balance, March 31, 2014	**75,408**
Tier 2 capital	
Balance, December 31, 2013	**13,632**
Change in Tier 2 capital related to the transition to the Revised Capital Framework	**(2)**
Decrease in qualifying subordinated debt	**(452)**
Redesignation of junior subordinated debt issued to trusts	**688**
Change in other adjustments	**27**
Balance, March 31, 2014	**13,893**
Total capital	**$89,301**

The change in CET1 related to the transition to the Revised Capital Framework is principally related to the change in treatment of equity investments in certain nonconsolidated entities. Under Basel I, such investments were treated as deductions. However, during the transition to the Revised Capital Framework, only a portion of such investments that exceed certain prescribed thresholds are treated as deductions from CET1 and the remainder are risk weighted.

The table below presents the components of RWAs as of March 2014.

in millions	As of March 2014
Credit RWAs	
Derivatives	**$ 93,268**
Commitments, guarantees and loans	**83,128**
Securities financing transactions [1]	**35,061**
Equity investments	**27,405**
Other [2]	**69,240**
Total Credit RWAs	**308,102**
Market RWAs	
Regulatory VaR	**12,075**
Stressed VaR	**27,188**
Incremental risk	**14,038**
Comprehensive risk	**13,833**
Specific risk	**87,087**
Total Market RWAs	**154,221**
Total RWAs	**$462,323**

1. Represents resale and repurchase agreements and securities borrowed and loaned transactions.

2. Principally includes receivables, other assets, and cash and cash equivalents.

The table below presents the changes in RWAs for the period ended March 2014.

in millions	Period Ended March 2014
Risk-weighted assets	
Balance, December 31, 2013	**$433,226**
Credit RWAs	
Change related to the transition to the Revised Capital Framework	**26,669**
Other changes:	
Decrease in derivatives	**(1,485)**
Increase in commitments, guarantees and loans	**4,131**
Increase in securities financing transactions	**5,051**
Decrease in equity investments	**(695)**
Increase in other	**6,184**
Change in Credit RWAs	**39,855**
Market RWAs	
Decrease in regulatory VaR	**(1,350)**

Decrease in stressed VaR	**(11,062)**
Increase in incremental risk	**4,575**
Decrease in comprehensive risk	**(4,317)**
Increase in specific risk	**1,396**
Change in Market RWAs	**(10,758)**
Total RWAs, March 31, 2014	**$462,323**

Credit RWAs as of March 2014 increased $39.86 billion compared with December 2013, primarily due to equity investments in certain nonconsolidated entities that are risk weighted under the Revised Capital Framework, and related transitional provisions. Market RWAs as of March 2014 decreased by $10.76 billion compared with December 2013, reflecting a decrease in stressed VaR, primarily due to reduced fixed income and equities exposures.

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December 2013 Capital Ratios and RWAs. The table below presents information about Group Inc. s regulatory ratios as of December 2013.

$ in millions	As of December 2013
Common shareholders equity	$ 71,267
Perpetual non-cumulative preferred stock	7,200
Junior subordinated debt issued to trusts	2,063
Deduction for goodwill and identifiable intangible assets	(4,376)
Deduction for equity investments in certain entities	(3,314)
Other adjustments	(369)
Tier 1 capital	72,471
Qualifying subordinated debt	12,773
Junior subordinated debt issued to trusts	687
Other adjustments	172
Tier 2 capital	13,632
Total capital	$ 86,103
Credit RWAs	$268,247
Market RWAs	164,979
Total RWAs	$433,226
Tier 1 capital ratio	16.7%
Total capital ratio	19.9%
Tier 1 leverage ratio	8.1%

In the table above:

Junior subordinated debt issued to trusts is reflected in both Tier 1 capital (75%) and Tier 2 capital (25%). See Note 16 for additional information about the firm s junior subordinated debt issued to trusts.

The deduction for goodwill and identifiable intangible assets includes goodwill of $3.71 billion and identifiable intangible assets of $671 million.

Other adjustments within Tier 1 capital primarily include disallowed deferred tax assets and the overfunded portion of the firm s defined benefit pension plan obligation, net of associated deferred tax liabilities.

Qualifying subordinated debt represents subordinated debt issued by Group Inc. with an original term to maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced, or discounted, upon reaching a remaining maturity of five years. See Note 16 for additional information about the firm s subordinated debt.

The table below presents the changes in Tier 1 capital and Tier 2 capital for the period ended December 2013.

in millions	Period Ended December 2013
Tier 1 capital	
Balance, December 31, 2012	$66,977
Increase in common shareholders equity	1,751
Increase in perpetual non-cumulative preferred stock	1,000
Redesignation of junior subordinated debt issued to trusts	(687)
Change in goodwill and identifiable intangible assets	723
Change in equity investments in certain entities	1,491
Change in other adjustments	1,216
Balance, December 31, 2013	72,471
Tier 2 capital	
Balance, December 31, 2012	13,429
Decrease in qualifying subordinated debt	(569)
Redesignation of junior subordinated debt issued to trusts	687
Change in other adjustments	85
Balance, December 31, 2013	13,632
Total capital	$86,103

The table below presents the components of RWAs as of December 2013.

in millions	As of December 2013
Credit RWAs	
Derivatives	$ 94,753
Commitments, guarantees and loans	78,997
Securities financing transactions [1]	30,010
Equity investments	3,673
Other [2]	60,814
Total Credit RWAs	268,247
Market RWAs	
Regulatory VaR	13,425
Stressed VaR	38,250

Incremental risk	9,463
Comprehensive risk	18,150
Specific risk	85,691
Total Market RWAs	164,979
Total RWAs	$433,226

1. Represents resale and repurchase agreements and securities borrowed and loaned transactions.

2. Principally includes receivables, other assets, and cash and cash equivalents.

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The table below presents the changes in RWAs for the period ended December 31, 2013.

in millions	Period Ended December 2013
Risk-weighted assets	
Balance, December 31, 2012	$399,928
Credit RWAs	
Decrease in derivatives	(12,516)
Increase in commitments, guarantees and loans	18,151
Decrease in securities financing transactions	(17,059)
Increase in equity investments	1,077
Change in other	(8,932)
Change in Credit RWAs	(19,279)
Market RWAs	
Increase related to the revised market risk rules	127,608
Decrease in regulatory VaR	(2,038)
Decrease in stressed VaR	(13,700)
Decrease in incremental risk	(17,350)
Decrease in comprehensive risk	(9,568)
Decrease in specific risk	(32,375)
Change in Market RWAs	52,577
Total RWAs, December 31, 2013	$433,226

Credit RWAs as of December 2013 decreased $19.28 billion compared with December 2012, primarily due to a decrease in securities financing exposure. Market RWAs as of December 2013 increased by $52.58 billion compared with December 2012, reflecting the impact of the revised market risk regulatory capital requirements, which became effective on January 1, 2013, partially offset by, among other things, a decrease in specific risk due to a decrease in inventory.

Bank Subsidiaries

GS Bank USA, an FDIC-insured, New York State-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve Board, the FDIC, the New York State Department of Financial Services and the Consumer Financial Protection Bureau, and is subject to minimum capital requirements (described below) that are calculated in a manner similar to those applicable to bank holding companies. For purposes of assessing the adequacy of its capital, GS Bank USA computes its risk-based capital ratios in accordance with the regulatory capital requirements applicable to state member banks, which, beginning January 1, 2014, are based on the Revised Capital Framework discussed above. GS Bank USA is an Advanced approach banking organization under the Revised Capital Framework.

Under the Revised Capital Framework, as of January 1, 2014, GS Bank USA became subject to a new minimum CET1 ratio requirement of 4.0%.

Under the regulatory framework for prompt corrective action applicable to GS Bank USA as of March 2014, in order to meet the quantitative requirements for being a well-capitalized depository institution, GS Bank USA is required to maintain a Tier 1 capital ratio of at least 6.0%, a Total capital ratio of at least 10.0% and a Tier 1 leverage ratio of at least 5.0%. GS Bank USA agreed with the Federal Reserve Board to maintain minimum capital ratios in excess of these well-capitalized levels. Accordingly, for a period of time, GS Bank USA is expected to maintain a Tier 1 capital ratio of at least 8.0%, a Total capital ratio of at least 11.0% and a Tier 1 leverage ratio of at least 6.0%. As noted in the tables below, GS Bank USA was in compliance with these minimum capital requirements as of March 2014 and December 2013. GS Bank USA s capital levels and prompt corrective action classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

The table below presents information as of March 2014 regarding GS Bank USA s regulatory capital ratios and Tier 1 leverage ratio under the Revised Capital Framework.

$ in millions	**As of March 2014**
Common Equity Tier 1	**$ 20,330**
Tier 1 capital	**$ 20,330**
Tier 2 capital	**$ 125**
Total capital	**$ 20,455**
Risk-weighted assets	**$132,295**
Common Equity Tier 1 ratio	**15.4%**
Tier 1 capital ratio	**15.4%**
Total capital ratio	**15.5%**
Tier 1 leverage ratio	**17.6%**

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The table below presents information as of December 2013 regarding GS Bank USA s regulatory capital ratios under Basel I, inclusive of the revised market risk capital requirements, as implemented by the Federal Reserve Board.

$ in millions	As of December 2013
Tier 1 capital	$ 20,086
Tier 2 capital	$ 116
Total capital	$ 20,202
Risk-weighted assets	$134,935
Tier 1 capital ratio	14.9%
Total capital ratio	15.0%
Tier 1 leverage ratio	16.9%

The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The amount deposited by the firm s depository institution held at the Federal Reserve Bank was approximately $46.97 billion and $50.39 billion as of March 2014 and December 2013, respectively, which exceeded required reserve amounts by $46.84 billion and $50.29 billion as of March 2014 and December 2013, respectively.

Transactions between GS Bank USA and its subsidiaries and Group Inc. and its subsidiaries and affiliates (other than, generally, subsidiaries of GS Bank USA) are regulated by the Federal Reserve Board. These regulations generally limit the types and amounts of transactions (including credit extensions from GS Bank USA) that may take place and generally require those transactions to be on market terms or better to GS Bank USA.

The firm s principal non-U.S. bank subsidiary, GSIB, is a wholly-owned credit institution, regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is subject to minimum capital requirements. As of March 2014 and December 2013, GSIB was in compliance with all regulatory capital requirements.

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Broker-Dealer Subsidiaries

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

As of March 2014 and December 2013, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of $17.42 billion and $15.81 billion, respectively, which exceeded the amount required by $15.20 billion and $13.76 billion, respectively. As of March 2014 and December 2013, GSEC had regulatory net capital, as defined by Rule 15c3-1, of $1.66 billion and $1.38 billion, respectively, which exceeded the amount required by $1.54 billion and $1.21 billion, respectively.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. As of March 2014 and December 2013, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

Non-U.S. Regulated Broker-Dealer Subsidiaries. The firm s principal non-U.S. regulated broker-dealer subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm s regulated U.K. broker-dealer, is regulated by the PRA and the FCA. GSJCL, the firm s Japanese broker-dealer, is regulated by Japan s Financial Services Agency. These and certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of March 2014 and December 2013, these subsidiaries were in compliance with their local capital adequacy requirements.

Restrictions on Payments

As of March 2014 and December 2013, Group Inc. was required to maintain approximately $36.83 billion and $31.20 billion, respectively, of minimum equity capital in its regulated subsidiaries in order to satisfy the regulatory requirements of such subsidiaries. This minimum equity capital requirement includes certain restrictions imposed by federal and state laws as to the payment of dividends to Group Inc. by its regulated subsidiaries. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board, the FDIC and the New York State Department of Financial Services have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator s opinion, payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization. Similar restrictions are imposed by regulators in jurisdictions outside of the U.S.

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Note 21.

Earnings Per Common Share

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

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

	Three Months Ended March	
in millions, except per share amounts	**2014**	2013
Numerator for basic and diluted EPS net earnings applicable to common shareholders	**$1,949**	$2,188
Denominator for basic EPS weighted average number of common shares	**468.6**	482.1
Effect of dilutive securities:		
RSUs	**5.1**	6.1
Stock options and warrants	**10.9**	21.6
Dilutive potential common shares	**16.0**	27.7
Denominator for diluted EPS weighted average number of common shares and dilutive potential common shares	**484.6**	509.8
Basic EPS	**$ 4.15**	$ 4.53
Diluted EPS	**4.02**	4.29

In the table above, unvested share-based awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of $0.01 for both the three months ended March 2014 and March 2013.

The diluted EPS computations in the table above do not include antidilutive RSUs and common shares underlying antidilutive stock options of 6.0 million and 6.1 million for the three months ended March 2014 and March 2013, respectively.

Note 22.

Transactions with Affiliated Funds

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

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

in millions	Three Months Ended March **2014**	2013
Fees earned from affiliated funds	**$ 892**	$ 700

in millions	As of **March 2014**	December 2013
Fees receivable from funds	**$ 746**	$ 817
Aggregate carrying value of interests in funds	**12,955**	13,124

As of March 2014 and December 2013, the firm had outstanding guarantees on behalf of its funds of $304 million and $147 million, respectively. The amounts as of March 2014 and December 2013 primarily relate to a guarantee that the firm has voluntarily provided in connection with a financing agreement with a third-party lender executed by one of the firm s real estate funds that is not covered by the Volcker Rule. As of March 2014 and December 2013, the firm had no outstanding loans or commitments to extend credit to affiliated funds.

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The Volcker Rule will restrict the firm from providing financial support to covered funds (as defined in the rule) after the expiration of the transition period in July 2015, subject to possible extensions through July 2017. As a general matter, in the ordinary course of business, the firm does not expect to provide additional voluntary financial support to any covered funds but may choose to do so with respect to funds that are not subject to the Volcker Rule; however, in the event that such support is provided, the amount of any such support is not expected to be material.

In addition, in the ordinary course of business, the firm may also engage in other activities with its affiliated funds including, among others, securities lending, trade execution, market making, custody, and acquisition and bridge financing. See Note 18 for the firm s investment commitments related to these funds.

Note 23.

Interest Income and Interest Expense

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

	Three Months Ended March	
in millions	**2014**	2013
Interest income		
Deposits with banks	**$ 50**	$ 48
Securities borrowed, securities purchased under agreements to resell and federal funds sold [1]	**18**	(24)
Financial instruments owned, at fair value	**2,045**	2,238
Other interest [2]	**481**	346
Total interest income	**2,594**	2,608
Interest expense		
Deposits	**85**	93
Securities loaned and securities sold under agreements to repurchase	**134**	164
Financial instruments sold, but not yet purchased, at fair value	**533**	511
Short-term borrowings [3]	**95**	106
Long-term borrowings [3]	**903**	910
Other interest [4]	**(193)**	(101)
Total interest expense	**1,557**	1,683
Net interest income	**$1,037**	$ 925

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

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

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

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

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Note 24.

Income Taxes

Provision for Income Taxes

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

Deferred Income Taxes

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

Unrecognized Tax Benefits

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

Regulatory Tax Examinations

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

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

Jurisdiction	As of March 2014
U.S. Federal	**2008**
New York State and City	**2007**
United Kingdom	**2008**

Japan	**2010**
Hong Kong	**2006**
Korea	**2010**

For U.S. Federal, IRS examinations of fiscal 2008 through calendar 2010 began in 2011. The field work for the examinations of 2008 through 2010 has been completed but the examinations have not been administratively finalized. The examinations of 2011 and 2012 began in 2013.

New York State and City examinations of fiscal 2004 through 2006 were finalized during the first quarter of 2014. The examinations of fiscal 2007 through 2010 began in 2013.

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

In January 2013, the firm was accepted into the Compliance Assurance Process program by the IRS. This program allows the firm to work with the IRS to identify and resolve potential U.S. federal tax issues before the filing of tax returns. The 2013 tax year is the first year being examined under the program. The firm was accepted into the program again for the 2014 tax year.

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Note 25.

Business Segments

The firm reports its activities in the following four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management.

Basis of Presentation

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

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

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

The segment information presented in the table below is prepared according to the following methodologies:

Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.

Net revenues in the firm s segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. Net interest is included in segment net revenues as it is consistent with the way in which management assesses segment performance.

Overhead expenses not directly allocable to specific segments are allocated ratably based on direct segment expenses.

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

in millions	For the Three Months Ended or as of March **2014**	2013
Investment Banking		
Financial Advisory	**$ 682**	$ 484
Equity underwriting	**437**	390
Debt underwriting	**660**	694
Total Underwriting	**1,097**	1,084
Total net revenues	**1,779**	1,568
Operating expenses	**1,045**	1,064
Pre-tax earnings	**$ 734**	$ 504
Segment assets	**$ 1,898**	$ 1,873
Institutional Client Services		
Fixed Income, Currency and Commodities Client Execution	**$ 2,850**	$ 3,217
Equities client execution	**416**	809
Commissions and fees	**828**	793
Securities services	**352**	320
Total Equities	**1,596**	1,922
Total net revenues	**4,446**	5,139 [1]
Operating expenses	**3,094**	3,566
Pre-tax earnings	**$ 1,352**	$ 1,573
Segment assets	**$781,912**	$848,375
Investing & Lending		
Equity securities	**$ 702**	$ 1,127
Debt securities and loans	**597**	566
Other	**230**	375
Total net revenues	**1,529**	2,068
Operating expenses	**892**	996
Pre-tax earnings	**$ 637**	$ 1,072
Segment assets	**$119,146**	$ 97,303

Investment Management		
Management and other fees	**$ 1,152**	$ 1,060
Incentive fees	**304**	140
Transaction revenues	**118**	115
Total net revenues	**1,574**	1,315
Operating expenses	**1,276**	1,090
Pre-tax earnings	**$ 298**	$ 225
Segment assets	**$ 12,709**	$ 11,672
Total net revenues	**$ 9,328**	$ 10,090
Total operating expenses	**6,307**	6,717 [2]
Total pre-tax earnings	**$ 3,021**	$ 3,373
Total assets	**$915,665**	$959,223

1. Includes $40 million of realized gains on available-for-sale securities held in the firm s Americas reinsurance business, in which a majority stake was sold in April 2013.

2. Includes real estate-related exit costs of $1 million that have not been allocated to the firm s segments. Real estate-related exit costs are included in Depreciation and amortization and Occupancy in the condensed consolidated statements of earnings.

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

	Three Months Ended March	
in millions	**2014**	2013
Investment Banking	**$**	$
Institutional Client Services	**979**	909
Investing & Lending	**26**	(13)
Investment Management	**32**	29
Total net interest income	**$1,037**	$925

	Three Months Ended March	
in millions	**2014**	2013
Investment Banking	**$ 32**	$ 33
Institutional Client Services	**114**	152
Investing & Lending	**207**	75
Investment Management	**37**	41
Total depreciation and amortization	**$ 390**	$302 [1]

1. Includes real estate-related exit costs of $1 million that have not been allocated to the firm s segments.

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Geographic Information

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

Geographic results are generally allocated as follows:

Investment Banking: location of the client and investment banking team.

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

Investment Management: location of the sales team.

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

	Three Months Ended March			
$ in millions	**2014**		2013	
Net revenues				
Americas	**$5,497**	**59%**	$ 6,005	60%
Europe, Middle East and Africa	**2,639**	**28**	2,421	24
Asia (includes Australia and New Zealand)	**1,192**	**13**	1,664	16
Total net revenues	**$9,328**	**100%**	$10,090	100%
Pre-tax earnings				
Americas	**$1,690**	**56%**	$ 1,851	55%
Europe, Middle East and Africa	**972**	**32**	907	27
Asia (includes Australia and New Zealand)	**359**	**12**	616	18
Subtotal	**3,021**	**100%**	3,374	100%
Corporate [1]			(1)	
Total pre-tax earnings	**$3,021**		$ 3,373	

1. Consists of real estate-related exit costs of $1 million for the three months ended March 2013.

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Note 26.

Credit Concentrations

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

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

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

The table below presents the credit concentrations in cash instruments held by the firm.

	As of	
$ in millions	**March 2014**	December 2013
U.S. government and federal agency obligations [1]	**$102,754**	$90,118
% of total assets	**11.2%**	9.9%
Non-U.S. government and agency obligations [1]	**$ 39,767**	$40,944
% of total assets	**4.3%**	4.5%

1. Included in Financial instruments owned, at fair value and Cash and securities segregated for regulatory and other purposes.

As of March 2014 and December 2013, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

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

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

collateral issuer only in the event of counterparty default.

in millions	As of **March 2014**	December 2013
U.S. government and federal agency obligations	**$89,291**	$100,672
Non-U.S. government and agency obligations [1]	**89,886**	79,021

1. Principally consists of securities issued by the governments of France, the United Kingdom, Japan and Germany.

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Note 27.

Legal Proceedings

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

Under ASC 450, an event is reasonably possible if the chance of the future event or events occurring is more than remote but less than likely and an event is remote if the chance of the future event or events occurring is slight. Thus, references to the upper end of the range of reasonably possible loss for cases in which the firm is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which the firm believes the risk of loss is more than slight.

With respect to matters described below for which management has been able to estimate a range of reasonably possible loss where (i) actual or potential plaintiffs have claimed an amount of money damages, (ii) the firm is being, or threatened to be, sued by purchasers in an underwriting and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the amount of securities that the firm sold in the underwritings and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of March 2014 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any factors believed to be relevant to the particular matter or matters of that type. As of the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such matters and for any other matters described below where management has been able to estimate a range of reasonably possible aggregate loss to be approximately $3.7 billion in excess of the aggregate reserves for such matters.

Management is generally unable to estimate a range of reasonably possible loss for matters other than those included in the estimate above, including where (i) actual or potential plaintiffs have not claimed an amount of money damages, unless management can otherwise determine an appropriate amount, (ii) the matters are in early stages (such as the action filed by the Libyan Investment Authority discussed below), (iii) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) there are novel legal issues presented. For example, the firm s potential liability with respect to future mortgage-related put-back claims and any future claims arising from the ongoing investigations by members of the Residential Mortgage-Backed Securities Working Group of the U.S. Financial Fraud Enforcement Task Force (RMBS Working Group) may ultimately result in a significant increase in the firm s liabilities for mortgage-related matters, but is not included in management s estimate of reasonably possible loss. However, management does not believe, based on currently available information, that the outcomes of such matters will have a material adverse effect on the firm s financial condition, though the outcomes could be material to the firm s operating results for any particular period, depending, in part, upon the operating results for such period. See Note 18 for further information on mortgage-related contingencies.

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Mortgage-Related Matters. Beginning in April 2010, a number of purported securities law class actions were filed in the U.S. District Court for the Southern District of New York challenging the adequacy of Group Inc. s public disclosure of, among other things, the firm s activities in the CDO market, the firm s conflict of interest management, and the SEC investigation that led to GS&Co. entering into a consent agreement with the SEC, settling all claims made against GS&Co. by the SEC in connection with the ABACUS 2007-AC1 CDO offering (ABACUS 2007-AC1 transaction), pursuant to which GS&Co. paid $550 million of disgorgement and civil penalties. The consolidated amended complaint filed on July 25, 2011, which names as defendants Group Inc. and certain officers and employees of Group Inc. and its affiliates, generally alleges violations of Sections 10(b) and 20(a) of the Exchange Act and seeks unspecified damages. On June 21, 2012, the district court dismissed the claims based on Group Inc. s not disclosing that it had received a Wells notice from the staff of the SEC related to the ABACUS 2007-AC1 transaction, but permitted the plaintiffs other claims to proceed.

On February 1, 2013, a putative shareholder derivative action was filed in the U.S. District Court for the Southern District of New York against Group Inc. and certain of its officers and directors in connection with mortgage-related activities during 2006 and 2007, including three CDO offerings. The derivative complaint, which is based on similar allegations to those at issue in the consolidated class action discussed above, includes allegations of breach of fiduciary duty, challenges the accuracy and adequacy of Group Inc. s disclosure and seeks, among other things, declaratory relief, unspecified compensatory and punitive damages and restitution from the individual defendants and certain corporate governance reforms. On April 30, 2014, the plaintiff appealed the district court s dismissal of the action.

In June 2012, the Board received a demand from a shareholder that the Board investigate and take action relating to the firm s mortgage-related activities and to stock sales by certain directors and executives of the firm. On February 15, 2013, this shareholder filed a putative shareholder derivative action in New York Supreme Court, New York County, against Group Inc. and certain current or former directors and employees, based on these activities and stock sales. The derivative complaint includes allegations of breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement and corporate waste, and seeks, among other things, unspecified monetary damages, disgorgement of profits and certain corporate governance and disclosure reforms. On May 28, 2013, Group Inc. informed the shareholder that the Board completed its investigation and determined to refuse the demand. On June 20, 2013, the shareholder made a books and records demand requesting materials relating to the Board s determination. The parties have agreed to stay proceedings in the putative derivative action pending resolution of the books and records demand.

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

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GS&Co., Goldman Sachs Mortgage Company and GS Mortgage Securities Corp. and three current or former Goldman Sachs employees are defendants in a putative class action commenced on December 11, 2008 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2007. The complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory damages and rescission or rescissionary damages. By a decision dated September 6, 2012, the U.S. Court of Appeals for the Second Circuit affirmed the district court s dismissal of plaintiff s claims with respect to 10 of the 17 offerings included in plaintiff s original complaint but vacated the dismissal and remanded the case to the district court with instructions to reinstate the plaintiff s claims with respect to the other seven offerings. On October 31, 2012, the plaintiff served a fourth amended complaint relating to those seven offerings, plus seven additional offerings (additional offerings). On June 3, 2010, another investor (who had unsuccessfully sought to intervene in the action) filed a separate putative class action asserting substantively similar allegations relating to one of the additional offerings and thereafter moved to further amend its amended complaint to add claims with respect to two of the additional offerings. On March 27, 2014, the district court largely denied defendants motion to dismiss as to the original offering, but denied the separate plaintiff s motion to add the two additional offerings through an amendment. The securitization trusts issued, and GS&Co. underwrote, approximately $11 billion principal amount of certificates to all purchasers in the fourteen offerings at issue in the complaints.

On September 30, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York against GS&Co., Group Inc. and two former GS&Co. employees on behalf of investors in $823 million of notes issued in 2006 and 2007 by two synthetic CDOs (Hudson Mezzanine 2006-1 and 2006-2). The amended complaint asserts federal securities law and common law claims, and seeks unspecified compensatory, punitive and other damages. The defendants motion to dismiss was granted as to plaintiff s claim of market manipulation and denied as to the remainder of plaintiff s claims by a decision dated March 21, 2012. On May 21, 2012, the defendants counterclaimed for breach of contract and fraud. By a decision dated January 22, 2014, the court granted the plaintiff s motion for class certification. On February 6, 2014, defendants petitioned for leave to appeal the class certification order.

Various alleged purchasers of, and counterparties and providers of credit enhancement involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including Aozora Bank, Ltd., Basis Yield Alpha Fund (Master), the Charles Schwab Corporation, CIFG Assurance of North America, Inc., CMFG Life Insurance Company and related parties, Deutsche Zentral-Genossenschaftbank, the FDIC (as receiver for Guaranty Bank), the Federal Home Loan Banks of Chicago and Seattle, the FHFA (as conservator for Fannie Mae and Freddie Mac), IKB Deutsche Industriebank AG, Joel I. Sher (Chapter 11 Trustee) on behalf of TMST, Inc. (TMST), f/k/a Thornburg Mortgage, Inc. and certain TMST affiliates, John Hancock and related parties, Massachusetts Mutual Life Insurance Company, National Australia Bank, the National Credit Union Administration (as conservator or liquidating agent for several failed credit unions), Phoenix Light SF Limited and related parties, Royal Park Investments SA/NV, The Union Central Life Insurance Company, Ameritas Life Insurance Corp., Acacia Life Insurance Company, Watertown Savings Bank, Commerzbank and Texas County & District Retirement System) have filed complaints or summonses with notice in state and federal court or initiated arbitration proceedings against firm affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material fact and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages. Certain of these complaints also name other firms as defendants.

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(Unaudited)

A number of other entities (including John Hancock and related parties, Norges Bank Investment Management and Selective Insurance Company) have threatened to assert claims of various types against the firm in connection with the sale of mortgage-related securities. The firm has entered into agreements with a number of these entities to toll the relevant statute of limitations.

As of the date hereof, the aggregate amount of mortgage-related securities sold to plaintiffs in active and threatened cases described in the preceding two paragraphs where those plaintiffs are seeking rescission of such securities was approximately $17.8 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities, statutory interest or any other adjustments that may be claimed). This amount does not include the potential claims by these or other purchasers in the same or other mortgage-related offerings that have not been described above, or claims that have been dismissed.

The firm has entered into agreements with Deutsche Bank National Trust Company and U.S. Bank National Association to toll the relevant statute of limitations with respect to claims for repurchase of residential mortgage loans based on alleged breaches of representations related to $11.4 billion original notional face amount of securitizations issued by trusts for which they act as trustees.

Group Inc., Litton, Ocwen and Arrow Corporate Member Holdings LLC, a former subsidiary of Group Inc., are defendants in a putative class action pending since January 23, 2013 in the U.S. District Court for the Southern District of New York generally challenging the procurement manner and scope of force-placed hazard insurance arranged by Litton when homeowners failed to arrange for insurance as required by their mortgages. The complaint asserts claims for breach of contract, breach of fiduciary duty, misappropriation, conversion, unjust enrichment and violation of Florida unfair practices law, and seeks unspecified compensatory and punitive damages as well as declaratory and injunctive relief. The second amended complaint, filed on November 19, 2013, added an additional plaintiff and RICO claims. On January 21, 2014, Group Inc. moved to sever the claims against it and certain other defendants.

On February 25, 2013, Group Inc. was added as a defendant through an amended complaint in a putative class action, originally filed on April 6, 2012 in the U.S. District Court for the Southern District of New York, against Litton, Ocwen and Ocwen Loan Servicing, LLC (Ocwen Servicing). The amended complaint generally alleges that Litton and Ocwen Servicing systematically breached agreements and violated various federal and state consumer protection laws by failing to modify the mortgage loans of homeowners participating in the federal Home Affordable Modification Program, and names Group Inc. based on its prior ownership of Litton. The plaintiffs seek unspecified compensatory, statutory and punitive damages as well as declaratory and injunctive relief. On March 3, 2014, the court granted Group Inc. s and Litton s separate motions to dismiss. The time for an appeal will not begin to run until disposition of the claims against other defendants.

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

The firm expects to be the subject of additional putative shareholder derivative actions, purported class actions, rescission and put back claims and other litigation, additional investor and shareholder demands, and additional regulatory and other investigations and actions with respect to mortgage-related offerings, loan sales, CDOs, and servicing and foreclosure activities. See Note 18 for information regarding mortgage-related contingencies not described in this Note 27.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

Private Equity-Sponsored Acquisitions Litigation. Group Inc. is among numerous private equity firms named as defendants in a federal antitrust action filed in the U.S. District Court for the District of Massachusetts in December 2007. As amended, the complaint generally alleges that the defendants have colluded to limit competition in bidding for private equity-sponsored acquisitions of public companies, thereby resulting in lower prevailing bids and, by extension, less consideration for shareholders of those companies in violation of Section 1 of the U.S. Sherman Antitrust Act and common law. The complaint seeks, among other things, treble damages in an unspecified amount. On March 13, 2013, the court granted in part and denied in part defendants motions for summary judgment, rejecting plaintiffs theory of overarching collusion, but permitting plaintiffs claims to proceed based on narrower theories. On October 21, 2013, plaintiffs moved for class certification.

RALI Pass-Through Certificates Litigation. GS&Co. is among numerous underwriters named as defendants in a putative securities class action initially filed in September 2008 in New York Supreme Court, and subsequently removed to the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various offerings of mortgage-backed pass-through certificates violated the disclosure requirements of the federal securities laws. In addition to the underwriters, the defendants include Residential Capital, LLC (ResCap), Residential Accredit Loans, Inc. (RALI), Residential Funding Corporation (RFC), Residential Funding Securities Corporation (RFSC), and certain of their officers and directors. On January 3, 2013, the district court certified a class in connection with one offering underwritten by GS&Co. which includes only initial purchasers who bought the securities directly from the underwriters or their agents no later than ten trading days after the offering date. On April 30, 2013, the district court granted in part plaintiffs request to reinstate a number of the previously dismissed claims relating to an additional nine offerings underwritten by GS&Co. On May 10, 2013, the plaintiffs filed an amended complaint incorporating those nine additional offerings. On December 27, 2013, the court granted the plaintiffs motion for class certification as to the nine additional offerings but denied the plaintiffs motion to expand the time period and scope covered by the previous class definition. On January 10, 2014, defendants petitioned for leave to appeal the December 27, 2013 class certification order.

GS&Co. underwrote approximately $5.57 billion principal amount of securities to all purchasers in the offerings included in the amended complaint. On May 14, 2012, ResCap, RALI and RFC filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York. On June 28, 2013, the district court entered a final order and judgment approving a settlement between plaintiffs and ResCap, RALI, RFC, RFSC and their officers and directors named as defendants in the action.

MF Global Securities Litigation. GS&Co. is among numerous underwriters named as defendants in class action complaints and an individual action filed in the U.S. District Court for the Southern District of New York commencing November 18, 2011. These complaints generally allege that the offering materials for two offerings of MF Global Holdings Ltd. (MF Global) convertible notes (aggregating approximately $575 million in principal amount) in February 2011 and July 2011, among other things, failed to describe adequately the nature, scope and risks of MF Global s exposure to European sovereign debt, in violation of the disclosure requirements of the federal securities laws. On November 12, 2013, the court denied the defendants motions to dismiss the consolidated amended class action complaint. GS&Co. underwrote an aggregate principal amount of approximately $214 million of the notes. On October 31, 2011, MF Global filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Manhattan, New York.

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

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NII Capital Securities Litigation. GS&Co. is among the underwriters named as defendants in a putative securities class action filed on March 4, 2014 in the U.S. District Court for the Eastern District of Virginia. In addition to the underwriters, the defendants include the issuer, NII Capital Corp. (NII Capital), its parent, NII Holdings, Inc. (NII Holdings), and certain of their directors and officers. As to the underwriters, the complaint generally alleges that the offering materials for the March 2011 and December 2011 offerings of NII Capital unsecured senior notes guaranteed by NII Holdings (aggregating $1.45 billion in principal amount, of which GS&Co. underwrote $459 million principal amount of notes) violated the disclosure requirements of the federal securities laws, and seeks unspecified compensatory damages and rescission or rescissionary damages.

Employment-Related Matters. On September 15, 2010, a putative class action was filed in the U.S. District for the Southern District of New York by three female former employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. On July 17, 2012, the district court issued a decision granting in part Group Inc. s and GS&Co. s motion to strike certain of plaintiffs class allegations on the ground that plaintiffs lacked standing to pursue certain equitable remedies and denying Group Inc. s and GS&Co. s motion to strike plaintiffs class allegations in their entirety as premature. On March 21, 2013, the U.S. Court of Appeals for the Second Circuit held that arbitration should be compelled with one of the named plaintiffs, who as a managing director was a party to an arbitration agreement with the firm.

Investment Management Services. Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients relating to losses allegedly sustained as a result of the firm s investment management services. These claims generally seek, among other things, restitution or other compensatory damages and, in some cases, punitive damages.

Goldman Sachs Asset Management International (GSAMI) is the defendant in an action filed on July 9, 2012 with the High Court of Justice in London by certain entities representing Vervoer, a Dutch pension fund, alleging that GSAMI was negligent in performing its duties as investment manager in connection with the allocation of the plaintiffs funds among asset managers in accordance with asset allocations provided by plaintiffs and that GSAMI breached its contractual and common law duties to the plaintiffs. Specifically, plaintiffs allege that GSAMI caused their assets to be invested in unsuitable products for an extended period, thereby causing losses, and caused them to be under-exposed for a period of time to certain other investments that performed well, thereby resulting in foregone potential gains. The plaintiffs are seeking monetary damages up to 209 million.

Financial Advisory Services. Group Inc. and certain of its affiliates are from time to time parties to various civil litigation and arbitration proceedings and other disputes with clients and third parties relating to the firm s financial advisory activities. These claims generally seek, among other things, compensatory damages and, in some cases, punitive damages, and in certain cases allege that the firm did not appropriately disclose or deal with conflicts of interest.

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Credit Derivatives Antitrust Matters. The European Commission announced in April 2011 that it was initiating proceedings to investigate further numerous financial services companies, including Group Inc., in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anti-competitive practices. On July 1, 2013, the European Commission issued to those financial services companies a Statement of Objections alleging that they colluded to limit competition in the trading of exchange-traded unfunded credit derivatives and exchange trading of credit default swaps more generally, and setting out its process for determining fines and other remedies. (Group Inc. filed its response on January 21, 2014.) Group Inc. s current understanding is that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely. The firm has received civil investigative demands from the U.S. Department of Justice for information on similar matters. Goldman Sachs is cooperating with the investigations and reviews.

GS&Co. and Group Inc. are among the numerous defendants in putative antitrust class actions relating to credit derivatives, filed beginning in May 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws by conspiring to forestall the development of alternatives to over-the-counter trading of credit derivatives and maintain inflated bid-ask spreads for credit derivatives trading. The complaints seek declaratory and injunctive relief as well as treble damages in an unspecified amount. Plaintiffs filed a further amended consolidated complaint on April 11, 2014.

Libya-Related Litigation. GSI is the defendant in an action filed on January 21, 2014 with the High Court of Justice in London by the Libyan Investment Authority, relating to nine derivative transactions between the plaintiff and GSI and seeking, among other things, rescission of the transactions and unspecified equitable compensation and damages exceeding $1 billion. On April 10, 2014, GSI moved for summary judgment.

Municipal Securities Matters. GS&Co. (along with, in some cases, other financial services firms) is named as respondent in a number of FINRA arbitrations filed by municipalities, municipal-owned entities, state-owned agencies or instrumentalities and non-profit entities, based on GS&Co. s role as underwriter of the claimants issuances of an aggregate of approximately $2.4 billion of auction rate securities from 2003 through 2007 and as a broker-dealer with respect to auctions for these securities. The claimants generally allege that GS&Co. failed to disclose that it had a practice of placing cover bids in auctions, and/or failed to inform the claimant of the deterioration of the auction rate market beginning in the fall of 2007, and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market in February 2008. Certain claimants also allege that GS&Co. advised them to enter into interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses. The claims include breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD. One claimant has also filed a complaint against GS&Co. in federal court asserting the same claims as in the FINRA arbitration.

GS&Co. filed complaints and motions in federal court seeking to enjoin certain of the arbitrations to effectuate the exclusive forum selection clauses in the transaction documents. In one case, the district court denied the injunction but was reversed by the appellate court; in other cases, the district court granted the injunctions, which are being appealed.

Commodities-Related Litigation. Group Inc. and its subsidiaries, GS Power Holdings LLC and Metro International Trade Services LLC, are among the defendants in a number of putative class actions filed beginning on August 1, 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege violation of federal antitrust laws and other federal and state laws in connection with the management of aluminum storage facilities. The complaints seek declaratory, injunctive and other equitable relief as well as unspecified monetary damages, including treble damages. Plaintiffs filed a consolidated amended complaint on March 12, 2014, and defendants moved to dismiss on April 23, 2014.

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Currencies-Related Litigation. GS&Co. and Group Inc. are among the defendants named in several putative antitrust class actions relating to trading in the foreign exchange markets, filed since December 2013 in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws in connection with an alleged conspiracy to manipulate the foreign currency exchange markets and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On February 13, 2014, the cases were consolidated into one action, and on March 31, 2014, plaintiffs in the consolidated action filed a consolidated amended complaint. On February 28, 2014, Group Inc. was named in a separate putative class action based on similar allegations, which was not consolidated but is coordinated with the other proceeding for pretrial purposes.

High-Frequency Trading Litigation. Group Inc. is among the numerous securities exchanges, broker-dealers and purported high-frequency trading firms named as defendants in a putative securities class action relating to high-frequency trading filed on April 18, 2014 in the U.S. District Court for the Southern District of New York. The complaint generally alleges that the defendants violated the provisions of the federal securities laws prohibiting market manipulation and insider trading. The complaint seeks, among other things, equitable and other injunctive relief, as well as unspecified compensatory damages, restitution and disgorgement.

Regulatory Investigations and Reviews and Related Litigation. Group Inc. and certain of its affiliates are subject to a number of other investigations and reviews by, and in some cases have received subpoenas and requests for documents and information from, various governmental and regulatory bodies and self-regulatory organizations and litigation relating to various matters relating to the firm s businesses and operations, including:

the 2008 financial crisis;

the public offering process;

the firm s investment management and financial advisory services;

conflicts of interest;

research practices, including research independence and interactions between research analysts and other firm personnel, including investment banking personnel, as well as third parties;

transactions involving municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, underwriting of Build America Bonds, municipal advisory services and the possible impact of credit default swap transactions on municipal issuers;

the sales, trading and clearance of corporate and government securities, currencies, commodities and other financial products and related sales and other communications and activities, including compliance with the SEC s short sale rule, algorithmic, high-frequency and quantitative trading, futures trading, options trading, transaction reporting, technology systems and controls, securities lending practices, trading and clearance of credit derivative instruments, commodities activities and metals storage, private placement practices, allocations of and trading in securities, and trading activities and communications in connection with the establishment of benchmark rates;

compliance with the U.S. Foreign Corrupt Practices Act, including with respect to the firm s hiring practices; and

insider trading, the potential misuse of material nonpublic information regarding private company and governmental developments and the effectiveness of the firm s insider trading controls and information barriers.

Goldman Sachs is cooperating with all such regulatory investigations and reviews.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of

The Goldman Sachs Group, Inc.:

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of March 31, 2014, the related condensed consolidated statements of earnings for the three months ended March 31, 2014 and 2013, the condensed consolidated statements of comprehensive income for the three months ended March 31, 2014 and 2013, the condensed consolidated statement of changes in shareholders equity for the three months ended March 31, 2014, and the condensed consolidated statements of cash flows for the three months ended March 31, 2014 and 2013. These condensed consolidated interim financial statements are the responsibility of the Company s management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2013, and the related consolidated statements of earnings, comprehensive income, changes in shareholders equity and cash flows for the year then ended (not presented herein), and in our report dated February 27, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2013, and the condensed consolidated statement of changes in shareholders equity for the year ended December 31, 2013, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York

May 8, 2014

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Statistical Disclosures

Distribution of Assets, Liabilities and Shareholders Equity

The table below presents a summary of consolidated average balances and interest rates. Assets, liabilities and interest are classified as U.S. and non-U.S. based on the location of the legal entity in which the assets and liabilities are held.

	Three Months Ended March					
	2014			2013		
in millions, except rates	**Average balance**	**Interest**	**Average rate** *(annualized)*	Average balance	Interest	Average rate *(annualized)*
Assets						
Deposits with banks	**$ 65,451**	**$ 50**	**0.31%**	$ 64,007	$ 48	0.30%
U.S.	**56,807**	**40**	**0.29**	60,919	43	0.29
Non-U.S.	**8,644**	**10**	**0.47**	3,088	5	0.66
Securities borrowed, securities purchased under agreements to resell and federal funds sold	**332,618**	**18**	**0.02**	316,390	(24)	(0.03)
U.S.	**213,999**	**(118)**	**(0.22)**	180,008	(85)	(0.19)
Non-U.S.	**118,619**	**136**	**0.46**	136,382	61	0.18
Financial instruments owned, at fair value [1]	**272,769**	**2,045**	**3.04**	316,072	2,238	2.87
U.S.	**171,403**	**1,358**	**3.21**	193,652	1,510	3.16
Non-U.S.	**101,366**	**687**	**2.75**	122,420	728	2.41
Other interest-earning assets [2]	**158,264**	**481**	**1.23**	134,889	346	1.04
U.S.	**106,435**	**293**	**1.12**	82,295	239	1.18
Non-U.S.	**51,829**	**188**	**1.47**	52,594	107	0.83
Total interest-earning assets	**829,102**	**2,594**	**1.27**	831,358	2,608	1.27
Cash and due from banks	**4,849**			6,074		
Other non-interest-earning assets [1]	**94,516**			124,476		
Total assets	**$928,467**			$961,908		
Liabilities						
Interest-bearing deposits	**$ 70,071**	**$ 85**	**0.49%**	$ 69,118	$ 93	0.55%
U.S.	**60,201**	**70**	**0.47**	61,704	88	0.58
Non-U.S.	**9,870**	**15**	**0.62**	7,414	5	0.27

Securities loaned and securities sold under agreements to repurchase	**175,844**	**134**	**0.31**	187,101	164	0.36
U.S.	**107,792**	**49**	**0.18**	122,299	80	0.27
Non-U.S.	**68,052**	**85**	**0.51**	64,802	84	0.53
Financial instruments sold, but not yet purchased, at fair value [1]	**88,132**	**533**	**2.45**	95,490	511	2.17
U.S.	**42,498**	**270**	**2.58**	37,028	167	1.83
Non-U.S.	**45,634**	**263**	**2.34**	58,462	344	2.39
Short-term borrowings [3]	**64,549**	**95**	**0.60**	62,993	106	0.68
U.S.	**43,046**	**87**	**0.82**	43,053	97	0.91
Non-U.S.	**21,503**	**8**	**0.15**	19,940	9	0.18
Long-term borrowings [3]	**168,441**	**903**	**2.17**	177,257	910	2.08
U.S.	**162,408**	**850**	**2.12**	170,652	881	2.09
Non-U.S.	**6,033**	**53**	**3.56**	6,605	29	1.78
Other interest-bearing liabilities [4]	**211,723**	**(193)**	**(0.37)**	197,393	(101)	(0.21)
U.S.	**149,916**	**(304)**	**(0.82)**	141,253	(221)	(0.63)
Non-U.S.	**61,807**	**111**	**0.73**	56,140	120	0.87
Total interest-bearing liabilities	**778,760**	**1,557**	**0.81**	789,352	1,683	0.86
Non-interest-bearing deposits	**710**			750		
Other non-interest-bearing liabilities [1]	**70,090**			95,104		
Total liabilities	**849,560**			885,206		
Shareholders equity						
Preferred stock	**7,200**			6,200		
Common stock	**71,707**			70,502		
Total shareholders equity	**78,907**			76,702		
Total liabilities and shareholders equity	**$928,467**			$961,908		
Interest rate spread			**0.46%**			0.41%
Net interest income and net yield on interest-earning assets		**$1,037**	**0.51**		$ 925	0.45
U.S.		**551**	**0.41**		615	0.48
Non-U.S.		**486**	**0.70**		310	0.40
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations						
Assets			**33.83%**			37.83%
Liabilities			**27.34**			27.03

1. Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.

2. Primarily consists of cash and securities segregated for regulatory and other purposes and certain receivables from customers and counterparties.

3. Interest rates include the effects of interest rate swaps accounted for as hedges.

4. Primarily consists of certain payables to customers and counterparties.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management s Discussion and Analysis

Introduction

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

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

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013. References to the 2013 Form 10-K are to our Annual Report on Form 10-K for the year ended December 31, 2013.

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

References to the March 2014 Form 10-Q are to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014. All references to the condensed consolidated financial statements are to Part I, Item 1 of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014. All references to March 2014 and March 2013 refer to our periods ended, or the dates, as the context requires, March 31, 2014 and March 31, 2013, respectively. All references to December 2013 refer to the date December 31, 2013. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Executive Overview

The firm generated net earnings of $2.03 billion and diluted earnings per common share of $4.02 for the first quarter of 2014, compared with $2.26 billion and $4.29 per common share, respectively, for the first quarter of 2013. Annualized return on average common shareholders equity (ROE) [1] was 10.9% for the first quarter of 2014, compared with 12.4% for the first quarter of 2013.

Book value per common share was $154.69 and tangible book value per common share [2] was $145.04 as of March 2014, both approximately 1% higher compared with the end of 2013. During the quarter, the firm repurchased 10.3 million shares of its common stock for a total cost of $1.72 billion. Our Tier 1 capital ratio was 16.3% and our Common Equity Tier 1 ratio was 14.6% as of March 2014, in each case reflecting both the revised definition of regulatory capital and the transitional provisions which became effective January 1, 2014. [3]

The firm generated net revenues of $9.33 billion for the first quarter of 2014, compared with $10.09 billion for the first quarter of 2013. These results reflected lower net revenues in Institutional Client Services and significantly lower net revenues in Investing & Lending compared with the first quarter of 2013. These decreases were partially offset by significantly higher net revenues in Investment Management and higher net revenues in Investment Banking compared with the first quarter of 2013.

An overview of net revenues for each of our business segments is provided below.

1. See Results of Operations Financial Overview below for further information about our calculation of annualized ROE.

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

3. See Note 20 to the condensed consolidated financial statements for further information about our capital ratios.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management s Discussion and Analysis

Investment Banking

Net revenues in Investment Banking increased compared with the first quarter of 2013, due to significantly higher net revenues in Financial Advisory, primarily reflecting an increase in client activity in Europe. Net revenues in Underwriting were essentially unchanged compared with the first quarter of 2013. Net revenues in equity underwriting were higher compared with the first quarter of 2013, reflecting higher net revenues from private placements and initial public offerings. Net revenues in debt underwriting were slightly lower compared with the first quarter of 2013, due to significantly lower net revenues from commercial mortgage-related activity compared with a strong first quarter of 2013, partially offset by higher net revenues from investment-grade activity.

Institutional Client Services

Net revenues in Institutional Client Services decreased compared with the first quarter of 2013, reflecting lower net revenues in both Fixed Income, Currency and Commodities Client Execution and Equities.

The decrease in Fixed Income, Currency and Commodities Client Execution compared with the first quarter of 2013 reflected significantly lower net revenues in interest rate products, currencies and mortgages, as well as lower net revenues in credit products. These results were partially offset by significantly higher net revenues in commodities compared with the first quarter of 2013. During the quarter, market-making conditions generally improved compared with the fourth quarter of 2013. However, Fixed Income, Currency and Commodities Client Execution continued to operate in a challenging environment and levels of activity generally remained low.

The decrease in Equities compared with the first quarter of 2013 was due to significantly lower net revenues in equities client execution, as $233 million of the decline reflected the sale of a majority stake in our Americas reinsurance business in April 2013. In addition, net revenues were significantly lower in both derivatives and, to a lesser extent, cash products. Commissions and fees were slightly higher compared with the first quarter of 2013, primarily reflecting an increase in European equity volumes. Securities services net revenues were higher compared with the first quarter of 2013, reflecting growth in customer balances. During the quarter, Equities experienced challenging market-making conditions, particularly in Japan and certain emerging markets as equity prices declined.

The net gain attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was $15 million (all related to Fixed Income, Currency and Commodities Client Execution) for the first quarter of 2014, compared with a net loss of $77 million ($42 million and $35 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the first quarter of 2013.

Investing & Lending

Net revenues in Investing & Lending decreased significantly compared with the first quarter of 2013, primarily reflecting a significant decrease in net gains from investments in equity securities, particularly in public equities as movements in global equity prices during the quarter were less favorable compared with the same prior year period. Net gains and net interest income from debt securities and loans were slightly higher compared with the first quarter of 2013, while other net revenues, related to our consolidated investments, were significantly lower, reflecting a decrease in operating revenues from commodities-related consolidated investments.

Investment Management

Net revenues in Investment Management increased significantly compared with the first quarter of 2013, reflecting significantly higher incentive fees, as well as higher management and other fees primarily due to higher average assets under supervision. During the quarter, total assets under supervision increased $41 billion to $1.08 trillion. Long-term assets under supervision increased $54 billion, including net inflows of $40 billion [1], primarily in fixed income assets. Net market appreciation of $14 billion during the quarter was primarily in fixed income and equity assets. Liquidity products decreased $13 billion.

Our businesses, by their nature, do not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and other factors. For a further discussion of the factors that may affect our future operating results, see Certain Risk Factors That May Affect Our Businesses below, as well as Risk Factors in Part I, Item 1A of the 2013 Form 10-K.

1. Includes $8 billion of fixed income asset inflows for the three months ended March 2014 in connection with our acquisition of Deutsche Asset & Wealth Management s stable value business.

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Business Environment

Global

During the first quarter of 2014, global economic conditions appeared to be mixed. A harsh winter took a toll on broad areas of economic activity in the United States, which affected market sentiment. In addition, a deceleration in real gross domestic product (GDP) growth in China and tensions related to the political situation in Ukraine and Russia negatively affected market sentiment toward emerging market assets. In contrast, real GDP growth appears to have accelerated in Japan and the Euro area. These developments contributed to challenging market conditions during the quarter, as global equity prices decreased before improving and credit spreads widened before tightening, while levels of volatility remained generally low. In investment banking, industry-wide debt underwriting activity improved, particularly in investment-grade offerings, while industry-wide equity underwriting activity declined. While industry-wide announced mergers and acquisitions activity increased, industry-wide completed mergers and acquisitions activity was consistent compared with the fourth quarter of 2013.

United States

In the United States, real GDP growth decelerated significantly during the quarter, primarily impacted by adverse weather conditions and weak business fixed investment. Growth in consumer spending remained stable and exports slowed during the quarter. Measures of consumer and business confidence were mixed. House sales and housing starts declined compared with the previous quarter. The unemployment rate declined, but continued to remain elevated. However, the labor force participation rate increased, potentially halting its downward trend over the past few years. Measures of inflation remained subdued during the quarter. The U.S. Federal Reserve maintained its federal funds rate at a target range of zero to 0.25% and continued to reduce the size of its monthly program to purchase U.S. Treasury securities and mortgage-backed securities. It also changed the nature of its forward guidance by replacing a quantitative threshold for the unemployment rate with a more qualitative assessment. The 10-year U.S. Treasury note yield ended the quarter at 2.73%, 31 basis points lower compared with the end of 2013. In equity markets, the S&P 500 Index and the NASDAQ Composite Index both increased by 1%, while the Dow Jones Industrial Average decreased by 1%, compared with the end of 2013.

Europe

In the Euro area, real GDP appeared to increase at a slightly faster pace than in the previous quarter, reflecting continued improvement in consumer spending and fixed investment. Measures of inflation remained at very low levels, which prompted some speculation about potential policy action by the European Central Bank (ECB). However, the ECB maintained its main refinancing operations rate at 0.25% and the deposit rate at zero percent. Measures of unemployment remained high. The Euro was essentially unchanged against the U.S. dollar compared with the end of 2013. In the United Kingdom, real GDP growth remained strong during the quarter. The Bank of England maintained its official bank rate at 0.50% and adjusted its forward guidance to include a broader view of spare capacity in the economy. The British pound appreciated by 1% against the U.S. dollar. Long-term government bond yields generally fell in both core and periphery economies. In equity markets, the FTSE 100 Index fell by 2% and the DAX Index was essentially unchanged, while the CAC 40 Index and the Euro Stoxx 50 Index both increased by 2%, compared with the end of 2013.

Asia

In Japan, real GDP growth appeared to accelerate substantially during the quarter, primarily reflecting an increase in the growth of consumer spending ahead of a consumption tax hike in the second quarter of 2014. Although measures of inflation are still below the Bank of Japan s (BOJ) 2% inflation target, they remain relatively high following last year s depreciation of the Japanese yen. The BOJ continued its program of quantitative and qualitative monetary easing, but did not announce any new policy measures. The yield on 10-year Japanese government bonds declined and the Japanese yen appreciated against the U.S. dollar by 2%. The Nikkei 225 Index fell by 9% compared with the end of 2013. In China, real GDP growth decelerated during the quarter, reflecting a slowdown in industrial production. Measures of inflation decreased compared with the fourth quarter of 2013. The People s Bank of China kept the reserve requirement ratio unchanged, but announced a widening

of the trading band around the fixed exchange rate from 1% to 2%. The Chinese yuan depreciated by 3% against the U.S. dollar. In equity markets, the Hang Seng Index and Shanghai Composite Index fell by 5% and 4%, respectively. In India, economic growth appeared to expand moderately, but remained near the lower end of the historical range. The rate of wholesale inflation declined. The Indian rupee appreciated by 3% against the U.S. dollar. The BSE Sensex Index increased by 6% compared with the end of 2013.

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Critical Accounting Policies

Fair Value

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

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

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

Instruments categorized within level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. As of March 2014 and December 2013, level 3 assets represented 4.5% and 4.4%, respectively, of our total assets. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. Estimating the fair value of level 3 financial instruments requires judgments to be made. These judgments include:

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

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

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

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Price Verification. All financial instruments at fair value in levels 1, 2 and 3 of the fair value hierarchy are subject to our independent price verification process. The objective of price verification is to have an informed and independent opinion with regard to the valuation of financial instruments under review. Instruments that have one or more significant inputs which cannot be corroborated by external market data are classified within level 3 of the fair value hierarchy. Price verification strategies utilized by our independent control and support functions include:

Trade Comparison. Analysis of trade data (both internal and external where available) is used to determine the most relevant pricing inputs and valuations.

External Price Comparison. Valuations and prices are compared to pricing data obtained from third parties (e.g., broker or dealers, MarkIt, Bloomberg, IDC, TRACE). Data obtained from various sources is compared to ensure consistency and validity. When broker or dealer quotations or third-party pricing vendors are used for valuation or price verification, greater priority is generally given to executable quotations.

Calibration to Market Comparables. Market-based transactions are used to corroborate the valuation of positions with similar characteristics, risks and components.

Relative Value Analyses. Market-based transactions are analyzed to determine the similarity, measured in terms of risk, liquidity and return, of one instrument relative to another or, for a given instrument, of one maturity relative to another.

Collateral Analyses. Margin calls on derivatives are analyzed to determine implied values which are used to corroborate our valuations.

Execution of Trades. Where appropriate, trading desks are instructed to execute trades in order to provide evidence of market-clearing levels.

Backtesting. Valuations are corroborated by comparison to values realized upon sales.

See Notes 5 through 8 to the condensed consolidated financial statements for further information about fair value measurements.

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

Review of Valuation Models. The firm s independent model validation group, consisting of quantitative professionals who are separate from model developers, performs an independent model approval process. This process incorporates a review of a diverse set of model and trade parameters across a broad range of values (including extreme and/or improbable conditions) in order to critically evaluate:

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

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

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

Total level 3 financial assets were $40.92 billion and $40.01 billion as of March 2014 and December 2013, respectively.

See Notes 5 through 8 to the condensed consolidated financial statements for further information about changes in level 3 financial assets and fair value measurements.

	As of March 2014		As of December 2013	
in millions	**Total at Fair Value**	**Level 3 Total**	Total at Fair Value	Level 3 Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$ 8,773**	**$**	$ 8,608	$
U.S. government and federal agency obligations	**77,000**		71,072	
Non-U.S. government and agency obligations	**39,767**	**45**	40,944	40
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	**5,536**	**2,626**	6,596	2,692
Loans and securities backed by residential real estate	**9,357**	**2,065**	9,025	1,961
Bank loans and bridge loans	**17,357**	**9,687**	17,400	9,324
Corporate debt securities	**20,630**	**2,632**	17,412	2,873
State and municipal obligations	**1,328**	**242**	1,476	257
Other debt obligations	**3,318**	**640**	3,129	807
Equities and convertible debentures	**87,320**	**15,807**	101,024	14,685
Commodities	**4,301**		4,556	
Total cash instruments	**274,687**	**33,744**	281,242	32,639
Derivatives	**57,846**	**7,082**	57,879	7,076
Financial instruments owned, at fair value	**332,533**	**40,826**	339,121	39,715
Securities segregated for regulatory and other purposes	**40,478**		31,937	
Securities purchased under agreements to resell	**134,547**	**63**	161,297	63
Securities borrowed	**71,243**		60,384	

Receivables from customers and counterparties	**7,060**	**34**	7,416	235
Other assets			18	
Total	**$585,861**	**$40,923**	$600,173	$40,013

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Goodwill and Identifiable Intangible Assets

Goodwill. Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. Goodwill is assessed annually in the fourth quarter for impairment, or more frequently if events occur or circumstances change that indicate an impairment may exist, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative assessment are not conclusive, a quantitative goodwill test would be performed by comparing the estimated fair value of each reporting unit with its estimated net book value.

During the fourth quarter of 2013, we assessed goodwill for impairment. The qualitative assessment required management to make judgments and to evaluate several factors, which included, but were not limited to, macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, entity-specific events, events affecting reporting units and sustained changes in our stock price. Based on our evaluation of these factors, we determined that it was more likely than not that the fair value of each of the reporting units exceeded its respective carrying amount, and therefore, we determined that goodwill was not impaired and that a quantitative goodwill impairment test was not required.

If we experience a prolonged period of weakness in the business environment or financial markets, our goodwill could be impaired in the future. In addition, significant changes to critical inputs of the goodwill impairment test (e.g., cost of equity) could cause the estimated fair value of our reporting units to decline, which could result in an impairment of goodwill in the future.

See Note 13 to the condensed consolidated financial statements for further information about our goodwill.

Identifiable Intangible Assets. We amortize our identifiable intangible assets over their estimated lives or based on economic usage for certain commodities-related intangibles. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable. See Note 13 to the condensed consolidated financial statements for the carrying value and estimated remaining lives of our identifiable intangible assets by major asset class.

A prolonged period of market weakness or significant changes in regulation could adversely impact our businesses and impair the value of our identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including weaker business performance resulting in a decrease in our customer base and decreases in revenues from commodities-related transportation rights, customer contracts and relationships. Management judgment is required to evaluate whether indications of potential impairment have occurred, and to test intangible assets for impairment if required.

An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the total of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

See Note 12 to the condensed consolidated financial statements for impairments of our identifiable intangible assets.

Recent Accounting Developments

See Note 3 to the condensed consolidated financial statements for information about Recent Accounting Developments.

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Use of Estimates

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

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

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be reasonably estimated. In addition, we estimate the upper end of the range of reasonably possible aggregate loss in excess of the related reserves for litigation proceedings where the firm believes the risk of loss is more than slight. See Notes 18 and 27 to the condensed consolidated financial statements for information about certain judicial, regulatory and legal proceedings.

Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total estimated liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel.

In accounting for income taxes, we estimate and provide for potential liabilities that may arise out of tax audits to the extent that uncertain tax positions fail to meet the recognition standard under FASB Accounting Standards Codification 740. See Note 24 to the condensed consolidated financial statements for further information about accounting for income taxes.

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Results of Operations

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. See Certain Risk Factors That May Affect Our Businesses below and Risk Factors in Part I, Item 1A of the 2013 Form 10-K for a further discussion of the impact of economic and market conditions on our results of operations.

Financial Overview

The table below presents an overview of our financial results.

	Three Months Ended March	
$ in millions, except per share amounts	**2014**	2013
Net revenues	**$ 9,328**	$10,090
Pre-tax earnings	**3,021**	3,373
Net earnings	**2,033**	2,260
Net earnings applicable to common shareholders	**1,949**	2,188
Diluted earnings per common share	**4.02**	4.29
Annualized return on average common shareholders equity[1]	**10.9%**	12.4%

1. Annualized ROE is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders equity. The table below presents our average common shareholders equity.

	Average for the Three Months Ended March	
in millions	**2014**	2013
Total shareholders equity	**$78,907**	$76,702
Preferred stock	**(7,200)**	(6,200)
Common shareholders equity	**$71,707**	$70,502

The table below presents selected financial ratios.

	Three Months Ended March	
	2014	2013
Annualized net earnings to average assets	**0.9%**	0.9%
Annualized return on average total shareholders equity[1]	**10.3**	11.8
Total average equity to average assets	**8.5**	8.0
Dividend payout ratio[2]	**13.7**	11.7

1. Annualized return on average total shareholders equity is computed by dividing annualized net earnings by average monthly total shareholders equity.

2. Dividend payout ratio is computed by dividing dividends declared per common share by diluted earnings per common share.

Net Revenues

Three Months Ended March 2014 versus March 2013. Net revenues on the condensed consolidated statements of earnings were $9.33 billion for the first quarter of 2014, 8% lower than the first quarter of 2013, reflecting significantly lower market-making revenues and other principal transactions revenues. These decreases were partially offset by significantly higher investment management revenues, as well as increases in investment banking revenues and net interest income. In addition, commissions and fees were slightly higher compared with the first quarter of 2013.

Non-interest Revenues

Investment banking

During the first quarter of 2014, investment banking revenues reflected an operating environment generally characterized by improved industry-wide debt underwriting activity, particularly in investment-grade offerings, while industry-wide equity underwriting activity declined compared with the fourth quarter of 2013. While industry-wide announced mergers and acquisitions activity increased, industry-wide completed mergers and acquisitions activity was consistent compared with the fourth quarter of 2013. However, macroeconomic concerns could result in lower levels of client activity, which would likely negatively impact investment banking revenues.

Three Months Ended March 2014 versus March 2013. Investment banking revenues on the condensed consolidated statements of earnings were $1.78 billion for the first quarter of 2014, 13% higher than the first quarter of 2013, due to significantly higher revenues in financial advisory, primarily reflecting an increase in client activity in Europe. Revenues in underwriting were essentially unchanged compared with the first quarter of 2013. Revenues in equity underwriting were higher compared with the first quarter of 2013, reflecting higher revenues from private placements and initial public offerings. Revenues in debt underwriting were slightly lower compared with the first quarter of 2013, due to significantly lower revenues from commercial mortgage-related activity compared with a strong first quarter of 2013, partially offset by higher revenues from investment-grade activity.

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Management s Discussion and Analysis

Investment management

During the first quarter of 2014, investment management revenues reflected an operating environment generally characterized by slightly improved asset prices, primarily in fixed income and equity assets, resulting in appreciation in the value of client assets. In addition, the mix of average assets under supervision was essentially unchanged compared with the fourth quarter of 2013. In the future, if asset prices were to decline, or investors favor asset classes that typically generate lower fees or investors withdraw their assets, investment management revenues would likely be negatively impacted. In addition, continued concerns about the global economic outlook could result in downward pressure on assets under supervision.

Three Months Ended March 2014 versus March 2013. Investment management revenues on the condensed consolidated statements of earnings were $1.50 billion for the first quarter of 2014, 20% higher than the first quarter of 2013, reflecting significantly higher incentive fees driven by a performance fee related to the sale of an investment during the first quarter of 2014, as well as higher management and other fees primarily due to higher average assets under supervision.

Commissions and fees

During the first quarter of 2014, commissions and fees reflected an environment characterized by significantly higher average daily volumes in listed cash equities in Europe, as well as higher average daily volumes in listed cash equities in the United States and Asia compared with the fourth quarter of 2013. In addition, volatility levels in equity markets were generally higher. If market volumes were to decline, commissions and fees would likely be negatively impacted.

Three Months Ended March 2014 versus March 2013. Commissions and fees on the condensed consolidated statements of earnings were $872 million for the first quarter of 2014, 5% higher than the first quarter of 2013, primarily reflecting higher commissions and fees in cash products in Europe. During the first quarter of 2014, our average daily volumes were higher in Europe compared with the first quarter of 2013, consistent with listed European cash equity market volumes.

Market making

Market making is comprised of revenues (excluding net interest) from client execution activities related to making markets in interest rate products, credit products, mortgages, currencies, commodities and equity products. Market-making activities are included in our Institutional Client Services segment.

During the first quarter of 2014, market-making revenues reflected an operating environment generally characterized by continued uncertainty around the strength of the global economic recovery and the potential for additional central bank actions across all major regions. As a result, our clients risk appetite was subdued and activity levels generally remained low. However, market-making conditions in fixed income products generally improved compared with the fourth quarter of 2013, although market-making conditions in equity products were challenging, particularly in Japan and certain emerging markets as equity prices declined. If macroeconomic concerns continue over the long term, market-making revenues would likely be negatively impacted.

Three Months Ended March 2014 versus March 2013. Market-making revenues on the condensed consolidated statements of earnings were $2.64 billion for the first quarter of 2014, 23% lower than the first quarter of 2013, reflecting significantly lower revenues across most major fixed income and equity products, as well as the sale of a majority stake in our Americas reinsurance business in April 2013. Revenues in commodities were significantly higher compared with the first quarter of 2013.

Other principal transactions

Other principal transactions is comprised of revenues (excluding net interest) from our investing activities and the origination of loans to provide financing to clients. In addition, Other principal transactions includes revenues related to our consolidated investments. Other principal transactions are included in our Investing & Lending segment.

During the first quarter of 2014, other principal transactions revenues generally reflected company-specific events, including divestitures and pending initial public offerings, as well as strong corporate performance. However, continued concerns about the outlook for the global economy and uncertainty over the impact of financial regulatory reform continue to be meaningful considerations for the global marketplace. If equity markets decline or credit spreads widen, other principal transactions revenues would likely be negatively impacted.

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Three Months Ended March 2014 versus March 2013. Other principal transactions revenues on the condensed consolidated statements of earnings were $1.50 billion for the first quarter of 2014, 28% lower than the first quarter of 2013, primarily reflecting a significant decrease in net gains from investments in equity securities, particularly in public equities as movements in global equity prices during the quarter were less favorable compared with the same prior year period. Net gains from debt securities and loans were slightly higher compared with the first quarter of 2013, while revenues related to our consolidated investments were significantly lower, reflecting a decrease in operating revenues from commodities-related consolidated investments.

Net Interest Income

Three Months Ended March 2014 versus March 2013. Net interest income on the condensed consolidated statements of earnings was $1.04 billion for the first quarter of 2014, 12% higher than the first quarter of 2013, primarily due to lower interest expense related to other interest-bearing liabilities and collateralized financings.

See Statistical Disclosures Distribution of Assets, Liabilities and Shareholders Equity in the March 2014 Form 10-Q for further information about our sources of net interest income.

Operating Expenses

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

The table below presents our operating expenses and total staff (which includes employees, consultants and temporary staff).

	Three Months Ended March	
$ in millions	**2014**	2013
Compensation and benefits	**$ 4,011**	$ 4,339
Brokerage, clearing, exchange and distribution fees	**595**	561
Market development	**138**	141
Communications and technology	**200**	188
Depreciation and amortization	**390**	302
Occupancy	**210**	218
Professional fees	**212**	246
Insurance reserves [1]		127

Other expenses	**551**	595
Total non-compensation expenses	**2,296**	2,378
Total operating expenses	**$ 6,307**	$ 6,717
Total staff at period-end	**32,600**	32,000

1. Consists of changes in reserves related to our Americas reinsurance business, including interest credited to policyholder account balances, and expenses related to property catastrophe reinsurance claims. In April 2013, we completed the sale of a majority stake in our Americas reinsurance business and no longer consolidate this business.

Three Months Ended March 2014 versus March 2013. Operating expenses on the condensed consolidated statements of earnings were $6.31 billion for the first quarter of 2014, 6% lower than the first quarter of 2013. The accrual for compensation and benefits expenses on the condensed consolidated statements of earnings was $4.01 billion for the first quarter of 2014, 8% lower than the first quarter of 2013, reflecting a decrease in net revenues. The ratio of compensation and benefits to net revenues for the first quarter of 2014 was 43.0%, consistent with the first quarter of 2013. Total staff decreased 1% during the first quarter of 2014.

Non-compensation expenses on the condensed consolidated statements of earnings were $2.30 billion for the first quarter of 2014, 3% lower than the first quarter of 2013, due to a decline in insurance reserves, reflecting the sale of our Americas reinsurance business, as well as lower other expenses, primarily due to lower operating expenses related to consolidated investments. These decreases were partially offset by an increase in depreciation and amortization expenses, reflecting $150 million of impairment charges in the first quarter of 2014 related to consolidated investments. The first quarter of 2014 included net provisions for litigation and regulatory proceedings of $115 million compared with $110 million for the first quarter of 2013.

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Provision for Taxes

The effective income tax rate for the first quarter of 2014 was 32.7%, up from the full year tax rate of 31.5% for 2013, primarily due to a decrease in permanent benefits.

The rules related to the deferral of U.S. tax on certain non-repatriated active financing income expired effective December 31, 2013. This change did not have a material impact on our effective tax rate for the three months ended March 2014, and we do not expect it will have a material impact on our effective tax rate for the remainder of 2014. This change may have a material impact on our effective tax rate for 2015 if the expired provisions are not re-enacted.

On March 31, 2014, New York State enacted executive budget legislation for the 2014-2015 fiscal year which makes changes to the income taxation of corporations doing business in New York State. This change did not have a material impact on our effective tax rate for the three months ended March 2014, and we do not expect it will have a material impact on our effective tax rate for the remainder of 2014 or for 2015.

Segment Operating Results

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

	Three Months Ended March	
in millions	**2014**	2013
Investment Banking		
Net revenues	**$ 1,779**	$ 1,568
Operating expenses	**1,045**	1,064
Pre-tax earnings	**$ 734**	$ 504
Institutional Client Services		
Net revenues	**$ 4,446**	$ 5,139
Operating expenses	**3,094**	3,566
Pre-tax earnings	**$ 1,352**	$ 1,573
Investing & Lending		
Net revenues	**$ 1,529**	$ 2,068
Operating expenses	**892**	996
Pre-tax earnings	**$ 637**	$ 1,072
Investment Management		
Net revenues	**$ 1,574**	$ 1,315
Operating expenses	**1,276**	1,090

Pre-tax earnings	**$ 298**	$ 225
Total net revenues	**$ 9,328**	$ 10,090
Total operating expenses	**6,307**	6,717 [1]
Total pre-tax earnings	**$ 3,021**	$ 3,373

1. Includes real estate-related exit costs of $1 million that have not been allocated to our segments. Real estate-related exit costs are included in Depreciation and amortization and Occupancy in the condensed consolidated statements of earnings.

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

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

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Investment Banking

Our Investment Banking segment is comprised of:

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

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

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

	Three Months Ended March	
in millions	**2014**	2013
Financial Advisory	**$ 682**	$ 484
Equity underwriting	**437**	390
Debt underwriting	**660**	694
Total Underwriting	**1,097**	1,084
Total net revenues	**1,779**	1,568
Operating expenses	**1,045**	1,064
Pre-tax earnings	**$ 734**	$ 504

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

	Three Months Ended March	
in billions	**2014**	2013
Announced mergers and acquisitions	**$ 152**	$ 137
Completed mergers and acquisitions	**241**	219
Equity and equity-related offerings [2]	**20**	24
Debt offerings [3]	**88**	89

1. Source: Thomson Reuters. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or a change in the value of a transaction.

2. Includes Rule 144A and public common stock offerings, convertible offerings and rights offerings.

3. Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues. Excludes leveraged loans.

Three Months Ended March 2014 versus March 2013. Net revenues in Investment Banking were $1.78 billion for the first quarter of 2014, 13% higher than the first quarter of 2013.

Net revenues in Financial Advisory were $682 million, 41% higher than the first quarter of 2013, primarily reflecting an increase in client activity in Europe. Net revenues in Underwriting were $1.10 billion, essentially unchanged compared with the first quarter of 2013. Net revenues in equity underwriting were higher compared with the first quarter of 2013, reflecting higher net revenues from private placements and initial public offerings. Net revenues in debt underwriting were slightly lower compared with the first quarter of 2013, due to significantly lower net revenues from commercial mortgage-related activity compared with a strong first quarter of 2013, partially offset by higher net revenues from investment-grade activity.

During the first quarter of 2014, Investment Banking operated in an environment generally characterized by improved industry-wide debt underwriting activity, particularly in investment-grade offerings, while industry-wide equity underwriting activity declined compared with the fourth quarter of 2013. While industry-wide announced mergers and acquisitions activity increased, industry-wide completed mergers and acquisitions activity was consistent compared with the fourth quarter of 2013. However, macroeconomic concerns could result in lower levels of client activity, which would likely negatively impact net revenues in Investment Banking.

During the first quarter of 2014, our investment banking transaction backlog decreased due to a decrease in estimated net revenues from potential advisory transactions. This decrease was partially offset by an increase in estimated net revenues from potential equity underwriting transactions, particularly in secondary offerings. Estimated net revenues from potential debt underwriting transactions were essentially unchanged compared with the end of 2013.

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

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Operating expenses were $1.05 billion for the first quarter of 2014, 2% lower than the first quarter of 2013. Pre-tax earnings were $734 million in the first quarter of 2014, 46% higher than the first quarter of 2013.

Institutional Client Services

Our Institutional Client Services segment is comprised of:

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

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

- In large, highly liquid markets (such as markets for U.S. Treasury bills or certain mortgage pass-through certificates), we execute a high volume of transactions for our clients for modest spreads and fees.

- In less liquid markets (such as mid-cap corporate bonds, growth market currencies or certain non-agency mortgage-backed securities), we execute transactions for our clients for spreads and fees that are generally somewhat larger.

- We also structure and execute transactions involving customized or tailor-made products that address our clients risk exposures, investment objectives or other complex needs (such as a jet fuel hedge for an airline).

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

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

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

See Notes 18 and 27 to the condensed consolidated financial statements for information about exposure to mortgage repurchase requests, mortgage rescissions and mortgage-related litigation.

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

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

	Three Months Ended March

in millions	**2014**	2013
Fixed Income, Currency and Commodities Client Execution	**$2,850**	$3,217
Equities client execution	**416**	809 [1]
Commissions and fees	**828**	793
Securities services	**352**	320
Total Equities	**1,596**	1,922
Total net revenues	**4,446**	5,139
Operating expenses	**3,094**	3,566
Pre-tax earnings	**$1,352**	$1,573

1. Net revenues related to the Americas reinsurance business were $233 million for the three months ended March 2013. In April 2013, we completed the sale of a majority stake in our Americas reinsurance business and no longer consolidate this business.

Three Months Ended March 2014 versus March 2013. Net revenues in Institutional Client Services were $4.45 billion for the first quarter of 2014, 13% lower than the first quarter of 2013.

Net revenues in Fixed Income, Currency and Commodities Client Execution were $2.85 billion, 11% lower than the first quarter of 2013, reflecting significantly lower net revenues in interest rate products, currencies and mortgages, as well as lower net revenues in credit products. These decreases primarily reflected the impact of a challenging environment during the first quarter of 2014 as low volatility levels resulted in generally low levels of activity. These results were partially offset by significantly higher net revenues in commodities, reflecting more favorable market-making conditions in certain energy products during the first quarter of 2014.

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Net revenues in Equities were $1.60 billion, 17% lower than the first quarter of 2013. Excluding net revenues of $233 million for the first quarter of 2013 related to our Americas reinsurance business [1], net revenues in Equities were 6% lower than the first quarter of 2013. Net revenues in equities client execution were significantly lower compared with the same prior year period, primarily reflecting the sale of our Americas reinsurance business. In addition, net revenues were significantly lower in both derivatives and, to a lesser extent, cash products. Commissions and fees were slightly higher compared with the first quarter of 2013, primarily reflecting higher commissions and fees in cash products in Europe. During the first quarter of 2014, our average daily volumes were higher in Europe compared with the first quarter of 2013, consistent with listed European cash equity market volumes. Securities services net revenues were higher compared with the first quarter of 2013, reflecting growth in customer balances. During the quarter, Equities experienced challenging market-making conditions, particularly in Japan and certain emerging markets as equity prices declined.

The net gain attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was $15 million (all related to Fixed Income, Currency and Commodities Client Execution) for the first quarter of 2014, compared with a net loss of $77 million ($42 million and $35 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the first quarter of 2013.

During the first quarter of 2014, Institutional Client Services operated in an environment generally characterized by continued uncertainty around the strength of the global economic recovery and the potential for additional central bank actions across all major regions. As a result, our clients risk appetite was subdued and activity levels generally remained low. However, market-making conditions in Fixed Income, Currency and Commodities Client Execution generally improved compared with the fourth quarter of 2013, although Equities experienced challenging market-making conditions, particularly in Japan and certain emerging markets as equity prices declined. If macroeconomic concerns continue over the long term, net revenues in Fixed Income, Currency and Commodities Client Execution and Equities would likely be negatively impacted.

Operating expenses were $3.09 billion for the first quarter of 2014, 13% lower than the first quarter of 2013, primarily due to decreased compensation and benefits expenses, primarily resulting from lower net revenues. In addition, non-compensation expenses were lower as a result of the sale of a majority stake in our Americas reinsurance business in April 2013. Pre-tax earnings were $1.35 billion in the first quarter of 2014, 14% lower than the first quarter of 2013.

Investing & Lending

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

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

	Three Months Ended March	
in millions	**2014**	2013
Equity securities	**$ 702**	$1,127
Debt securities and loans	**597**	566
Other	**230**	375
Total net revenues	**1,529**	2,068
Operating expenses	**892**	996
Pre-tax earnings	**$ 637**	$1,072

Three Months Ended March 2014 versus March 2013. Net revenues in Investing & Lending were $1.53 billion for the first quarter of 2014, 26% lower than the first quarter of 2013, primarily reflecting a significant decrease in net gains from investments in equity securities, particularly in public equities as movements in global equity prices during the quarter were less favorable compared with the same prior year period. Net gains and net interest income from debt securities and loans were slightly higher compared with the first quarter of 2013, while other net revenues, related to our consolidated investments, were significantly lower, reflecting a decrease in operating revenues from commodities-related consolidated investments.

1. In April 2013, we completed the sale of a majority stake in our Americas reinsurance business and no longer consolidate this business.

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Operating expenses were $892 million for the first quarter of 2014, 10% lower than the first quarter of 2013, due to decreased compensation and benefits expenses, primarily resulting from lower net revenues, as well as lower operating expenses related to consolidated investments. These decreases were partially offset by higher impairment charges related to consolidated investments. Pre-tax earnings were $637 million in the first quarter of 2014, 41% lower than the first quarter of 2013.

Investment Management

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

Assets under supervision include assets under management and other client assets. Assets under management include client assets where we earn a fee for managing assets on a discretionary basis. This includes net assets in our mutual funds, hedge funds, credit funds and private equity funds (including real estate funds), and separately managed accounts for institutional and individual investors. Other client assets include client assets invested with third-party managers, bank deposits and advisory relationships where we earn a fee for advisory and other services, but do not have investment discretion. Assets under supervision do not include the self-directed brokerage assets of our clients. Long-term assets under supervision represent assets under supervision excluding liquidity products. Liquidity products represent money markets and bank deposit assets.

Assets under supervision typically generate fees as a percentage of net asset value, which vary by asset class and are affected by investment performance as well as asset inflows and redemptions. Asset classes such as alternative investment and equity assets typically generate higher fees relative to fixed income and liquidity product assets. The average effective management fee (which excludes non-asset-based fees) we earned on our assets under supervision was 40 basis points and 39 basis points for the three months ended March 2014 and March 2013, respectively.

In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund s or a separately managed account s return, or when the return exceeds a specified benchmark or other performance targets. Incentive fees are recognized only when all material contingencies are resolved.

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

	Three Months Ended March	
in millions	**2014**	2013
Management and other fees	**$1,152**	$1,060
Incentive fees	**304**	140
Transaction revenues	**118**	115
Total net revenues	**1,574**	1,315
Operating expenses	**1,276**	1,090
Pre-tax earnings	**$ 298**	$ 225

The tables below present our period-end assets under supervision (AUS) by asset class and by distribution channel.

	As of			
	March		December	
in billions	**2014**	2013	2013	2012
Assets under management	**$ 956**	$860	$ 919	$ 854
Other client assets	**127**	108	123	111
Total AUS	**$1,083**	$968	$1,042	$ 965
Asset Class				
Alternative investments [1]	**$ 145**	$146	$ 142	$ 151
Equity	**219**	171	208	153
Fixed income	**486**	415	446	411
Long-term AUS	**850**	732	796	715
Liquidity products	**233**	236	246	250
Total AUS	**$1,083**	$968	$1,042	$ 965
Distribution Channel				
Directly distributed:				
Institutional	**$ 393**	$342	$ 363	$ 343
High-net-worth individuals	**340**	305	330	294
Third-party distributed:				
Institutional, high-net-worth individuals and retail	**350**	321	349	328
Total AUS	**$1,083**	$968	$1,042	$ 965

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

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The table below presents a summary of the changes in our assets under supervision.

	Three Months Ended March	
in billions	**2014**	2013
Balance, beginning of period	**$1,042**	$965
Net inflows/(outflows)		
Alternative investments	**2**	(5)
Equity	**7**	4
Fixed income	**31**	6
Long-term AUS net inflows/(outflows)	**40** [1]	5
Liquidity products	**(13)**	(14)
Total AUS net inflows/(outflows)	**27**	(9)
Net market appreciation/(depreciation)	**14**	12
Balance, end of period	**$1,083**	$968

1. Includes $8 billion of fixed income asset inflows in connection with our acquisition of Deutsche Asset & Wealth Management s stable value business.

The table below presents our average monthly assets under supervision by asset class.

	Average for the Three Months Ended March	
in billions	**2014**	2013
Alternative investments	**$ 143**	$149
Equity	**211**	163
Fixed income	**465**	413
Long-term AUS	**819**	725
Liquidity products	**239**	244
Total AUS	**$1,058**	$969

Three Months Ended March 2014 versus March 2013. Net revenues in Investment Management were $1.57 billion for the first quarter of 2014, 20% higher than the first quarter of 2013, reflecting significantly higher incentive fees driven by a performance fee related to the sale of an investment during the first quarter of 2014, as well as higher management and other fees primarily due to higher average assets under supervision. During the quarter, total assets under supervision increased $41 billion to $1.08 trillion. Long-term assets under supervision increased $54 billion, including net inflows of $40 billion, primarily in fixed income assets (includes $8 billion of fixed income asset inflows in

connection with our acquisition of Deutsche Asset & Wealth Management s stable value business). Net market appreciation of $14 billion during the quarter was primarily in fixed income and equity assets. Liquidity products decreased $13 billion.

During the first quarter of 2014, Investment Management operated in an environment generally characterized by slightly improved asset prices, primarily in fixed income and equity assets, resulting in appreciation in the value of client assets. In addition, the mix of average assets under supervision was essentially unchanged compared with the fourth quarter of 2013. In the future, if asset prices were to decline, or investors favor asset classes that typically generate lower fees or investors withdraw their assets, net revenues in Investment Management would likely be negatively impacted. In addition, continued concerns about the global economic outlook could result in downward pressure on assets under supervision.

Operating expenses were $1.28 billion for the first quarter of 2014, 17% higher than the first quarter of 2013, primarily due to increased compensation and benefits expenses, primarily resulting from higher net revenues. Pre-tax earnings were $298 million in the first quarter of 2014, 32% higher than the first quarter of 2013.

Geographic Data

See Note 25 to the condensed consolidated financial statements for a summary of our total net revenues and pre-tax earnings by geographic region.

Regulatory Developments

Our businesses are subject to significant and evolving regulation. The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted in July 2010, significantly altered the financial regulatory regime within which we operate. In addition, other reforms have been adopted or are being considered by other regulators and policy makers worldwide. The Dodd-Frank Act and these other reforms may affect our businesses. We expect that the principal areas of impact from regulatory reform for us will be increased regulatory capital requirements and increased regulation and restriction on certain activities. However, given that many of the new and proposed rules are highly complex, the full impact of regulatory reform will not be known until the rules are implemented and market practices develop under the final regulations.

See Business Regulation in Part I, Item 1 of the 2013 Form 10-K for more information on the laws, rules and regulations and proposed laws, rules and regulations that apply to us and our operations. In addition, see Equity Capital Revised Capital Framework below and Note 20 to the condensed consolidated financial statements for information about regulatory developments as they relate to our regulatory capital, leverage and liquidity ratios.

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Impact of Increased Regulation and Restriction on Certain Activities

There has been increased regulation of, and limitations on, our activities, including the Dodd-Frank prohibition on proprietary trading and the limitation on the sponsorship of, and investment in covered funds (as defined in the Volcker Rule). In addition, there are increased regulation of, and restrictions on, over-the-counter (OTC) derivatives markets and transactions, particularly related to swaps and security-based swaps.

Volcker Rule. In December 2013, the final rules to implement the provisions of the Dodd-Frank Act referred to as the Volcker Rule were adopted. We are required to be in compliance with the rule (including the development of an extensive compliance program) by July 2015 with certain provisions of the rule subject to possible extensions through July 2017.

The Volcker rule prohibits proprietary trading, but will allow activities such as underwriting, market making and risk-mitigation hedging. In anticipation of the final rule, we evaluated this prohibition and determined that businesses that engage in bright line proprietary trading were most likely to be prohibited. In 2010 and 2011, we liquidated substantially all of our Global Macro Proprietary and Principal Strategies trading positions.

Based on what we know as of the date of this filing, we do not expect the impact of the prohibition on proprietary trading to be material to our financial condition, results of operations or cash flows. However, the rule is highly complex, and its impact will not be known until market practices are fully developed.

In addition to the prohibition on proprietary trading, the Volcker rule limits the sponsorship of, and investment in, covered funds (as defined in the rule) by banking entities, including Group Inc. and its subsidiaries. It also limits certain types of transactions between us and our sponsored funds, similar to the limitations on transactions between depository institutions and their affiliates as described in Business Regulation in Part I, Item 1 of the 2013 Form 10-K. Covered funds include our private equity funds, certain of our credit and real estate funds, and our hedge funds. The limitation on investments in covered funds requires us to reduce our investment in each such fund to 3% or less of the fund s net asset value, and to reduce our aggregate investment in all such funds to 3% or less of our Tier 1 capital. In anticipation of the final rule, we limited our initial investment in certain new covered funds to 3% of the fund s net asset value.

We continue to manage our existing funds, taking into account the transition periods under the Volcker Rule. As a result, in March 2012, we began redeeming certain interests in our hedge funds and will continue to do so.

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

Although our net revenues from investments in our private equity, credit, real estate and hedge funds may vary from period to period, our aggregate net revenues from these investments were not material to our aggregate total net revenues over the period from 1999 through the first quarter of 2014.

Swap Dealers and Derivatives Regulation. The Dodd-Frank Act also provides for significantly increased regulation of and restrictions on derivative markets, and we have registered certain subsidiaries as swap dealers under the U.S. Commodity Futures Trading Commission (CFTC) rules. See Business Regulation in Part I, Item 1 of the 2013 Form 10-K for a discussion of the requirements imposed by the Dodd-Frank Act and the status of SEC and CFTC rulemaking, as well as non-U.S. regulation, in this area. The full application of new derivatives rules across different national and regulatory jurisdictions has not yet been fully established.

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Balance Sheet and Funding Sources

Balance Sheet Management

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

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

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

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

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

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

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

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

management structure.

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

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

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

These scenarios cover short-term and long-term time horizons using various macroeconomic and firm-specific assumptions. We use these analyses to assist us in developing longer-term funding plans, including the level of unsecured debt issuances, the size of our secured funding program and the amount and composition of our equity capital. We also consider any potential future constraints, such as limits on our ability to grow our asset base in the absence of appropriate funding.

Through our capital planning and stress testing process, which incorporates our internally designed stress tests and those required under the Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Tests (DFAST) as well as our resolution and recovery planning, we further analyze how we would manage our balance sheet and risks through the duration of a severe crisis, and we develop plans to access funding, generate liquidity, and/or redeploy or issue equity capital, as appropriate.

Balance Sheet Allocation

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

Below is a description of the captions in the following table, which presents this balance sheet allocation.

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

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

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

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

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

	As of	
	March	
in millions	**2014**	December 2013
Excess liquidity (Global Core Excess)	**$174,994**	$184,070
Other cash	**6,653**	5,793
Excess liquidity and cash	**181,647**	189,863
Secured client financing	**266,719**	263,386
Inventory	**241,316**	255,534
Secured financing agreements	**89,185**	79,635
Receivables	**47,641**	39,557
Institutional Client Services	**378,142**	374,726
Public equity	**4,297**	4,308
Private equity	**17,268**	16,236
Debt [1]	**23,665**	23,274
Receivables and other [2]	**20,475**	17,205
Investing & Lending	**65,705**	61,023
Total inventory and related assets	**443,847**	435,749
Other assets	**23,452**	22,509
Total assets	**$915,665**	$911,507

1. Includes $15.44 billion and $15.76 billion as of March 2014 and December 2013, respectively, of direct loans primarily extended to corporate and private wealth management clients that are accounted for at fair value.

2.

Includes $17.94 billion and $14.90 billion as of March 2014 and December 2013, respectively, related to loans held for investment that are accounted for at amortized cost, net of estimated uncollectible amounts. Such loans are primarily comprised of corporate loans and loans to private wealth management clients.

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The tables below present the reconciliation of this balance sheet allocation to our U.S. GAAP balance sheet. In the tables below, total assets for Institutional Client Services and Investing & Lending represent the inventory and related assets. These amounts differ from total assets by

business segment disclosed in Note 25 to the condensed consolidated financial statements because total assets disclosed in Note 25 include allocations of our excess liquidity and cash, secured client financing and other assets.

	As of March 2014					
in millions	**Excess Liquidity and Cash [1]**	**Secured Client Financing**	**Institutional Client Services**	**Investing & Lending**	**Other Assets**	**Total Assets**
Cash and cash equivalents	**$ 58,858**	**$**	**$**	**$**	**$**	**$ 58,858**
Cash and securities segregated for regulatory and other purposes		**60,180**				**60,180**
Securities purchased under agreements to resell and federal funds sold	**68,073**	**33,322**	**33,004**	**634**		**135,033**
Securities borrowed	**9,561**	**124,993**	**56,181**			**190,735**
Receivables from brokers, dealers and clearing organizations		**7,599**	**20,685**	**1**		**28,285**
Receivables from customers and counterparties		**40,625**	**26,956**	**19,008**		**86,589**
Financial instruments owned, at fair value	**45,155**		**241,316**	**46,062**		**332,533**
Other assets					**23,452**	**23,452**
Total assets	**$181,647**	**$266,719**	**$378,142**	**$65,705**	**$23,452**	**$915,665**

	As of December 2013					
in millions	Excess Liquidity and Cash [1]	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	Total Assets
Cash and cash equivalents	$ 61,133	$	$	$	$	$ 61,133
Cash and securities segregated for regulatory and other purposes		49,671				49,671
Securities purchased under agreements to resell and federal funds sold	64,595	61,510	35,081	546		161,732
Securities borrowed	25,113	94,899	44,554			164,566
Receivables from brokers, dealers and clearing organizations		6,650	17,098	92		23,840

Receivables from customers and counterparties		50,656	22,459	15,820		88,935
Financial instruments owned, at fair value	39,022		255,534	44,565		339,121
Other assets					22,509	22,509
Total assets	$189,863	$263,386	$374,726	$61,023	$22,509	$911,507

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

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Balance Sheet Analysis and Metrics

As of March 2014, total assets on our condensed consolidated statements of financial condition were $915.67 billion, an increase of $4.16 billion from December 2013. Securities borrowed and cash and securities segregated for regulatory and other purposes increased by $26.17 billion and $10.51 billion, respectively, primarily due to firm and client activity. These increases were partially offset by a decrease in securities purchased under agreements to resell and federal funds sold of $26.70 billion, primarily due to decreased client activity, and a decrease in financial instruments owned, at fair value of $6.59 billion, principally due to a decrease in equities and convertible debentures, partially offset by an increase in U.S. government and federal agency obligations.

As of March 2014, total liabilities on our condensed consolidated statements of financial condition were $836.57 billion, an increase of $3.53 billion from December 2013. Payables to customers and counterparties and payables to brokers, dealers and clearing organizations increased by $14.44 billion and $9.21 billion, respectively, primarily due to client activity and unsecured long-term borrowings increased by $4.66 billion. These increases were partially offset by a decrease in securities sold under agreements to repurchase, at fair value of $26.04 billion, primarily due to client and firm financing activities.

As of March 2014 and December 2013, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were $138.74 billion and $164.78 billion, respectively, which were 11% lower and 5% higher, respectively, compared with the daily average amount of repurchase agreements over the respective quarters. As of March 2014, the decrease in our repurchase agreements relative to the daily average during the quarter was due to a decrease in client and firm financing activity at the end of the quarter. This decrease was consistent with the decrease in our securities purchased under agreements to resell relative to the daily average during the quarter. The level of our repurchase agreements fluctuates between and within periods, primarily due to providing clients with access to highly liquid collateral, such as U.S. government and federal agency, and investment-grade sovereign obligations through collateralized financing activities.

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

	As of	
$ in millions	**March 2014**	December 2013
Total assets	**$915,665**	$911,507
Unsecured long-term borrowings	**$165,627**	$160,965
Total shareholders equity	**$ 79,099**	$ 78,467
Leverage ratio	**11.6x**	11.6x
Debt to equity ratio	**2.1x**	2.1x

Leverage ratio. The leverage ratio equals total assets divided by total shareholders equity and measures the proportion of equity and debt the firm is using to finance assets. This ratio is different from the Tier 1 leverage ratio included in Note 20 to the condensed consolidated financial statements.

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

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Funding Sources

Our primary sources of funding are secured financings, unsecured long-term and short-term borrowings, and deposits. We seek to maintain broad and diversified funding sources globally across products, programs, markets, currencies and creditors to avoid funding concentrations.

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

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

Our funding is primarily raised in U.S. dollar, Euro, British pound and Japanese yen. We generally distribute our funding products through our own sales force and third-party distributors, to a large, diverse creditor base in a variety of markets in the Americas, Europe and Asia. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies, mutual funds and individuals. We have imposed various internal guidelines to monitor creditor concentration across our funding programs.

Secured Funding. We fund a significant amount of inventory on a secured basis. Secured funding is less sensitive to changes in our credit quality than unsecured funding, due to our posting of collateral to our lenders. Nonetheless, we continually analyze the refinancing risk of our secured funding activities, taking into account trade tenors, maturity profiles, counterparty concentrations, collateral eligibility and counterparty rollover probabilities. We seek to mitigate our refinancing risk by executing term trades with staggered maturities, diversifying counterparties, raising excess secured funding, and pre-funding residual risk through our GCE.

We seek to raise secured funding with a term appropriate for the liquidity of the assets that are being financed, and we seek longer maturities for secured funding collateralized by asset classes that may be harder to fund on a secured basis especially during times of market stress. Substantially all of our secured funding, excluding funding collateralized by liquid government obligations, is executed for tenors of one month or greater. Assets that may be harder to fund on a secured basis during times of market stress include certain financial instruments in the following categories: mortgage and other asset-backed loans and securities, non-investment grade corporate debt securities, equities and convertible debentures and emerging market securities. Assets that are classified as level 3 in the fair value hierarchy are generally funded on an unsecured basis. See Notes 5 and 6 to the condensed consolidated financial statements for further information about the classification of financial instruments in the fair value hierarchy and Unsecured Long-Term Borrowings below for further information about the use of unsecured long-term borrowings as a source of funding.

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The weighted average maturity of our secured funding, excluding funding collateralized by highly liquid securities eligible for inclusion in our GCE, exceeded 120 days as of March 2014.

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

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

Unsecured Long-Term Borrowings. We issue unsecured long-term borrowings as a source of funding for inventory and other assets and to finance a portion of our GCE. We issue in different tenors, currencies and products to maximize the diversification of our investor base. The chart below presents our quarterly unsecured long-term borrowings maturity profile through the first quarter of 2020 as of March 2014.

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The weighted average maturity of our unsecured long-term borrowings as of March 2014 was approximately eight years. To mitigate refinancing risk, we seek to limit the principal amount of debt maturing on any one day or during any week or year. We enter into interest rate swaps to convert a substantial portion of our long-term borrowings into floating-rate obligations in order to manage our exposure to interest rates. See Note 16 to the condensed consolidated financial statements for further information about our unsecured long-term borrowings.

Deposits. As part of our efforts to diversify our funding base, we raise deposits mainly through GS Bank USA and Goldman Sachs International Bank (GSIB). The tables below present the type and sources of our deposits.

	As of March 2014 Type of Deposit	
	Savings and	
in millions	**Demand [1]**	**Time [2]**
Private bank deposits [3]	**$31,323**	**$ 344**
Certificates of deposit		**20,261**
Deposit sweep programs [4]	**14,754**	
Institutional	**36**	**4,739**
Total [5]	**$46,113**	**$25,344**

	As of December 2013 Type of Deposit	
	Savings and	
in millions	Demand [1]	Time [2]
Private bank deposits [3]	$30,475	$ 212
Certificates of deposit		19,709
Deposit sweep programs [4]	15,511	
Institutional	33	4,867
Total [5]	$46,019	$24,788

1. Represents deposits with no stated maturity.

2. Weighted average maturity of approximately three years as of March 2014 and December 2013.

3. Substantially all were from overnight deposit sweep programs related to private wealth management clients.

4. Represents long-term contractual agreements with several U.S. broker-dealers who sweep client cash to FDIC-insured deposits.

5. Deposits insured by the FDIC as of March 2014 and December 2013 were approximately $40.63 billion and $41.22 billion, respectively.

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

As of March 2014 and December 2013, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were $46.39 billion and $44.69 billion, respectively. See Note 15 to the condensed consolidated financial statements for further information about our unsecured short-term borrowings.

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Equity Capital

Capital adequacy is of critical importance to us. Our objective is to be conservatively capitalized in terms of the amount and composition of our equity base, both relative to our risk exposures and compared to external requirements and benchmarks. Accordingly, we have in place a comprehensive capital management policy that provides a framework and set of guidelines to assist us in determining the level and composition of capital that we target and maintain.

As of March 2014, our total shareholders equity was $79.10 billion (consisting of common shareholders equity of $71.90 billion and preferred stock of $7.20 billion). As of December 2013, our total shareholders equity was $78.47 billion (consisting of common shareholders equity of $71.27 billion and preferred stock of $7.20 billion). See Consolidated Regulatory Capital below for information regarding the impact of regulatory developments.

The table below presents information on our shareholders equity and book value per common share, including the reconciliation of total shareholders equity to tangible common shareholders equity.

	As of	
in millions, except per share amounts	**March 2014**	December 2013
Total shareholders equity	**$79,099**	$78,467
Deduct: Preferred stock	**(7,200)**	(7,200)
Common shareholders equity	**71,899**	71,267
Deduct: Goodwill and identifiable intangible assets	**(4,486)**	(4,376)
Tangible common shareholders equity	**$67,413**	$66,891
Book value per common share	**$154.69**	$152.48
Tangible book value per common share	**145.04**	143.11

In the table above:

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

Book value per common share and tangible book value per common share are based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 464.8 million and 467.4 million as of March 2014 and December 2013, respectively. We believe that tangible book value per common share (tangible common shareholders equity divided by common shares outstanding) is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Equity Capital Management

We determine the appropriate level and composition of our equity capital by considering multiple factors including our current and future consolidated regulatory capital requirements, the results of our capital planning and stress testing process and other factors such as rating agency

guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets, and assessments of potential future losses due to adverse changes in our business and market environments. Our capital planning and stress testing process incorporates our internally designed stress tests and those required under CCAR and DFAST rules, and is also designed to identify and measure material risks associated with our business activities, including market risk, credit risk and operational risk. We project sources and uses of capital given a range of business environments, including stressed conditions. In addition, as part of our comprehensive capital management policy, we maintain a contingency capital plan that provides a framework for analyzing and responding to an actual or perceived capital shortfall.

We principally manage the level and composition of our equity capital through issuances and repurchases of our common stock. We may also, from time to time, issue or repurchase our preferred stock, junior subordinated debt issued to trusts, and other subordinated debt or other forms of capital as business conditions warrant and subject to approval of the Federal Reserve Board. We manage our capital requirements and the levels of our capital usage principally by setting limits on balance sheet assets and/or limits on risk, in each case both at the consolidated and business levels. See Notes 16 and 19 to the condensed consolidated financial statements for further information about our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

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Share Repurchase Program. We seek to use our share repurchase program to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our current and projected capital position, but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock.

As of March 2014, under the share repurchase program approved by the Board of Directors of Group Inc. (Board), we can repurchase up to 46.9 million additional shares of common stock; however, any such repurchases are subject to the approval of the Federal Reserve Board. See Unregistered Sales of Equity Securities and Use of Proceeds in Part II, Item 2 and Note 19 to the condensed consolidated financial statements for additional information about our repurchase program and see below for information about the annual CCAR.

Capital Planning and Stress Testing Process. Our capital planning and stress testing process incorporates our internally designed stress tests and those required under CCAR and DFAST. The process is designed to identify and measure material risks associated with our business activities. We also attribute capital usage to each of our businesses and maintain a contingency capital plan.

As required by the Federal Reserve Board s annual CCAR rules, U.S. bank holding companies with total consolidated assets of $50 billion or greater submit capital plans for review by the Federal Reserve Board. The purpose of the Federal Reserve Board s review is to ensure that these institutions have a robust, forward-looking capital planning process that accounts for their unique risks and that permits continued operations during times of economic and financial stress.

The Federal Reserve Board evaluates a bank holding company based, in part, on whether it has the capital necessary to continue operating under the baseline and stress scenarios provided by the Federal Reserve Board and under the scenarios developed by the bank holding company. This evaluation also takes into account a bank holding company s process for identifying risk, its controls and governance for capital planning, and its guidelines for making capital planning decisions. In addition, as part of its review, the Federal Reserve Board evaluates a bank holding company s plan to make capital distributions (i.e., dividend payments, repurchases or redemptions of stock, subordinated debt or other capital securities) across a range of macroeconomic scenarios and firm-specific assumptions. The Federal Reserve Board also evaluates a bank holding company s plan to issue capital.

In addition, the DFAST rules require us to conduct stress tests on a semi-annual basis and publish a summary of certain results. The annual DFAST submission is incorporated into the CCAR submission. The Federal Reserve Board also conducts its own annual stress tests and publishes a summary of certain results.

We submitted our initial 2014 CCAR to the Federal Reserve Board in January 2014 and, based on the Federal Reserve Board feedback, we submitted revised capital actions in March 2014. The Federal Reserve Board informed us that it did not object to our revised capital actions, including the repurchase of outstanding common stock, a potential increase in our quarterly common stock dividend and the possible issuance, redemption and modification of other capital securities through the first quarter of 2015. We also published a summary of our annual DFAST results in March 2014.

In addition, the rules adopted by the Federal Reserve Board under the Dodd-Frank Act require GS Bank USA to conduct stress tests on an annual basis and publish a summary of certain results. GS Bank USA submitted its annual DFAST stress results to the Federal Reserve in January 2014 and published a summary of its results in March 2014.

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Stress Testing. Our stress testing process incorporates an internal capital adequacy assessment with the objective of ensuring that the firm is appropriately capitalized relative to the risks in our business. As part of our assessment, we project sources and uses of capital given a range of business environments, including stressed conditions. Our stress scenarios incorporate our internally designed stress tests and those required under CCAR and DFAST rules and are designed to capture our specific vulnerabilities and risks and to analyze whether the firm holds an appropriate amount of capital. Our goal is to hold sufficient capital to ensure we remain adequately capitalized after experiencing a severe stress event. Our assessment of capital adequacy is viewed in tandem with our assessment of liquidity adequacy and is integrated into the overall risk management structure, governance and policy framework of the firm. We provide additional information about our stress test processes and a summary of the results on our web site as described under Available Information below.

Internal Risk-Based Capital Assessment. As part of our capital planning and stress testing process, we perform an internal risk-based capital assessment. This assessment incorporates market risk, credit risk and operational risk. Market risk is calculated by using VaR calculations supplemented by risk-based add-ons which include risks related to rare events (tail risks). Credit risk utilizes assumptions about our counterparties probability of default and the size of our losses in the event of a default. Operational risk is calculated based on scenarios incorporating multiple types of operational failures as well as incorporating internal and external actual loss experience. Backtesting is used to gauge the effectiveness of models at capturing and measuring relevant risks.

Capital Attribution. We attribute capital usage to each of our businesses based upon regulatory capital requirements as well as our internal risk-based capital assessment. We manage the levels of our capital usage based upon balance sheet and risk limits.

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

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

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

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Consolidated Regulatory Capital

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, we are subject to consolidated risk-based regulatory capital requirements. Beginning January 1, 2014, the firm was subject to the Revised Capital Framework described below. During 2013, the firm was subject to the Federal Reserve Board s regulations based on the Basel I Capital Accord of the Basel Committee (Basel I), inclusive of the revised market risk regulatory capital requirements, which became effective on January 1, 2013.

See Note 20 to the condensed consolidated financial statements for additional information about the Revised Capital Framework, the firm s current regulatory capital requirements and ratios. Also see Business Regulation in Part I, Item 1 of the 2013 Form 10-K for additional information about our regulatory requirements.

Revised Capital Framework

During 2013, the U.S. federal bank regulatory agencies (Agencies) approved revised risk-based capital and leverage ratio regulations establishing a new comprehensive capital framework for U.S. banking organizations (Revised Capital Framework) which became effective for the firm beginning January 1, 2014. These regulations are largely based on the Basel Committee s December 2010 final capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act.

Under the Revised Capital Framework, Group Inc. is an Advanced approach banking organization. See Note 20 to the condensed consolidated financial statements for further information about the Revised Capital Framework, including the transitional arrangements related to new deductions from Common Equity Tier 1 (CET1).

Risk-Weighted Assets

Risk-weighted assets (RWAs) under the Federal Reserve Board s risk-based capital requirements are calculated based on measures of credit risk and market risk. See Note 20 to the condensed consolidated financial statements for additional information about the firm s current RWAs. We provide additional information about regulatory VaR, stressed VaR, incremental risk, comprehensive risk and the standardized measurement method for specific risk on our web site as described under Available Information below.

In February 2014, the Federal Reserve Board informed us that we completed a satisfactory parallel run, as required of Advanced approach banking organizations under the Revised Capital Framework, and therefore changes to the calculation of RWAs will take effect beginning with the second quarter of 2014. Accordingly, the calculation of RWAs in future quarters will be based on the following:

- During the remaining quarters of 2014 the higher of RWAs computed under the Basel III Advanced approach or under Basel I, inclusive of the revised market risk capital requirements, adjusted for certain items related to capital deductions under the previous framework and for the phase-in of new capital deductions (Basel I Adjusted); and

- Beginning in the first quarter of 2015 the higher of RWAs computed under the Basel III Advanced or Standardized approach.

The primary difference between the Standardized approach and the Basel III Advanced approach is that the Standardized approach utilizes prescribed risk-weightings and does not contemplate the use of internal models to compute exposure for credit risk on derivatives and securities financing transactions, whereas the Basel III Advanced approach permits the use of such models, subject to supervisory approval. In addition, RWAs under the Standardized approach depend largely on the type of counterparty (e.g., whether the counterparty is a sovereign, bank, broker-dealer or other entity), rather than on assessments of each counterparty s creditworthiness. Furthermore, the Standardized approach does not include a capital requirement for operational risk. RWAs for market risk under both the Standardized and Basel III Advanced approaches are

based on the Federal Reserve Board s revised market risk regulatory capital requirements.

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We also attribute RWAs to our business segments. As of March 2014, approximately 75% of RWAs were attributed to our Institutional Client Services segment and substantially all of the remaining RWAs were attributed to our Investing & Lending segment.

Transitional Capital Ratios

The following table presents our ratio of CET1 to RWAs calculated under the Basil III Advanced approach and the Standardized approach reflecting the transitional provisions that became effective January 1, 2014.

	As of	
	March	
$ in millions	**2014**	December 2013
Common shareholders equity	**$ 71,899**	$ 71,267
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	**(2,953)**	(2,931)
Deductions for investments in nonconsolidated financial institutions	**(1,818)**	(1,792)
Other adjustments	**287**	360
CET1	**$ 67,415**	$ 66,904
Basel III Advanced RWAs	**$595,319**	$590,371
Basel III Advanced CET1 ratio	**11.3%**	11.3%
Standardized RWAs	**$620,603**	$629,268
Standardized CET1 ratio	**10.9%**	10.6%

We believe that the ratios in the above table are meaningful because they are measures that we, our regulators and investors use to assess capital adequacy. The Basel III Advanced CET1 transitional ratio as of December 2013 and the Standardized CET1 transitional ratios as of both March 2014 and December 2013 are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies (as of those dates). The Basel III Advanced CET1 transitional ratio became a formal regulatory measure for the firm on April 1, 2014.

In the table above:

The deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities represents goodwill of $3.71 billion as of March 2014 and December 2013 and identifiable intangible assets of $156 million (20% of $780 million) and $134 million (20% of $671 million) as of March 2014 and December 2013, respectively, net of associated deferred tax liabilities of $909 million and $908 million as of March 2014 and December 2013, respectively. The remainder of the deduction of identifiable intangible assets will be phased in at a rate of 20% per year from 2015 to 2018. Identifiable intangible assets that are not deducted during the transitional period are risk weighted.

The deduction for investments in nonconsolidated financial institutions represents the amount by which the firm s investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. As of both March 2014 and December 2013, 20% of the deduction was reflected (calculated based on transitional thresholds). The remainder of this deduction will be phased in at a rate of 20% per year from 2015 to 2018. The balance that is not deducted during the transitional period is risk weighted.

Other adjustments primarily include accumulated other comprehensive loss, the overfunded portion of the firm s defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets. As of both March 2014 and December 2013, 20% of the overfunded portion of the firm s defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets were included in CET1. The remainder of these deductions will be phased into CET1 at a rate of 20% per year from 2015 to 2018.

These ratios are based on our current interpretation, expectations and understanding of the Revised Capital Framework and may evolve as we discuss its interpretation and application with our regulators.

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Fully Phased-in Capital Ratios

The following table presents our ratio of CET1 to RWAs calculated under the Basel III Advanced approach and the Standardized approach on a fully phased-in basis.

	As of	
$ in millions	**March 2014**	December 2013
Common shareholders equity	**$ 71,899**	$ 71,267
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	**(3,577)**	(3,468)
Deductions for investments in nonconsolidated financial institutions	**(9,278)**	(9,091)
Other adjustments	**(972)**	(489)
CET1	**$ 58,072**	$ 58,219
Basel III Advanced RWAs	**$597,406**	$594,662
Basel III Advanced CET1 ratio	**9.7%**	9.8%
Standardized RWAs	**$624,188**	$635,092
Standardized CET1 ratio	**9.3%**	9.2%

We believe that the ratios in the above table are meaningful because they are measures that we, our regulators and investors use to assess capital adequacy. The fully phased-in Basel III Advanced CET1 ratios and Standardized CET1 ratios are non-GAAP measures as of both March 2014 and December 2013 and may not be comparable to similar non-GAAP measures used by other companies (as of those dates).

In the table above:

The deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities represents goodwill ($3.71 billion as of both March 2014 and December 2013) and identifiable intangible assets ($780 million and $671 million as of March 2014 and December 2013, respectively) net of associated deferred tax liabilities ($909 million and $908 million as of March 2014 and December 2013, respectively).

The deduction for investments in nonconsolidated financial institutions represents the amount by which the firm s investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds.

Other adjustments primarily include the overfunded portion of the firm s defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets, credit valuation adjustments on derivative liabilities and debt valuation adjustments, as well as other required credit risk-based deductions.

These estimated ratios are based on our current interpretation, expectations and understanding of the Revised Capital Framework and may evolve as we discuss its interpretation and application with our regulators.

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Management s Discussion and Analysis

Minimum Capital Ratios and Capital Buffers

The table below presents the minimum capital ratios currently applicable under the Revised Capital Framework.

	March 2014 Minimum Ratio
CET1 ratio	**4.0%**
Tier 1 capital ratio	**5.5%**
Total capital ratio	**8.0%**
Tier 1 leverage ratio [1]	**4.0%**

1. Tier 1 leverage ratio is defined as Tier 1 capital divided by average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and certain investments in nonconsolidated financial institutions).

Under the Revised Capital Framework, on January 1, 2015 the minimum CET1 ratio will increase from 4.0% to 4.5% and the minimum Tier 1 capital ratio will increase from 5.5% to 6.0%. In addition, these minimum ratios will be supplemented by a new capital conservation buffer that phases in, beginning January 1, 2016, in increments of 0.625% per year until it reaches 2.5% on January 1, 2019.

The Revised Capital Framework also introduces a new counter-cyclical capital buffer, to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth.

These buffers may be supplemented in the future by an additional amount required for Global Systemically Important Banks (G-SIBs). The required amount of additional CET1 for these institutions will initially range from 1% to 2.5% and could be higher in the future for a banking institution that increases its systemic footprint (e.g., by increasing total assets). In November 2013, the Financial Stability Board (established at the direction of the leaders of the Group of 20) indicated that, based on our 2012 financial data, we would be required to hold an additional 1.5% of CET1 as a G-SIB. The final determination of the amount of additional CET1 that we will be required to hold will initially be based on our 2013 financial data and the manner and timing of the U.S. banking regulators implementation of the Basel Committee s methodology. The Basel Committee indicated that G-SIBs will be required to meet the capital surcharges on a phased-in basis beginning in 2016 through 2019.

Supplementary Leverage Ratio

The Revised Capital Framework will introduce a new supplementary leverage ratio for Advanced approach banking organizations. The supplementary leverage ratio compares Tier 1 capital to a measure of leverage exposure, defined as the sum of the firm s assets less certain deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures and commitments. The Revised Capital Framework requires a minimum supplementary leverage ratio of 5.0% (comprised of the minimum requirement of 3.0% plus a 2.0% buffer) for U.S. banks deemed to be G-SIBs, effective January 1, 2018, but with disclosure required beginning in the first quarter of 2015. As of March 2014, our supplementary leverage ratio based upon the Revised Capital Framework was approximately 5%.

In April 2014, the Agencies proposed to further revise the definition of the leverage exposure measure (April 2014 proposal) in order to more closely align it to the updated definition of leverage established by the Basel Committee in January 2014. As of March 2014, our supplementary leverage ratio (reflecting the April 2014 proposal) on a fully phased-in basis was 4.2%, including Tier 1 capital on a fully phased-in basis of approximately $64.88 billion (CET1 of $58.07 billion plus perpetual non-cumulative preferred stock of $7.20 billion less other adjustments of $395 million) divided by total leverage exposure of $1.56 trillion (total average assets of $928 billion plus adjustments of $628 billion, primarily comprised of off-balance sheet exposure related to derivatives, commitments and guarantees).

Our supplementary leverage ratio (reflecting the April 2014 proposal), including the capital impact of reducing the firm s fund investments to comply with the Volcker Rule, was 4.7% as of March 2014, including Tier 1 capital of $74.52 billion (Tier 1 capital on a fully phased-in basis of $64.88 billion adjusted for the estimated capital impact of reducing fund investments to comply with the Volcker rule of $9.64 billion) divided by total leverage exposure of $1.57 trillion (total average assets of $928 billion plus adjustments of $637 billion, primarily comprised of off-balance sheet exposure related to derivatives, commitments and guarantees and an estimated adjustment for the impact of reducing fund investments to comply with the Volcker Rule).

We believe that the supplementary leverage ratios are meaningful because they are measures that we, our regulators and investors use to assess capital adequacy. The supplementary leverage ratios are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies.

These estimated supplementary leverage ratios are based on our current interpretation, expectations and understanding of the April 2014 proposal and may evolve as we discuss its interpretation and application with our regulators.

Other Developments

The Basel Committee has recently issued several updates and consultative papers which propose further changes to capital regulations. In particular, it has finalized a revised standard approach for calculating RWAs for counterparty credit risk on derivatives exposures (Standardized Approach for measuring Counterparty Credit Risk exposures, known as SA-CCR). In addition, it has published guidelines for measuring and controlling large exposures (Supervisory Framework for measuring and controlling Large Exposures). The Basel Committee has also issued consultation papers on a Fundamental Review of the Trading Book and Revisions to the Securitization Framework. The impact of all of these developments on the firm (including RWAs and regulatory capital ratios) will not be known with certainty until after any resulting rules are finalized by the Agencies.

The European Union (EU) finalized legislation to implement Basel III, which became effective on January 1, 2014. The Dodd-Frank Act, other reform initiatives proposed and announced by the Agencies, the Basel Committee, and other governmental entities and regulators (including the EU and the U.K. s Prudential Regulation Authority and the Financial Conduct Authority (FCA)) are not in all cases consistent with one another, which adds further uncertainty to the firm s future capital, leverage and liquidity requirements, and those of the firm s subsidiaries.

The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers and major security-based swap participants. The firm has registered certain subsidiaries as swap dealers under the CFTC rules, including GS&Co., GS Bank USA, Goldman Sachs International (GSI), and J. Aron & Company. These entities and other entities that would require registration under the CFTC or SEC rules will be subject to regulatory capital requirements, which have not been finalized by the CFTC and SEC.

Subsidiary Capital Requirements

Many of our subsidiaries, including GS Bank USA and our broker-dealer subsidiaries, are subject to separate regulation and capital requirements of the jurisdictions in which they operate.

GS Bank USA. GS Bank USA is subject to minimum capital requirements that are calculated in a manner similar to those applicable to bank holding companies and computes its risk-based capital ratios in accordance with the regulatory capital requirements applicable to state member banks, which, as of January 1, 2014, were based on the Revised Capital Framework and, as of December 2013, were based on Basel I, inclusive of the revised market risk regulatory capital requirements, as implemented by the Federal Reserve Board. The capital regulations also include requirements with respect to leverage.

GS Bank USA s capital levels and prompt corrective action classification are subject to qualitative judgments by its regulators about components of capital, risk weightings and other factors.

As of January 2015, the minimum CET1 ratio for GS Bank USA will increase from 4.0% to 4.5%. In addition, the Revised Capital Framework changes the standards for well-capitalized status under prompt corrective action regulations by, among other things, introducing a CET1 ratio requirement of 6.5% and increasing the Tier 1 capital ratio requirement from 6.0% to 8.0%.

GS Bank USA has also been informed by the Federal Reserve Board that it has completed a satisfactory parallel run, as required of Advanced approach banking organizations, and therefore changes to its calculations of RWAs will take effect beginning with the second quarter of 2014.

The Basel Committee published its final guidelines for calculating incremental capital requirements for domestic systemically important banking institutions (D-SIBs). These guidelines are complementary to the framework outlined above for G-SIBs. The impact of these guidelines on the regulatory capital requirements of GS Bank USA will depend on how they are implemented by the banking regulators in the United States.

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In addition, under Federal Reserve Board rules finalized in April 2014, commencing January 1, 2018, in order to be considered a well-capitalized depository institution, GS Bank USA must have a supplementary leverage ratio of 6.0% or greater, though the definition of leverage used for this ratio may change prior to 2018, as described above. As of March 2014, GS Bank USA s supplementary leverage ratio (reflecting the April 2014 proposal) on a fully phased-in basis was 5.6%. This estimated supplementary leverage ratio is based on our current interpretation, expectations and understanding of the April 2014 proposal and may evolve as we discuss its interpretation and application with our regulators.

See Note 20 to the condensed consolidated financial statements for further information about the Revised Capital Framework as it relates to GS Bank USA.

GSI. Our regulated U.K. broker-dealer, GSI, is one of the firm s principal non-U.S. regulated subsidiaries and is regulated by the PRA and the FCA. Effective January 1, 2014, GSI became subject to capital regulations which are largely based on Basel III and which, similar to the Revised Capital Framework, also introduce leverage ratio reporting requirements in the future. As of March 2014, GSI had a CET1 ratio of 8.5%, a Tier 1 capital ratio of 8.5% and a Total capital ratio of 11.3%. Under PRA rules, as of March 2014, GSI is required to maintain a minimum CET1 ratio of 4.0%, Tier 1 capital ratio of 5.5%, and Total capital ratio of 8.0%. In January 2015, the minimum CET1 ratio requirement will increase to 4.5%, and the minimum Tier 1 capital ratio requirement will increase to 6.0%. GSI s future capital requirements may also be impacted by developments such as the introduction of capital buffers as described above. As of December 2013, GSI was subject to capital regulations, which were based on the Basel Committee s June 2006 Framework (Basel II) as modified by the Basel Committee s February 2011 Revisions to the Basel II market risk framework and as implemented in the European Union through the Capital Requirements Directives. As of December 2013, GSI had a Tier 1 capital ratio of 14.4% and a Total capital ratio of 18.5%.

Other Subsidiaries. We expect that the capital requirements of several of our subsidiaries are likely to increase in the future due to the various developments arising from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators. See Note 20 to the condensed consolidated financial statements for information about the capital requirements of our other regulated subsidiaries.

Subsidiaries not subject to separate regulatory capital requirements may hold capital to satisfy local tax and legal guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. In certain instances, Group Inc. may be limited in its ability to access capital held at certain subsidiaries as a result of regulatory, tax or other constraints. As of March 2014 and December 2013, Group Inc. s equity investment in subsidiaries was $75.01 billion and $73.39 billion, respectively, compared with its total shareholders equity of $79.10 billion and $78.47 billion, respectively.

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

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

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Off-Balance-Sheet Arrangements and

Contractual Obligations

Off-Balance-Sheet Arrangements

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

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

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

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

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

The table below presents where a discussion of our various off-balance-sheet arrangements may be found in the March 2014 Form 10-Q. In addition, see Note 3 to the condensed consolidated financial statements for a discussion of our consolidation policies.

Type of Off-Balance-Sheet Arrangement	Disclosure in Form 10-Q
	See Note 11 to the condensed consolidated financial statements.

Variable interests and other obligations, including contingent obligations, arising from variable interests in nonconsolidated VIEs	
Leases, letters of credit, and lending and other commitments	See Contractual Obligations below and Note 18 to the condensed consolidated financial statements.
Guarantees	See Contractual Obligations below and Note 18 to the condensed consolidated financial statements.
Derivatives	See Credit Risk Management Credit Exposures OTC Derivatives below and Notes 4, 5, 7 and 18 to the condensed consolidated financial statements.

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Contractual Obligations

We have certain contractual obligations which require us to make future cash payments. These contractual obligations include our unsecured long-term borrowings, secured long-term financings, time deposits and contractual interest payments, all of which are included in our condensed consolidated statements of financial condition. Our

obligations to make future cash payments also include certain off-balance-sheet contractual obligations such as purchase obligations, minimum rental payments under noncancelable leases and commitments and guarantees. The table below presents our contractual obligations, commitments and guarantees as of March 2014.

in millions	Remainder of 2014	2015-2016	2017-2018	2019-Thereafter	Total
Amounts related to on-balance-sheet obligations					
Time deposits	$	$ 5,171	$ 5,169	$ 5,200	$ 15,540
Secured long-term financings [1]		4,634	1,163	1,075	6,872
Unsecured long-term borrowings		37,218	44,600	83,809	165,627
Contractual interest payments	4,667	12,974	9,865	35,050	62,556
Subordinated liabilities issued by consolidated VIEs	52			407	459
Amounts related to off-balance-sheet arrangements					
Commitments to extend credit	10,842	25,567	41,416	19,658	97,483
Contingent and forward starting resale and securities borrowing agreements	59,016	3	36		59,055
Forward starting repurchase and secured lending agreements	12,822				12,822
Letters of credit	254	201	10	5	470
Investment commitments [2]	1,377	4,208	99	313	5,997
Other commitments	3,928	118	54	65	4,165
Minimum rental payments	279	630	501	1,193	2,603
Derivative guarantees	367,991	285,788	39,355	66,354	759,488
Securities lending indemnifications	33,101				33,101
Other financial guarantees	1,221	547	1,338	1,256	4,362

1.

The aggregate contractual principal amount of secured long-term financings for which the fair value option was elected exceeded the related fair value by $83 million.

2. $4.34 billion of commitments to covered funds (as defined by the Volcker Rule) are included in the remainder of 2014 and 2015-2016 columns. We expect that substantially all of these commitments will not be called.

In the table above:

Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holder are excluded and are treated as short-term obligations.

Obligations that are repayable prior to maturity at our option are reflected at their contractual maturity dates and obligations that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.

Amounts included in the table do not necessarily reflect the actual future cash flow requirements for these arrangements because commitments and guarantees represent notional amounts and may expire unused or be reduced or cancelled at the counterparty s request.

Due to the uncertainty of the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded. See Note 24 to the condensed consolidated financial statements for further information about our unrecognized tax benefits.

Unsecured long-term borrowings includes $7.35 billion of adjustments to the carrying value of certain unsecured long-term borrowings resulting from the application of hedge accounting. In addition, the aggregate contractual principal amount of unsecured long-term borrowings (principal and non-principal-protected) for which the fair value option was elected exceeded the related fair value by $224 million.

Contractual interest payments represents estimated future interest payments related to unsecured long-term borrowings, secured long-term financings and time deposits based on applicable interest rates as of March 2014. Includes stated coupons, if any, on structured notes.

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See Notes 15 and 18 to the condensed consolidated financial statements for further information about our short-term borrowings and commitments and guarantees, respectively.

As of March 2014, our unsecured long-term borrowings were $165.63 billion, with maturities extending to 2061, and consisted principally of senior borrowings. See Note 16 to the condensed consolidated financial statements for further information about our unsecured long-term borrowings.

As of March 2014, our future minimum rental payments net of minimum sublease rentals under noncancelable leases were $2.60 billion. These lease commitments, principally for office space, expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 18 to the condensed consolidated financial statements for further information about our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. During the three months ended March 2014, total occupancy expenses for space held in excess of our current requirements and exit costs related to our office space were not material. We may incur exit costs in the future to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

Risk Management and Risk Factors

Risks are inherent in our business and include liquidity, market, credit, operational, legal, regulatory and reputational risks. For a further discussion of our risk management processes, see Overview and Structure of Risk Management below. Our risks include the risks across our risk categories, regions or global businesses, as well as those which have uncertain outcomes and have the potential to materially impact our financial results, our liquidity and our reputation. For a further discussion of our areas of risk, see Liquidity Risk Management, Market Risk Management, Credit Risk Management, Operational Risk Management and Certain Risk Factors That May Affect Our Businesses below.

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Management s Discussion and Analysis

Overview and Structure of Risk Management

Overview

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

Governance. Risk management governance starts with our Board, which plays an important role in reviewing and approving risk management policies and practices, both directly and through its committees, including its Risk Committee. The Board also receives regular briefings on firmwide risks, including market risk, liquidity risk, credit risk and operational risk from our independent control and support functions, including the chief risk officer, and on matters impacting our reputation from the chair of our Firmwide Client and Business Standards Committee. The chief risk officer, as part of the review of the firmwide risk portfolio, regularly advises the Risk Committee of the Board of relevant risk metrics and material exposures. Next, at the most senior levels of the firm, our leaders are experienced risk managers, with a sophisticated and detailed understanding of the risks we take. Our senior managers lead and participate in risk-oriented committees, as do the leaders of our independent control and support functions including those in Compliance, Controllers, our Credit Risk Management department (Credit Risk Management), Human Capital Management, Legal, our Market Risk Management department (Market Risk Management), Operations, our Operational Risk Management department (Operational Risk Management), Tax, Technology and Treasury.

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

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

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

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

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

Management s Discussion and Analysis

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

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

We reinforce a culture of effective risk management in our training and development programs as well as the way we evaluate performance, and recognize and reward our people. Our training and development programs, including certain sessions led by the most senior leaders of the firm, are focused on the importance of risk management, client relationships and reputational excellence. As part of our annual performance review process, we assess reputational excellence including how an employee exercises good risk management and reputational judgment, and adheres to our code of conduct and compliance policies. Our review and reward processes are designed to communicate and reinforce to our professionals the link between behavior and how people are recognized, the need to focus on our clients and our reputation, and the need to always act in accordance with the highest standards of the firm.

Structure

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

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

In addition, independent control and support functions, which report to the chief financial officer, the general counsel and the chief administrative officer, are responsible for day-to-day oversight or monitoring of risk, as discussed in greater detail in the following sections. Internal Audit, which reports to the Audit Committee of the Board and includes professionals with a broad range of audit and industry experience, including risk management expertise, is responsible for independently assessing and validating key controls within the risk management framework.

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The chart below presents an overview of our risk management governance structure, highlighting the

oversight of our Board, our key risk-related committees and the independence of our control and support functions.

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

Firmwide Client and Business Standards Committee. The Firmwide Client and Business Standards Committee assesses and makes determinations regarding business standards and practices, reputational risk management, client relationships and client service, is chaired by the firm s president and chief operating officer, and reports to the Management Committee. This committee also has responsibility for overseeing recommendations of the Business Standards Committee. This committee periodically updates and receives guidance from the Public Responsibilities Subcommittee of the Corporate Governance, Nominating and Public Responsibilities Committee of the Board. This committee has established the following risk-related committees that report to it:

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Firmwide New Activity Committee. The Firmwide New Activity Committee is responsible for reviewing new activities and for establishing a process to identify and review previously approved activities that are significant and that have changed in complexity and/or structure or present different reputational and suitability concerns over time to consider whether these activities remain appropriate. This committee is co-chaired by the firm s head of operations/chief operating officer for Europe, Middle East and Africa (EMEA) and the chief administrative officer of our Investment Management Division, who are appointed by the Firmwide Client and Business Standards Committee chairperson.

Firmwide Suitability Committee. The Firmwide Suitability Committee is responsible for setting standards and policies for product, transaction and client suitability and providing a forum for consistency across divisions, regions and products on suitability assessments. This committee also reviews suitability matters escalated from other firm committees. This committee is co-chaired by the deputy head of our Global Compliance Division and the co-head of our Investment Management Division, who are appointed by the Firmwide Client and Business Standards Committee chairperson.

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

Securities Division Risk Committee. The Securities Division Risk Committee sets market risk limits, subject to overall firmwide risk limits, for the Securities Division based on a number of risk measures, including but not limited to VaR, stress tests, scenario analyses and balance sheet levels. This committee is chaired by the chief risk officer of our Securities Division.

Credit Policy Committee. The Credit Policy Committee establishes and reviews broad firmwide credit policies and parameters that are implemented by Credit Risk Management. This committee is chaired by the firm s chief credit officer.

Firmwide Operational Risk Committee. The Firmwide Operational Risk Committee provides oversight of the ongoing development and implementation of our operational risk policies, framework and methodologies, and monitors the effectiveness of operational risk management. This committee is co-chaired by a managing director in Credit Risk Management and a managing director in Operational Risk Management.

Firmwide Finance Committee. The Firmwide Finance Committee has oversight responsibility for liquidity risk, the size and composition of our balance sheet and capital base, and credit ratings. This committee regularly reviews our liquidity, balance sheet, funding position and capitalization, approves related policies, and makes recommendations as to any adjustments to be made in light of current events, risks, exposures and regulatory requirements. As a part of such oversight, among other things, this committee reviews and approves balance sheet limits and the size of our GCE. This committee is co-chaired by the firm s chief financial officer and the firm s global treasurer.

Firmwide Technology Risk Committee. The Firmwide Technology Risk Committee reviews matters related to the design, development, deployment and use of technology. This committee oversees technology risk management frameworks and methodologies, and monitors their effectiveness. This committee is co-chaired by the firm s chief information officer and the head of Global Investment Research.

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

Firmwide Commitments Committee. The Firmwide Commitments Committee reviews the firm s underwriting and distribution activities with respect to equity and equity-related product offerings, and sets and maintains policies and procedures designed to ensure that legal, reputational, regulatory and business standards are maintained on a global basis. In addition to reviewing specific transactions, this committee periodically conducts general strategic reviews of sectors and products and establishes policies in connection with transaction practices. This committee is co-chaired by the firm s senior strategy officer and the co-head of Global Mergers & Acquisitions, who are appointed by the Firmwide Client and Business Standards Committee chairperson.

Firmwide Capital Committee. The Firmwide Capital Committee provides approval and oversight of debt-related transactions, including principal commitments of the firm s capital. This committee aims to ensure that business and reputational standards for underwritings and capital commitments are maintained on a global basis. This committee is co-chaired by the firm s global treasurer and the head of credit finance for EMEA who are appointed by the Firmwide Risk Committee chairpersons.

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

Conflicts Management

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

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

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

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

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Liquidity Risk Management

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

We manage liquidity risk according to the following principles:

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

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

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

Excess Liquidity

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

As of March 2014 and December 2013, the fair value of the securities and certain overnight cash deposits included in our GCE totaled $174.99 billion and $184.07 billion, respectively. Based on the results of our internal liquidity risk model, discussed below, as well as our consideration of other factors including, but not limited to, an assessment of our potential intraday liquidity needs and a qualitative assessment of the condition of the financial markets and the firm, we believe our liquidity position as of both March 2014 and December 2013 was appropriate.

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

in millions	Average for the **Three Months Ended March 2014**	Year Ended December 2013
U.S. dollar-denominated	**$135,117**	$136,824
Non-U.S. dollar-denominated	**45,839**	45,826
Total	**$180,956**	$182,650

The U.S. dollar-denominated excess is composed of (i) unencumbered U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), all of which are eligible as collateral in Federal Reserve open market operations and (ii) certain overnight U.S. dollar cash deposits. The non-U.S. dollar-denominated excess is composed of only unencumbered German, French,

Japanese and United Kingdom government obligations and certain overnight cash deposits in highly liquid currencies. We strictly limit our excess liquidity to this narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. We do not include other potential sources of excess liquidity, such as less liquid unencumbered securities or committed credit facilities, in our GCE.

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

in millions	Average for the Three Months Ended March 2014	Year Ended December 2013
Overnight cash deposits	**$ 63,149**	$ 61,265
U.S. government obligations	**65,213**	76,019
U.S. federal agency obligations, including highly liquid U.S. federal agency mortgage-backed obligations	**8,886**	2,551
German, French, Japanese and United Kingdom government obligations	**43,708**	42,815
Total	**$180,956**	$182,650

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

in millions	Average for the Three Months Ended March 2014	Year Ended December 2013
Group Inc.	**$ 36,587**	$ 29,752
Major broker-dealer subsidiaries	**91,922**	93,103
Major bank subsidiaries	**52,447**	59,795
Total	**$180,956**	$182,650

Our GCE reflects the following principles:

The first days or weeks of a liquidity crisis are the most critical to a company s survival.

Focus must be maintained on all potential cash and collateral outflows, not just disruptions to financing flows. Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment.

During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change.

As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and have larger debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater balances of highly liquid unencumbered securities, even though it increases our total assets and our funding costs.

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

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

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

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

In addition to our GCE, we have a significant amount of other unencumbered cash and financial instruments, including other government obligations, high-grade money market securities, corporate obligations, marginable equities, loans and cash deposits not included in our GCE. The fair value of these assets averaged $84.65 billion for the three months ended March 2014 and $90.77 billion for the year ended December 2013. We do not consider these assets liquid enough to be eligible for our GCE liquidity pool and therefore conservatively do not assume we will generate liquidity from these assets in our Modeled Liquidity Outflow.

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Modeled Liquidity Outflow. Our Modeled Liquidity Outflow is based on conducting multiple scenarios that include combinations of market-wide and firm-specific stress. These scenarios are characterized by the following qualitative elements:

- Severely challenged market environments, including low consumer and corporate confidence, financial and political instability, adverse changes in market values, including potential declines in equity markets and widening of credit spreads.
- A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

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

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

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

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

Unsecured Funding

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

Deposits

Contractual: All upcoming maturities of term deposits. We assume that we will be unable to raise new term deposits or rollover any maturing term deposits.

Contingent: Withdrawals of bank deposits that have no contractual maturity. The withdrawal assumptions reflect, among other factors, the type of deposit, whether the deposit is insured or uninsured, and the firm s relationship with the depositor.

Secured Funding

Contractual: A portion of upcoming contractual maturities of secured funding due to either the inability to refinance or the ability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral, counterparty roll probabilities (our assessment of the counterparty s likelihood of continuing to provide funding on a secured basis at the maturity of the trade) and counterparty concentration.

Contingent: Adverse changes in value of financial assets pledged as collateral for financing transactions, which would necessitate additional collateral postings under those transactions.

OTC Derivatives

Contingent: Collateral postings to counterparties due to adverse changes in the value of our OTC derivatives, excluding those that are cleared and settled through central counterparties (OTC-cleared).

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

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Exchange-Traded and OTC-cleared Derivatives

Contingent: Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded and OTC-cleared derivatives.

Contingent: An increase in initial margin and guaranty fund requirements by derivative clearing houses.

Customer Cash and Securities

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

Unfunded Commitments

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

Other

Other upcoming large cash outflows, such as tax payments.

Asset-Liability Management

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

Our approach to asset-liability management includes:

Conservatively managing the overall characteristics of our funding book, with a focus on maintaining long-term, diversified sources of funding in excess of our current requirements. See Balance Sheet and Funding Sources Funding Sources for additional details.

Actively managing and monitoring our asset base, with particular focus on the liquidity, holding period and our ability to fund assets on a secured basis. This enables us to determine the most appropriate funding products and tenors. See Balance Sheet and Funding Sources Balance Sheet Management for more detail on our balance sheet management process and Funding Sources Secured Funding for more detail on asset classes that may be harder to fund on a secured basis.

Raising secured and unsecured financing that has a long tenor relative to the liquidity profile of our assets. This reduces the risk that our liabilities will come due in advance of our ability to generate liquidity from the sale of our assets. Because we maintain a highly liquid balance sheet, the holding period of certain of our assets may be materially shorter than their contractual maturity dates.

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

Subsidiary Funding Policies. The majority of our unsecured funding is raised by Group Inc. which lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing, liquidity and capital requirements. In addition, Group Inc. provides its regulated

subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of our subsidiaries. Funding is also raised at the subsidiary level through a variety of products, including secured funding, unsecured borrowings and deposits.

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

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Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries. For example, as of March 2014, Group Inc. had $31.89 billion of equity and subordinated indebtedness invested in GS&Co., its principal U.S. registered broker-dealer; $26.69 billion invested in GSI, a regulated U.K. broker-dealer; $2.26 billion invested in GSEC, a U.S. registered broker-dealer; $3.06 billion invested in GSJCL, a regulated Japanese broker-dealer; $20.38 billion invested in GS Bank USA, a regulated New York State-chartered bank.; and $3.51 billion invested in GSIB, a regulated U.K. bank. Group Inc. also provided, directly or indirectly, $80.62 billion of unsubordinated loans and $8.70 billion of collateral to these entities, substantially all of which was to GS&Co., GSI and GS Bank USA, as of March 2014. In addition, as of March 2014, Group Inc. had significant amounts of capital invested in and loans to its other regulated subsidiaries.

Contingency Funding Plan

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

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

Proposed Liquidity Framework

The Basel Committee on Banking Supervision s international framework for liquidity risk measurement, standards and monitoring calls for imposition of a liquidity coverage ratio, designed to ensure that banks and bank holding companies maintain an adequate level of unencumbered high-quality liquid assets based on expected cash outflows under an acute liquidity stress scenario, and a net stable funding ratio, designed to promote more medium- and long-term funding of the assets and activities of these entities over a one-year time horizon. Under the Basel Committee framework, the liquidity coverage ratio would be introduced on January 1, 2015; however, there would be a phase-in period whereby firms would have a 60% minimum in 2015 which would be raised 10% per year until it reaches 100% in 2019. The net stable funding ratio is not expected to be introduced as a requirement until January 1, 2018.

In addition, the Office of the Comptroller of the Currency, the Federal Reserve Board and the FDIC issued a proposal on minimum liquidity standards that is generally consistent with the Basel Committee s framework as described above, but, with certain modifications to the high quality liquid asset definition and expected cash outflow assumptions, and accelerated transition provisions. In addition, under the proposed accelerated transition timeline, the liquidity coverage ratio would be introduced on January 1, 2015; however, there would be an accelerated U.S. phase-in period whereby firms would have an 80% minimum in 2015 which would be raised 10% per year until it reaches 100% in 2017.

The firm will continue to evaluate the impact to our risk management framework going forward. While the principles behind the new frameworks proposed by the Basel Committee and the Agencies are broadly consistent with our current liquidity management framework, it is possible that the implementation of these standards could impact our liquidity and funding requirements and practices. Our current estimate of the liquidity coverage ratio exceeds the fully phased-in minimum requirement, however this estimate is based on our current interpretation, expectations and understanding of the new frameworks and may evolve as we discuss their interpretation and application with our regulators.

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Credit Ratings

We rely on the short-term and long-term debt capital markets to fund a significant portion of our day-to-day operations and the cost and availability of debt financing is influenced by our credit ratings. Credit ratings are also important when we are competing in certain markets, such as OTC derivatives, and when we seek to engage in longer-term transactions. See Certain Risk Factors That May Affect Our Businesses below and Risk Factors in Part I, Item 1A of the 2013 Form 10-K for a discussion of the risks associated with a reduction in our credit ratings.

The table below presents the unsecured credit ratings by DBRS, Inc., Fitch, Inc., Moody s Investors Service (Moody s), Standard & Poor s Ratings Services (S&P), and Rating and Investment Information, Inc. (R&I) and outlook of Group Inc.

	As of March 2014				
	DBRS, Inc.	Fitch, Inc.	Moody s	S&P	R&I
Short-term Debt	R-1 (middle)	F1	P-2	A-2	a-1
Long-term Debt [1]	A (high)	A	Baa1	A-	A+
Subordinated Debt	A	A-	Baa2	BBB+	A
Trust Preferred [2]	A	BBB-	Baa3	BB+	N/A
Preferred Stock [3]	BBB	BB+	Ba2	BB+	N/A
Ratings Outlook	Stable	Stable	Stable	Negative	Negative

1. Fitch, Inc., Moody s and S&P include the senior guaranteed trust securities issued by Murray Street Investment Trust I and Vesey Street Investment Trust I.

2. Trust preferred securities issued by Goldman Sachs Capital I.

3. DBRS, Inc., Fitch, Inc., Moody s and S&P include Group Inc. s non-cumulative preferred stock and the APEX issued by Goldman Sachs Capital II and Goldman Sachs Capital III.

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

	As of March 2014		
	Fitch, Inc.	Moody s	S&P
GS Bank USA			
Short-term Debt	F1	P-1	A-1
Long-term Debt	A	A2	A
Short-Term Bank Deposits	F1	P-1	N/A
Long-Term Bank Deposits	A+	A2	N/A

GSIB			
Short-term Debt	**F1**	**P-1**	**A-1**
Long-term Debt	**A**	**A2**	**A**
Short-Term Bank Deposits	**F1**	**P-1**	**N/A**
Long-Term Bank Deposits	**A**	**A2**	**N/A**
GS&Co.			
Short-term Debt	**F1**	**N/A**	**A-1**
Long-term Debt	**A**	**N/A**	**A**
GSI			
Short-term Debt	**F1**	**P-1**	**A-1**
Long-term Debt	**A**	**A2**	**A**

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

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

Certain of the firm s derivatives have been transacted under bilateral agreements with counterparties who may require us to post collateral or terminate the transactions based on changes in our credit ratings. We assess the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency s relative ratings of the firm at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. We allocate a portion of our GCE to ensure we would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. The table below presents the additional collateral or termination payments related to our net derivative liabilities under bilateral agreements that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in our credit ratings.

	As of	
in millions	**March 2014**	December 2013
Additional collateral or termination payments for a one-notch downgrade	**$ 930**	$ 911
Additional collateral or termination payments for a two-notch downgrade	**2,755**	2,989

Cash Flows

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

Three Months Ended March 2014. Our cash and cash equivalents decreased by $2.28 billion to $58.86 billion at the end of the first quarter of 2014. We used net cash of $7.43 billion for operating and investing activities. We generated $5.15 billion in net cash from financing activities from net issuances of unsecured long-term borrowings.

Three Months Ended March 2013. Our cash and cash equivalents decreased by $9.34 billion to $63.33 billion at the end of the first quarter of 2013. We used net cash of $5.70 billion for operating activities. We used $3.64 billion in net cash for investing and financing activities for net repayments of unsecured and secured short-term borrowings and repurchases of common stock, partially offset by an increase in bank deposits.

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Market Risk Management

Overview

Market risk is the risk of loss in the value of our inventory, as well as certain other financial assets and financial liabilities, due to changes in market conditions. The firm employs a variety of risk measures, each described in the respective sections below, to monitor market risk. We hold inventory primarily for market making for our clients and for our investing and lending activities. Our inventory therefore changes based on client demands and our investment opportunities. Our inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in Market making, and Other principal transactions. Categories of market risk include the following:

Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads.

Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices.

Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates.

Commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil, petroleum products, natural gas, electricity, and precious and base metals.

Market Risk Management Process

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

accurate and timely exposure information incorporating multiple risk metrics;

a dynamic limit setting framework; and

constant communication among revenue-producing units, risk managers and senior management.

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

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

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

Risk Measures

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

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

Value-at-Risk

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

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

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

When calculating VaR, we use historical simulations with full valuation of approximately 70,000 market factors. VaR is calculated at a position level based on simultaneously shocking the relevant market risk factors for that position. We sample from 5 years of historical data to generate the scenarios for our VaR calculation. The historical data is weighted so that the relative importance of the data reduces over time. This gives greater importance to more recent observations and reflects current asset volatilities, which improves the accuracy of our estimates of potential loss. As a result, even if our positions included in VaR were unchanged, our VaR would increase with increasing market volatility and vice versa.

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

Our VaR measure does not include:

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

Stress Testing

Stress testing is a method of determining the effect on the firm of various hypothetical stress scenarios. We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the firm. We use a variety of stress testing techniques to calculate the potential loss from a wide range of market moves on the firm s portfolios, including sensitivity analysis, scenario analysis and firmwide stress tests. The results of our various stress tests are analyzed together for risk management purposes.

Sensitivity analysis is used to quantify the impact of a market move in a single risk factor across all positions (e.g., equity prices or credit spreads) using a variety of defined market shocks, ranging from those that could be expected over a one-day time horizon up to those that could take many months to occur. We also use sensitivity analysis to quantify the impact of the default of a single corporate entity, which captures the risk of large or concentrated exposures.

Scenario analysis is used to quantify the impact of a specified event, including how the event impacts multiple risk factors simultaneously. For example, for sovereign stress testing we calculate potential direct exposure associated with our sovereign inventory as well as the corresponding debt, equity and currency exposures associated with our non-sovereign inventory that may be impacted by the sovereign distress. When conducting scenario analysis, we typically consider a number of possible outcomes for each scenario, ranging from moderate to severely adverse market impacts. In addition, these stress tests are constructed using both historical events and forward-looking hypothetical scenarios.

Firmwide stress testing combines market, credit, operational and liquidity risks into a single combined scenario. Firmwide stress tests are primarily used to assess capital adequacy as part of our capital planning and stress testing process; however, we also ensure that firmwide stress testing is integrated into our risk governance framework. This includes selecting appropriate scenarios to use for our capital planning and stress testing process. See Equity Capital Equity Capital Management above for further information.

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

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

Limits

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

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

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

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

Model Review and Validation

Our VaR and stress testing models are subject to review and validation by our independent model validation group. This review includes:

- a critical evaluation of the model, its theoretical soundness and adequacy for intended use;
- verification of the testing strategy utilized by the model developers to ensure that the model functions as intended; and
- verification of the suitability of the calculation techniques incorporated in the model.

Our VaR and stress testing models are regularly reviewed and enhanced in order to incorporate changes in the composition of positions included in the firm s market risk measures, as well as variations in market conditions. Prior to implementing significant changes to our assumptions and/or models, we perform model validation and test runs. Significant changes to our VaR and stress testing models are reviewed with the firm s chief risk officer and chief financial officer, and approved by the Firmwide Risk Committee.

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

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Systems

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

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

Metrics

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

The following table presents average daily VaR.

in millions	Three Months Ended March	
Risk Categories	**2014**	2013
Interest rates	**$ 59**	$ 62
Equity prices	**32**	30
Currency rates	**18**	14
Commodity prices	**21**	21
Diversification effect	**(48)**	(51)
Total	**$ 82**	$ 76

Our average daily VaR increased to $82 million for the first quarter of 2014 from $76 million for the first quarter of 2013, primarily reflecting an increase in the currency rates category principally due to increased exposures.

The following table presents quarter-end VaR and high and low VaR.

in millions	As of		Three Months Ended	
	March	December	**March 2014**	
Risk Categories	**2014**	2013	**High**	**Low**
Interest rates	**$ 71**	$ 59	**$ 71**	**$53**
Equity prices	**24**	35	**80**	**23**
Currency rates	**12**	16	**25**	**12**
Commodity prices	**22**	20	**30**	**18**
Diversification effect	**(41)**	(45)		
Total	**$ 88**	$ 85	**$116**	**$73**

Our daily VaR increased to $88 million as of March 2014 from $85 million as of December 2013, primarily reflecting an increase in the interest rates category due to increased exposures, partially offset by a decrease in the equity prices category due to reduced exposures.

During the first quarter of 2014, the firmwide VaR risk limit was not exceeded, raised or reduced.

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

Daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during the first quarter of 2014 (i.e., a VaR exception).

During periods in which the firm has significantly more positive net revenue days than net revenue loss days, we expect to have fewer VaR exceptions because, under normal conditions, our business model generally produces

positive net revenues. In periods in which our franchise revenues are adversely affected, we generally have more loss days, resulting in more VaR exceptions. In addition, VaR backtesting is performed against total daily market-making revenues, including bid/offer net revenues, which are more likely than not to be positive by their nature.

The chart below presents the frequency distribution of our daily trading net revenues for substantially all positions included in VaR for the quarter ended March 2014.

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Sensitivity Measures

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure. Other sensitivity measures we use to analyze market risk are described below.

10% Sensitivity Measures. The table below presents market risk for inventory positions that are not included in VaR. The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the underlying asset value. Equity positions below relate to private and restricted public equity securities, including interests in funds that invest in corporate equities and real estate and interests in hedge funds, which are included in Financial instruments owned, at fair value. Debt positions include interests in funds that invest in corporate mezzanine and senior debt instruments, loans backed by commercial and residential real estate, corporate bank loans and other corporate debt, including acquired portfolios of distressed loans. These debt positions are included in Financial instruments owned, at fair value. See Note 6 to the condensed consolidated financial statements for further information about cash instruments. These measures do not reflect diversification benefits across asset categories or across other market risk measures.

in millions As of

Asset Categories	**March 2014**	December 2013
Equity	**$2,243**	$2,256
Debt	**1,506**	1,522
Total	**$3,749**	$3,778

Credit Spread Sensitivity on Derivatives and Borrowings. VaR excludes the impact of changes in counterparty and our own credit spreads on derivatives as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected. The estimated sensitivity to a one basis point increase in credit spreads (counterparty and our own) on derivatives was a gain of $4 million (including hedges) as of both March 2014 and December 2013. In addition, the estimated sensitivity to a one basis point increase in our own credit spreads on unsecured borrowings for which the fair value option was elected was a gain of $9 million and $8 million (including hedges) as of March 2014 and December 2013, respectively. However, the actual net impact of a change in our own credit spreads is also affected by the liquidity, duration and convexity (as the sensitivity is not linear to changes in yields) of those unsecured borrowings for which the fair value option was elected, as well as the relative performance of any hedges undertaken.

Interest Rate Sensitivity. As of March 2014 and December 2013, the firm had $17.94 billion and $14.90 billion, respectively, of loans held for investment which were accounted for at amortized cost and included in Receivables from customers and counterparties, substantially all of which had floating interest rates. As of March 2014 and December 2013, the estimated sensitivity to a 100 basis point increase in interest rates on such loans was $163 million and $136 million, respectively, of additional interest income over a 12-month period, which does not take into account the potential impact of an increase in costs to fund such loans. See Note 8 to the condensed consolidated financial statements for further information about loans held for investment.

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Financial Statement Linkages to Market Risk Measures

The firm employs a variety of risk measures, each described in the respective sections above, to monitor market risk across the condensed consolidated statements of financial condition and condensed consolidated statements of earnings. The related gains and losses on these positions are included in Market making, Other principal transactions, Interest income and Interest expense. The table below presents certa categories in our condensed consolidated statements of financial condition and the market risk measures used to assess those assets and liabilities. Certain categories on the condensed consolidated statements of financial condition are incorporated in more than one risk measure.

Categories on the Condensed Consolidated Statements of Financial Condition Included in Market Risk Measure	Market Risk Measure
Securities segregated for regulatory and other purposes, at fair value	VaR
Collateralized agreements	VaR
Securities purchased under agreements to resell, at fair value	
Securities borrowed, at fair value	
Receivables from customers and counterparties	
Certain secured loans, at fair value	VaR
Loans held for investment, at amortized cost	Interest Rate Sensitivity

Financial instruments owned, at fair value	VaR		
	10% Sensitivity Measures		
	Credit Spread Sensitivity	Derivatives	
Collateralized financings	VaR		
Securities sold under agreements to repurchase, at fair value			
Securities loaned, at fair value			
Other secured financings, at fair value			
Financial instruments sold, but not yet purchased, at fair value	VaR		
	Credit Spread Sensitivity	Derivatives	
Unsecured short-term borrowings and unsecured long-term borrowings, at fair value	VaR		
	Credit Spread Sensitivity	Borrowings	

Other Market Risk Considerations

In addition, as of March 2014 and December 2013, we had commitments and held loans for which we have obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 18 to the condensed consolidated financial statements for further information about such lending commitments.

Additionally, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in Other assets in the condensed consolidated statements of financial condition. Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 12 to the condensed consolidated financial statements for information about Other assets.

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Credit Risk Management

Overview

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

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

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

Credit Risk Management Process

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

- approving transactions and setting and communicating credit exposure limits;
- monitoring compliance with established credit exposure limits;
- assessing the likelihood that a counterparty will default on its payment obligations;
- measuring the firm s current and potential credit exposure and losses resulting from counterparty default;
- reporting of credit exposures to senior management, the Board and regulators;
- use of credit risk mitigants, including collateral and hedging; and

communication and collaboration with other independent control and support functions such as operations, legal and compliance.

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

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

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Risk Measures and Limits

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

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

Stress Tests/Scenario Analysis

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

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

Risk Mitigants

To reduce our credit exposures on derivatives and securities financing transactions, we may enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. We may also reduce credit risk with counterparties by entering into agreements that enable us to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty s credit rating falls below a specified level. We monitor the fair value of the collateral on a daily basis to ensure that our credit exposures are appropriately collateralized. We seek to minimize exposures where there is a significant positive correlation between the creditworthiness of our counterparties and the market value of collateral we receive.

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

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

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Management s Discussion and Analysis

Credit Exposures

As of March 2014, our credit exposures increased as compared with December 2013, primarily reflecting increases in loans and lending commitments and securities financing exposures. The percentage of our credit exposure arising from non-investment-grade counterparties (based on our internally determined public rating agency equivalents) increased from December 2013, primarily reflecting an increase in loans and lending commitments. During the three months ended March 2014, the number of counterparty defaults was essentially unchanged compared with the same prior year period and occurred within loans and lending commitments. The number of such defaults remained low and was less than 0.5% of all counterparties. Estimated losses associated with these defaults were higher compared with the same prior year period and were not material to the firm. The firm s credit exposures are described further below.

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

OTC Derivatives. The firm s credit exposure on OTC derivatives arises primarily from our market-making activities. The firm, as a market maker, enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. The firm also enters into derivatives to manage market risk exposures. We manage our credit exposure on OTC derivatives using the credit risk process, measures, limits and risk mitigants described above.

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement. Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements. We generally enter into OTC derivatives transactions under bilateral collateral arrangements with daily exchange of collateral.

As credit risk is an essential component of fair value, the firm includes a credit valuation adjustment (CVA) in the fair value of derivatives to reflect counterparty credit risk, as described in Note 7 to the condensed consolidated financial statements. CVA is a function of the present value of expected exposure, the probability of counterparty default and the assumed recovery upon default.

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

such tenor category. Net credit exposure in the tables below represents OTC derivative assets, all of which are included in Financial instruments owned, at fair value, less cash collateral and the fair value of securities collateral, primarily U.S. government and federal agency obligations and non-U.S. government and agency obligations, received under credit support agreements, which management considers when determining credit risk, but such collateral is not eligible for netting under U.S. GAAP. The categories shown reflect our internally determined public rating agency equivalents.

As of March 2014

in millions

Credit Rating Equivalent	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Netting	OTC Derivative Assets	Net Credit Exposure
AAA/Aaa	**$ 830**	**$ 1,020**	**$ 2,827**	**$ 4,677**	**$ (2,209)**	**$ 2,468**	**$ 2,335**
AA/Aa2	**2,134**	**10,596**	**31,180**	**43,910**	**(31,503)**	**12,407**	**8,671**
A/A2	**9,187**	**22,385**	**30,663**	**62,235**	**(45,769)**	**16,466**	**10,295**
BBB/Baa2	**4,409**	**8,848**	**24,164**	**37,421**	**(27,553)**	**9,868**	**6,628**
BB/Ba2 or lower	**4,632**	**5,898**	**4,821**	**15,351**	**(4,686)**	**10,665**	**9,081**
Unrated	**213**	**162**	**282**	**657**	**(22)**	**635**	**332**
Total	**$21,405**	**$48,909**	**$93,937**	**$164,251**	**$(111,742)**	**$52,509**	**$37,342**

As of December 2013

in millions

Credit Rating Equivalent	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Netting	OTC Derivative Assets	Net Credit Exposure
AAA/Aaa	$ 473	$ 1,470	$ 2,450	$ 4,393	$ (2,087)	$ 2,306	$ 2,159
AA/Aa2	3,463	7,642	29,926	41,031	(27,918)	13,113	8,596
A/A2	12,693	25,666	29,701	68,060	(48,803)	19,257	11,188
BBB/Baa2	4,377	10,112	24,013	38,502	(29,213)	9,289	5,952

BB/Ba2 or lower	2,972	6,188	4,271	13,431	(5,357)	8,074	6,381
Unrated	1,289	45	238	1,572	(9)	1,563	1,144
Total	$25,267	$51,123	$90,599	$166,989	$(113,387)	$53,602	$35,420

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Lending and Financing Activities. We manage the firm s lending and financing activities using the credit risk process, measures, limits and risk mitigants described above. Other lending positions, including secondary trading positions, are risk-managed as a component of market risk.

Lending Activities. The firm s lending activities include lending to investment-grade and non-investment-grade corporate borrowers. Loans and lending commitments associated with these activities are principally used for operating liquidity and general corporate purposes or in connection with contingent acquisitions. The firm s lending activities also include extending loans to borrowers that are secured by commercial and other real estate. See the tables below for further information about our credit exposures associated with these lending activities.

Securities Financing Transactions. The firm enters into securities financing transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities. The firm bears credit risk related to resale agreements and securities borrowed only to the extent that cash advanced or the value of securities pledged or delivered to the counterparty exceeds the value of the collateral received. The firm also has credit exposure on repurchase agreements and securities loaned to the extent that the value of securities pledged or delivered to the counterparty for these transactions exceeds the amount of cash or collateral received. Securities collateral obtained for securities financing transactions primarily includes U.S. government and federal agency obligations and non-U.S. government and agency obligations. We manage our credit risk on securities financing transactions using the credit risk process, measures, limits and risk mitigants described above. We had approximately $38 billion and $29 billion as of March 2014 and December 2013, respectively, of credit exposure related to securities financing transactions reflecting both netting agreements and collateral that management considers when determining credit risk.

Other Credit Exposures. The firm is exposed to credit risk from its receivables from brokers, dealers and clearing organizations and customers and counterparties. Receivables from brokers, dealers and clearing organizations are primarily comprised of initial cash margin placed with clearing organizations and receivables related to sales of securities which have traded, but not yet settled. These receivables generally have minimal credit risk due to the low probability of clearing organization default and the short-term nature of receivables related to securities settlements. Receivables from customers and counterparties are generally comprised of collateralized receivables related to customer securities transactions and generally have minimal credit risk due to both the value of the collateral received and the short-term nature of these receivables. Our net credit exposure related to these activities was approximately $23 billion and $18 billion as of March 2014 and December 2013, respectively, and was primarily comprised of initial margin (both cash and securities) placed with investment-grade clearing organizations. The regional breakdown of our net credit exposure related to these activities was approximately 49% and 55% in the Americas, approximately 41% and 35% in EMEA as of March 2014 and December 2013, respectively, and approximately 10% in Asia as of both March 2014 and December 2013.

In addition, the firm extends other loans and lending commitments to its private wealth clients that are generally longer-term in nature and are primarily secured by residential real estate or other assets. The gross exposure related to such loans and lending commitments was approximately $13 billion and $11 billion as of March 2014 and December 2013, respectively, and was substantially all concentrated in the Americas region. The fair value of the collateral received against such loans and lending commitments exceeded the gross exposure as of both March 2014 and December 2013.

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Credit Exposure by Industry, Region and Credit Quality

The tables below present the firm s credit exposures related to cash, OTC derivatives, and loans and lending commitments (excluding Securities Financing Transactions

and Other Credit Exposures above) broken down by industry, region and credit quality.

Credit Exposure by Industry

	Cash As of		OTC Derivatives As of		Loans and Lending Commitments As of	
in millions	**March 2014**	December 2013	**March 2014**	December 2013	**March 2014**	December 2013
Asset Managers & Funds	**$ 91**	$ 91	**$ 9,058**	$10,812	**$ 2,138**	$ 2,075
Banks, Brokers & Other Financial Institutions	**10,962**	9,742	**10,576**	11,448	**12,521**	11,824
Consumer Products, Non-Durables & Retail			**3,287**	3,448	**15,954**	16,477
Government & Central Banks	**47,799**	51,294	**14,213**	13,446	**1,539**	1,897
Healthcare & Education			**2,474**	2,157	**9,204**	12,283
Insurance			**1,924**	2,771	**3,222**	3,085
Natural Resources & Utilities			**5,333**	4,781	**19,869**	17,970
Real Estate	**6**	6	**420**	388	**9,263**	8,550
Technology, Media, Telecommunications & Services			**2,747**	2,124	**22,784**	16,740
Transportation			**870**	673	**6,505**	6,729
Other			**1,607**	1,554	**11,911**	7,695
Total	**$58,858**	$61,133	**$52,509**	$53,602	**$114,910**	$105,325

Credit Exposure by Region

	Cash As of		OTC Derivatives As of		Loans and Lending Commitments As of	
in millions	**March 2014**	December 2013	**March 2014**	December 2013	**March 2014**	December 2013
Americas	**$52,384**	$54,470	**$21,790**	$21,423	**$ 81,652**	$ 77,710
EMEA	**2,057**	2,143	**25,742**	25,983	**29,206**	25,222
Asia	**4,417**	4,520	**4,977**	6,196	**4,052**	2,393
Total	**$58,858**	$61,133	**$52,509**	$53,602	**$114,910**	$105,325

Credit Exposure by Credit Quality

	Cash As of		OTC Derivatives As of		Loans and Lending Commitments As of	
in millions					**March**	
Credit Rating Equivalent	**March 2014**	December 2013	**March 2014**	December 2013	**2014**	December 2013
AAA/Aaa	**$47,543**	$50,519	**$ 2,468**	$ 2,306	**$ 2,094**	$ 3,079
AA/Aa2	**3,392**	2,748	**12,407**	13,113	**6,769**	7,001
A/A2	**7,135**	6,821	**16,466**	19,257	**24,073**	23,250
BBB/Baa2	**354**	527	**9,868**	9,289	**31,132**	30,496
BB/Ba2 or lower	**434**	518	**10,665**	8,074	**50,842**	41,114
Unrated			**635**	1,563		385
Total	**$58,858**	$61,133	**$52,509**	$53,602	**$114,910**	$105,325

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Selected Country Exposures

There have been continuing concerns about European sovereign debt risk and its impact on the European banking system and a number of European member states have experienced significant credit deterioration. The most pronounced market concerns relate to Greece, Ireland, Italy, Portugal and Spain. The tables below present our credit exposure (both gross and net of hedges) to all sovereigns, financial institutions and corporate counterparties or borrowers in these countries. Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or borrower. In addition, the tables include the market

exposure of our long and short inventory for which the issuer or underlier is located in these countries. Market exposure represents the potential for loss in value of our inventory due to changes in market prices. There is no overlap between the credit and market exposures in the tables below.

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

	As of March 2014											
	Credit Exposure							Market Exposure				
in millions	Loans	OTC Derivatives	Other	Gross Funded	Hedges	Total Net Funded Credit Exposure	Unfunded Credit Exposure	Total Credit Exposure	Debt	Equities and Other	Credit Derivatives	Total Market Exposure
Greece												
Sovereign	$	$ 268	$	$ 268	$ (78)	$ 190	$	$ 190	$ 99	$	$ 6	$ 105
Non-Sovereign		10	481	491		491		491	19	13	(8)	24
Total Greece		278	481	759	(78)	681		681	118	13	(2)	129
Ireland												
Sovereign		9	51	60		60		60	57		(165)	(108)
Non-Sovereign	689	351	48	1,088	(8)	1,080	227	1,307	328	25	202	555
Total Ireland	689	360	99	1,148	(8)	1,140	227	1,367	385	25	37	447
Italy												
Sovereign		2,084	5	2,089	(2,037)	52		52	1,959		80	2,039
Non-Sovereign	151	551	440	1,142	(31)	1,111	520	1,631	510	58	(724)	(156)
Total Italy	151	2,635	445	3,231	(2,068)	1,163	520	1,683	2,469	58	(644)	1,883
Portugal												
Sovereign									1		39	40
Non-Sovereign		53	25	78		78		78	91	(19)	(321)	(249)
Total Portugal		53	25	78		78		78	92	(19)	(282)	(209)
Spain												
Sovereign		39	1,440	1,479		1,479		1,479	242		(248)	(6)

Non-Sovereign	**853**	**225**	**61**	**1,139**	**(117)**	**1,022**	**864**	**1,886**	**1,818**	**127**	**(1,518)**	**427**
Total Spain	**853**	**264**	**1,501**	**2,618**	**(117)**	**2,501**	**864**	**3,365**	**2,060**	**127**	**(1,766)**	**421**
Total	**$1,693** [1]	**$3,590** [2]	**$2,551**	**$7,834**	**$(2,271)** [3]	**$5,563**	**$1,611**	**$7,174**	**$5,124**	**$204**	**$(2,657)** [3]	**$2,671**

1. Principally consists of loans collateralized by cash, securities and real estate.

2. Includes the benefit of $4.9 billion of cash and U.S. Treasury securities collateral and excludes non-U.S. government and agency obligations and corporate securities collateral of $295 million.

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

In addition, during the first quarter of 2014, the political situation in Russia and Ukraine negatively affected market sentiment toward those countries. As of March 2014, our total credit and market exposure to Russia was approximately $1 billion (substantially all of which was

comprised of market exposure related to equities and credit derivatives with non-sovereign issuers or underliers), whereas our total credit and market exposure to Ukraine was not material.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management s Discussion and Analysis

	As of December 2013											
	Credit Exposure								Market Exposure			
in millions	Loans	OTC Derivatives	Other	Gross Funded	Hedges	Total Net Funded Credit Exposure	Unfunded Credit Exposure	Total Credit Exposure	Debt	Equities and Other	Credit Derivatives	Total Market Exposure
Greece												
Sovereign	$	$ 233	$	$ 233	$ (72)	$ 161	$	$ 161	$ 12	$	$ (2)	$ 10
Non-Sovereign		6		6		6		6	10	3	3	16
Total Greece		239		239	(72)	167		167	22	3	1	26
Ireland												
Sovereign		7	125	132		132		132	(48)		(162)	(210)
Non-Sovereign	373	356	127	856	(5)	851	41	892	291	91	108	490
Total Ireland	373	363	252	988	(5)	983	41	1,024	243	91	(54)	280
Italy												
Sovereign		1,704	2	1,706	(1,691)	15		15	371		62	433
Non-Sovereign	10	527	195	732	(31)	701	660	1,361	361	(13)	(794)	(446)
Total Italy	10	2,231	197	2,438	(1,722)	716	660	1,376	732	(13)	(732)	(13)
Portugal												
Sovereign			103	103		103		103	(27)		(73)	(100)
Non-Sovereign		16	20	36		36		36	126		(112)	14
Total Portugal		16	123	139		139		139	99		(185)	(86)
Spain												
Sovereign		52		52		52		52	930		223	1,153
Non-Sovereign	1,025	230	65	1,320	(93)	1,227	855	2,082	1,490	158	(1,144)	504
Total Spain	1,025	282	65	1,372	(93)	1,279	855	2,134	2,420	158	(921)	1,657
Total	$1,408 [1]	$3,131 [2]	$637	$5,176	$(1,892) [3]	$3,284	$1,556	$4,840	$3,516	$239	$(1,891) [3]	$1,864

1. Principally consists of loans collateralized by cash, securities and real estate.

2. Includes the benefit of $4.4 billion of cash and U.S. Treasury securities collateral and excludes non-U.S. government and agency obligations and corporate securities collateral of $254 million.

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

We economically hedge our exposure to written credit derivatives by entering into offsetting purchased credit derivatives with identical underlyings. Where possible, we endeavor to match the tenor and credit default terms of such hedges to that of our written credit derivatives. Substantially all purchased credit derivatives included above are bought from investment-grade counterparties domiciled outside of these

countries and are collateralized with cash, U.S. Treasury securities or German government agency obligations. The gross purchased and written credit derivative notionals across the above countries for single-name and index credit default swaps (included in Hedges and Credit Derivatives in the tables above) were $154.9 billion and $147.4 billion, respectively, as of March 2014, and $154.6 billion and $148.2 billion, respectively, as of December 2013. Including netting under legally enforceable netting agreements, within each and across all of the countries above, the purchased and written credit derivative notionals for single-name and index credit default swaps were $20.9 billion and $13.3 billion,

respectively, as of March 2014, and $22.3 billion and $15.8 billion, respectively, as of December 2013. These notionals are not representative of our exposure because they exclude available netting under legally enforceable netting agreements on other derivatives outside of these countries and collateral received or posted under credit support agreements.

In credit exposure above, Other principally consists of deposits, securities financing transactions and other secured receivables, net of applicable collateral. As of March 2014 and December 2013, $14.0 billion and $11.9 billion, respectively, of securities financing transactions and other secured receivables were fully collateralized by securities and $2.0 billion and $1.8 billion, respectively, were fully collateralized by cash.

For information about the nature of or payout under trigger events related to written and purchased credit protection contracts see Note 7 to the condensed consolidated financial statements.

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To supplement our regular stress tests, we conduct tailored stress tests on an ad hoc basis in response to specific market events that we deem significant. For example, in response to the Euro area debt crisis, we conducted stress tests intended to estimate the direct and indirect impact that might result from a variety of possible events involving certain European member states, including sovereign defaults and the exit of one or more countries from the Euro area. In the stress tests, described in Market Risk Management Stress Testing and Credit Risk Management Stress Tests/Scenario Analysis, we estimated the direct impact of the event on our credit and market exposures resulting from shocks to risk factors including, but not limited to, currency rates, interest rates, and equity prices. The parameters of these shocks varied based on the scenario reflected in each stress test. We also estimated the indirect impact on our exposures arising from potential market moves in response to the event, such as the impact of credit market deterioration on corporate borrowers and counterparties along with the shocks to the risk factors described above. We reviewed estimated losses produced by the stress tests in order to understand their magnitude, highlight potential loss concentrations, and assess and mitigate our exposures where necessary.

Euro area exit scenarios included analysis of the impacts on exposure that might result from the redenomination of assets in the exiting country or countries. We also tested our operational and risk management readiness and capability to respond to a redenomination event. Constructing stress tests for these scenarios requires many assumptions about how exposures might be directly impacted and how resulting secondary market moves would indirectly impact such exposures. Given the multiple parameters involved in such scenarios, losses from such events are inherently difficult to quantify and may materially differ from our estimates.

See Liquidity Risk Management Modeled Liquidity Outflow, Market Risk Management Stress Testing and Credit Risk Management Stre Tests/Scenario Analysis for further discussion.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management s Discussion and Analysis

Operational Risk Management

Overview

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

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

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

Operational Risk Management Process

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

- the training, supervision and development of our people;

the active participation of senior management in identifying and mitigating key operational risks across the firm;

independent control and support functions that monitor operational risk on a daily basis, and implementation of extensive policies and procedures, and controls designed to prevent the occurrence of operational risk events;

proactive communication between our revenue-producing units and our independent control and support functions; and

a network of systems throughout the firm to facilitate the collection of data used to analyze and assess our operational risk exposure.

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

Our operational risk framework is in part designed to comply with the operational risk measurement rules under Basel II (as well as Basel III) and has evolved based on the changing needs of our businesses and regulatory guidance. Our framework comprises the following practices:

Risk identification and reporting;

Risk measurement; and

Risk monitoring.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management s Discussion and Analysis

Risk Identification and Reporting

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

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

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

Risk Measurement

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

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

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

Risk Monitoring

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management s Discussion and Analysis

Certain Risk Factors That May Affect Our Businesses

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal, regulatory and reputational risks. For a discussion of how management seeks to manage some of these risks, see Overview and Structure of Risk Management. A summary of the more important factors that could affect our businesses follows. For a further discussion of these and other important factors that could affect our businesses, financial condition, results of operations, cash flows and liquidity, see Risk Factors in Part I, Item 1A of the 2013 Form 10-K.

Our businesses have been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.

Our businesses have been and may be adversely affected by declining asset values. This is particularly true for those businesses in which we have net long positions, receive fees based on the value of assets managed, or receive or post collateral.

Our businesses have been and may be adversely affected by disruptions in the credit markets, including reduced access to credit and higher costs of obtaining credit.

Our market-making activities have been and may be affected by changes in the levels of market volatility.

Our investment banking, client execution and investment management businesses have been adversely affected and may continue to be adversely affected by market uncertainty or lack of confidence among investors and CEOs due to general declines in economic activity and other unfavorable economic, geopolitical or market conditions.

Our investment management business may be affected by the poor investment performance of our investment products.

We may incur losses as a result of ineffective risk management processes and strategies.

Our liquidity, profitability and businesses may be adversely affected by an inability to access the debt capital markets or to sell assets or by a reduction in our credit ratings or by an increase in our credit spreads.

Conflicts of interest are increasing and a failure to appropriately identify and address conflicts of interest could adversely affect our businesses.

Group Inc. is a holding company and is dependent for liquidity on payments from its subsidiaries, many of which are subject to restrictions.
Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold.

Concentration of risk increases the potential for significant losses in our market-making, underwriting, investing and lending activities.

The financial services industry is both highly competitive and interrelated.

We face enhanced risks as new business initiatives lead us to transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.

Derivative transactions and delayed settlements may expose us to unexpected risk and potential losses.

Our businesses may be adversely affected if we are unable to hire and retain qualified employees.

Our businesses and those of our clients are subject to extensive and pervasive regulation around the world.

We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, result in the disclosure of confidential information, damage our reputation and cause losses.

Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause us significant reputational harm, which in turn could seriously harm our business prospects.

The growth of electronic trading and the introduction of new trading technology may adversely affect our business and may increase competition.

Our commodities activities, particularly our physical commodities activities, subject us to extensive regulation, potential catastrophic events and environmental, reputational and other risks that may expose us to significant liabilities and costs.

In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks that are inherent in operating in many countries.

We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events or other natural disasters.

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Management s Discussion and Analysis

Available Information

Our internet address is www.gs.com and the investor relations section of our web site is located at www.gs.com/shareholders. We make available free of charge through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934 (Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are our certificate of incorporation and by-laws, charters for our Audit Committee, Risk Committee, Compensation Committee, and Corporate Governance, Nominating and Public Responsibilities Committee, our Policy Regarding Director Independence Determinations, our Policy on Reporting of Concerns Regarding Accounting and Other Matters, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC, we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer.

In addition, our web site includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC s Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time. In addition, we make available on the Investor Relations section of our web site information regarding DFAST results and information on the firm s risk management practices and regulatory capital ratios, as required under the disclosure-related provisions of the Federal Reserve Board s market risk capital rules.

Our Investor Relations Department can be contacted at The Goldman Sachs Group, Inc., 200 West Street, 29th Floor, New York, New York 10282, Attn: Investor Relations, telephone: 212-902-0300, e-mail: gs-investor-relations@gs.com.

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

We have included or incorporated by reference in the March 2014 Form 10-Q, and from time to time our management may make, statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. For a discussion of some of the risks and important factors that could affect our future results and financial condition, see Certain Risk Factors That May Affect Our Businesses above, as well as Risk Factors in Part I, Item 1A of the 2013 Form 10-K.

Statements about our investment banking transaction backlog also may constitute forward-looking statements. Such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues, if any, that we actually earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline or continued weakness in general economic conditions, outbreak of hostilities, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an inability to obtain adequate financing, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. For a discussion of other important factors that could adversely affect our investment banking transactions, see Certain Risk Factors That May Affect Our Businesses above, as well as Risk Factors in Part I, Item 1A of the 2013 Form 10-K.

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Management s Discussion and Analysis

The firm has voluntarily provided in this filing information regarding the firm s capital ratios, including the estimated CET1 ratio under the Advanced approach on a fully phased-in basis and estimated CET1 ratios under the Standardized approach on a fully phased-in and transitional basis, and estimated supplementary leverage ratios for the firm and GS Bank USA. The statements with respect to these estimated ratios are forward-looking statements, based on our current interpretation, expectations and understanding of the relevant regulatory rules and guidance, and reflect

significant assumptions concerning the treatment of various assets and liabilities and the manner in which the ratios are calculated. As a result, the methods used to calculate these ratios may differ, possibly materially, from those used in calculating the ratios for any future voluntary disclosures as well as those used when such ratios are required to be disclosed. The ultimate methods of calculating the ratios will depend on, among other things implementation guidance or further rulemaking from the Agencies and the development of market practices and standards.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages. However, we believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition, but may be material to our operating results for any particular period, depending, in part, upon the operating results for such period. Given the range of litigation and investigations presently under way, our litigation expenses can be expected to remain high. See Management s Discussion and Analysis of Financial Condition and Results of Operations Use of Estimates in Part I, Item 2 of the March 2014 Form 10-Q. See Note 27 to the condensed consolidated financial statements in Part I, Item 1 of the March 2014 Form 10-Q for information about certain judicial, regulatory and legal proceedings.

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

The table below sets forth the information with respect to purchases made by or on behalf of The Goldman Sachs Group, Inc. (Group Inc.) or any affiliated purchaser (as

defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the three months ended March 31, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [1]
Month #1				
(January 1, 2014 to January 31, 2014)	**2,055,345** [2]	**$169.38**	**1,884,401**	**55,301,552**
Month #2				
(February 1, 2014 to February 28, 2014)	**4,880,743** [2]	**163.55**	**4,877,812**	**50,423,740**
Month #3				
(March 1, 2014 to March 31, 2014)	**3,557,556**	**169.52**	**3,557,556**	**46,866,184**
Total	**10,493,644**		**10,319,769**	

1. On March 21, 2000, we announced that the Board of Directors of Group Inc. (Board) had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 430 million shares by resolutions of our Board adopted from June 2001 through April 2013. We use our share repurchase program to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm s current and projected capital position, but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock. The repurchase program has no set expiration or termination date. Any repurchase of our common stock requires approval by the Federal Reserve Board.

2. Includes 170,944 and 2,931 shares remitted by employees in January 2014 and February 2014, respectively, to satisfy minimum statutory withholding taxes on share-based awards that were delivered to employees during the period.

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Item 6. Exhibits

Exhibits

3.1	Restated Certificate of Incorporation of Group Inc. amended as of May 2, 2014.
12.1	Statement re: Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
15.1	Letter re: Unaudited Interim Financial Information.
31.1	Rule 13a-14(a) Certifications.
32.1	Section 1350 Certifications. *
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Earnings for the three months ended March 31, 2014 and March 31, 2013, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2014 and March 31, 2013, (iii) the Condensed Consolidated Statements of Financial Condition as of March 31, 2014 and December 31, 2013, (iv) the Condensed Consolidated Statements of Changes in Shareholders Equity for the three months ended March 31, 2014 and year ended December 31, 2013, (v) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and March 31, 2013, and (vi) the notes to the Condensed Consolidated Financial Statements.

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

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SIGNATURES

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

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Harvey M. Schwartz
Name: Harvey M. Schwartz
Title: Chief Financial Officer

By: /s/ Sarah E. Smith
Name: Sarah E. Smith
Title: Principal Accounting Officer

Date: May 8, 2014