



Consolidated
Statement of
Financial Condition
June 30, 2013

Goldman, Sachs & Co.
Established 1869

**Consolidated Statement of Financial Condition
(Unaudited)****INDEX**

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Consolidated Statement of Financial Condition (Unaudited)

in millions

As of June 2013

Assets	
Cash and cash equivalents	\$ 11,759
Cash and securities segregated for regulatory and other purposes (includes \$30,726 at fair value)	32,832
Collateralized agreements:	
Securities borrowed (includes \$83,035 at fair value)	214,407
Securities purchased under agreements to resell, at fair value	79,472
Receivables from brokers, dealers and clearing organizations	11,219
Receivables from customers and counterparties (includes \$165 at fair value)	19,395
Financial instruments owned, at fair value (includes \$39,750 pledged as collateral)	138,846
Other assets	2,672
Total assets	\$510,602
Liabilities and partners' capital	
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$311 at fair value)	\$ 24,458
Collateralized financings:	
Securities loaned (includes \$35,015 at fair value)	88,998
Securities sold under agreements to repurchase, at fair value	129,101
Other secured financings (includes \$8,659 at fair value)	37,477
Payables to brokers, dealers and clearing organizations	9,669
Payables to customers and counterparties	130,876
Financial instruments sold, but not yet purchased, at fair value	53,450
Other liabilities and accrued expenses	6,061
Unsecured long-term borrowings, at fair value	160
Total liabilities	480,250
Commitments, contingencies and guarantees	
Subordinated borrowings	21,500
Partners' capital	
Partners' capital	8,852
Total partners' capital	8,852
Total liabilities and partners' capital	\$510,602

The accompanying notes are an integral part of this consolidated statement of financial condition.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 1.

Description of Business

Goldman, Sachs & Co. (GS&Co.), a limited partnership registered as a U.S. broker-dealer and futures commission merchant, together with its consolidated subsidiaries (collectively, the firm), is an indirectly wholly owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation. 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.

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

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

This consolidated statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and includes the accounts of GS&Co. and all other entities in which the firm has a controlling financial interest. Intercompany transactions and balances have been eliminated.

This consolidated statement of financial condition is unaudited and should be read in conjunction with the audited consolidated statement of financial condition as of December 31, 2012.

All references to June 2013 refer to the date June 30, 2013. Any reference to a future year refers to a year ending on December 31 of that year.

Notes to Consolidated Statement of Financial Condition (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 and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements, and below and Note 11 for policies on consolidation accounting. All other significant accounting policies are either discussed below or included in the following footnotes:

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Consolidation

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

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

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

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

Notes to Consolidated Statement of Financial Condition (Unaudited)

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.

Use of Estimates

Preparation of this consolidated statement of financial condition requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, 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.

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. 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 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.

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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans and collateral posted in connection with certain derivative transactions. Certain of the firm's receivables from customers and counterparties are accounted for at fair value under the fair value option. Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts. Interest on receivables from customers and counterparties is recognized over the life of the transaction. See Note 8 for further information about receivables from customers and counterparties.

Payables to Customers and Counterparties

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

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

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. 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 consolidated statement 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 consolidated statement of financial condition when such transactions meet certain settlement criteria and are subject to netting agreements.

In the consolidated statement 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 consolidated statement 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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the consolidated statement 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 taxes, in comprehensive income.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business.

Recent Accounting Developments

Disclosures about Offsetting Assets and Liabilities (ASC 210). In December 2011, the FASB issued ASU No. 2011-11, “Balance Sheet (Topic 210) — Disclosures about Offsetting Assets and Liabilities.” ASU No. 2011-11, as amended by ASU 2013-01, “Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,” requires disclosure of the effect or potential effect of offsetting arrangements on the firm’s financial position as well as enhanced disclosure of the rights of setoff associated with the firm’s recognized derivative instruments, resale and repurchase agreements, and securities borrowing and lending transactions. ASU No. 2011-11 was effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption did not affect the firm’s financial condition. See Notes 7 and 9 for further information about the firm’s offsetting and related arrangements.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 4.

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

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are

accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about the fair value option. The table below presents the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value.

<i>in millions</i>	As of June 2013	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Commercial paper and certificates of deposit	\$ 2,563	\$ –
U.S. government and federal agency obligations	75,189	22,479
Non-U.S. government and agency obligations	2,611	1,220
Mortgage and other asset-backed loans and securities:		
Loans and securities backed by commercial real estate	1,969	–
Loans and securities backed by residential real estate	4,035	–
Bank loans	103	2
Corporate debt securities	8,179	2,967
State and municipal obligations	1,617	6
Other debt obligations	742	–
Equities and convertible debentures	28,552	13,954
Derivatives ¹	13,286	12,822
Total	\$138,846	\$53,450

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

Note 5.

Fair Value Measurements

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

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

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

The fair value hierarchy is as follows:

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

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

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

Notes to Consolidated Statement of Financial Condition (Unaudited)

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

See Notes 6 and 7 for further information about fair value measurements of cash instruments and derivatives, respectively, included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value," and Note 8 for further information about fair value measurements of other financial assets and financial liabilities accounted for at fair value under the fair value option.

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

<i>\$ in millions</i>	As of June 2013
Total level 1 financial assets	\$ 79,279
Total level 2 financial assets	250,591
Total level 3 financial assets	4,075
Cash collateral and counterparty netting ¹	(1,701)
Total financial assets at fair value	\$ 332,244
Total assets	\$ 510,602
Total level 3 financial assets as a percentage of Total assets	0.8%
Total level 3 financial assets as a percentage of Total financial assets at fair value	1.2%
Total level 1 financial liabilities	\$ 36,520
Total level 2 financial liabilities	188,200
Total level 3 financial liabilities	2,608
Cash collateral and counterparty netting ¹	(632)
Total financial liabilities at fair value	\$ 226,696
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	1.2%

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

See Notes 6, 7 and 8 for further information about level 3 cash instruments, derivatives and other financial assets and financial liabilities accounted for at fair value under the fair value option, respectively.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 6.

Cash Instruments

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

Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and most non-U.S. government obligations, actively traded listed equities, and certain government agency obligations. 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, most government agency obligations,

certain non-U.S. government obligations, most corporate debt securities, most mortgage-backed loans and securities, bank 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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Valuation Techniques and Significant Inputs

The table below presents the valuation techniques and the

nature of significant inputs generally used to determine the fair values of each type of level 3 cash instrument.

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Loans and securities backed by commercial real estate <ul style="list-style-type: none"> • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination 	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses and include: <ul style="list-style-type: none"> • 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 • Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds) • Recovery rates implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples • Timing of expected future cash flows (duration)
Loans and securities backed by residential real estate <ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination 	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are 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: <ul style="list-style-type: none"> • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral • Market yields implied by transactions of similar or related assets • Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs • Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: <ul style="list-style-type: none"> • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX, LCDX (indices that track the performance of corporate credit and loans, respectively) and MCDX (an index that tracks the performance of municipal obligations) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Equities and convertible debentures (including private equity investments)	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: <ul style="list-style-type: none"> • Industry multiples (primarily EBITDA multiples) and public comparables • Transactions in similar instruments • Discounted cash flow techniques 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: <ul style="list-style-type: none"> • 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

Notes to Consolidated Statement of Financial Condition (Unaudited)

Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. The ranges 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 table 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 June 2013 (in millions)	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average ¹) as of June 2013
Loans and securities backed by commercial real estate	\$ 562	Discounted cash flows:	
<ul style="list-style-type: none"> • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination 		• Basis	(18) points to 19 points (3 points)
Loans and securities backed by residential real estate	\$ 825	Discounted cash flows:	
<ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination 		• Yield	3.4% to 12.1% (5.7%)
		• Cumulative loss rate	0.0% to 55.8% (11.5%)
		• Duration (years) ²	1.6 to 5.2 (3.3)
Non-U.S. government and agency obligations	\$1,827	Discounted cash flows:	
Corporate debt securities		• Yield	1.1% to 24.6% (8.5%)
State and municipal obligations		• Recovery rate ³	0.0% to 70.0% (63.1%)
Other debt obligations		• Duration (years) ²	0.6 to 10.1 (4.4)
Equities and convertible debentures (including private equity investments)	\$ 554 ⁴	Comparable multiples:	
		• Multiples	2.9x to 9.1x (7.3x)
		Discounted cash flows:	
		• Discount rate/yield	10.0% to 18.0% (13.0%)

¹ Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.

² Duration is an estimate of the timing of future cash flows and, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

³ Recovery rate is a measure of expected future cash flows in a default scenario, expressed as a percentage of notional or face value of the instrument, and reflects the benefit of credit enhancement on certain instruments.

⁴ 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, 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, or multiples, 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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Fair Value of Cash Instruments by Level

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

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

<i>in millions</i>	Cash Instrument Assets at Fair Value as of June 2013			
	Level 1	Level 2	Level 3	Total
Commercial paper and certificates of deposit	\$ –	\$ 2,563	\$ –	\$ 2,563
U.S. government and federal agency obligations	29,556	45,633	–	75,189
Non-U.S. government and agency obligations	1,633	962	16	2,611
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate	–	1,407	562	1,969
Loans and securities backed by residential real estate	–	3,210	825	4,035
Bank loans	–	103	–	103
Corporate debt securities ²	18	7,030	1,131	8,179
State and municipal obligations	–	1,313	304	1,617
Other debt obligations	–	366	376	742
Equities and convertible debentures	26,238	1,760	554 ³	28,552
Total	\$57,445	\$64,347	\$3,768	\$125,560

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of June 2013			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$22,215	\$ 264	\$ –	\$ 22,479
Non-U.S. government and agency obligations	465	755	–	1,220
Bank loans	–	2	–	2
Corporate debt securities	2	2,956	9	2,967
State and municipal obligations	–	6	–	6
Equities and convertible debentures	13,695	259	–	13,954
Total	\$36,377	\$ 4,242	\$ 9	\$ 40,628

¹ Includes \$317 million and \$404 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.

² Includes \$163 million and \$982 million of CDOs backed by corporate obligations in level 2 and level 3, respectively.

³ Includes \$313 million of private equity investments and \$241 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 six months ended June 2013, transfers into level 2 from level 1 of cash instruments were \$9 million, reflecting transfers of public equity securities due to decreased market activity in these instruments. During the six months ended June 2013, transfers into level 1 from level 2 of cash instruments were \$72 million, reflecting transfers of public equity securities, primarily reflecting increased market activity in these instruments. Transfers into level 3 during the

six months ended June 2013 primarily reflected transfers from level 2 of certain loans and securities backed by residential real estate and corporate debt securities, principally due to a lack of market transactions in these instruments. Transfers out of level 3 during the six months ended June 2013 primarily reflected transfers of loans and securities backed by commercial real estate and other debt obligations to level 2, principally due to increased transparency of market prices as a result of market transactions in these instruments.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 7.

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

Risk Management. The firm also enters into derivatives to actively manage risk exposures that arise from market-making and investing and lending activities in derivative and cash instruments. The firm's holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. The offsetting impact of this economic hedging is reflected in the same business segment as the related revenues.

The firm enters into various types of derivatives, including:

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

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

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

<i>in millions</i>	As of June 2013	
	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 3,249	\$ 2,281
OTC	10,037	10,541
Total	\$13,286	\$12,822

Notes to Consolidated Statement of Financial Condition (Unaudited)

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 netting and cash collateral that have been offset in the consolidated statement of financial condition, as well as cash and securities collateral posted and received under enforceable credit support

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

<i>in millions</i>	As of June 2013		
	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives			
Interest rates	\$24,057	\$22,697	\$3,867,277
Exchange-traded	105	142	1,179,032
OTC-cleared	9	-	529
Bilateral OTC	23,943	22,555	2,687,716
Credit	2,117	2,197	303,441
OTC-cleared	-	3	50
Bilateral OTC	2,117	2,194	303,391
Currencies	8,148	8,069	1,775,761
Exchange-traded	10	30	4,677
Bilateral OTC	8,138	8,039	1,771,084
Commodities	313	516	5,859
Exchange-traded	2	2	1,234
Bilateral OTC	311	514	4,625
Equities	33,230	32,853	1,654,286
Exchange-traded	5,722	4,697	538,940
OTC-cleared	5	2	261
Bilateral OTC	27,503	28,154	1,115,085
Gross fair value/notional amount of derivatives	\$67,865¹	\$66,332	\$7,606,624
Amounts that have been offset in the consolidated statement of financial condition			
Counterparty netting	(52,903)	(52,903)	
Exchange-traded	(2,590)	(2,590)	
Bilateral OTC	(50,313)	(50,313)	
Cash collateral	(1,676)	(607)	
Bilateral OTC	(1,676)	(607)	
Fair value included in financial instruments owned/financial instruments sold, but not yet purchased	\$13,286	\$12,822	
Amounts that have not been offset in the consolidated statement of financial condition			
Cash collateral received/posted	(10)	(250)	
Securities collateral received/posted	(2,176)	-	
Total	\$11,100	\$12,572	

¹ Includes derivative assets and derivative liabilities of \$10.05 billion and \$11.30 billion, respectively, as of June 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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Valuation Techniques for Derivatives

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

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

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

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

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

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

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

Level 1 Derivatives

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

Level 2 Derivatives

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.

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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

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, 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.

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 or its counterparties to deliver or repledge collateral received or posted. 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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 derivatives. These ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. The ranges, 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 table below for equity derivatives is appropriate for valuing a specific credit derivative but may not be appropriate for valuing any other equity 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 June 2013 (in millions)	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Average / Median) ¹ as of June 2013
Credit	\$ 130 ²	Option pricing models, correlation models and discounted cash flows models: Correlation ³	68% to 70% (68% / 68%)
		Credit spreads	15 basis points (bps) to 528 bps (76 bps / 70 bps)
		Recovery rates	60% to 70% (69% / 70%)
Equities	\$ (2,088)	Option pricing models: Correlation ³	58% to 99% (84% / 88%)
		Volatility	14% to 72% (30% / 25%)

¹ 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.

² 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.

³ The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (35)% to 68% (Average: 6% / Median: 13%) as of June 2013.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Range of Significant Unobservable Inputs

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

- **Correlation:** Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of a commodity price and a foreign exchange rate), as well as across regions. Generally, cross-asset correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.
- **Volatility:** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.
- **Credit spreads and recovery rates:** The ranges for credit spreads 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.

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., credit spreads 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 and recovery rates:** In general, the fair value of purchased credit protection increases as credit spreads increase or recovery rates decrease. Credit spreads 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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Fair Value of Derivatives by Level

The tables below present the fair value of derivatives on a gross basis by level and major product type. Gross fair values

exclude the effects of both counterparty netting and collateral, and therefore are not representative of the firm's exposure.

<i>in millions</i>	Derivative Assets at Fair Value as of June 2013				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$ 11	\$ 24,017	\$ 29	\$ –	\$24,057
Credit	–	1,385	732	–	2,117
Currencies	–	8,145	3	–	8,148
Commodities	–	312	1	–	313
Equities	74	32,575	581	–	33,230
Gross fair value of derivative assets	85	66,434	1,346	–	67,865
Counterparty netting ¹	–	(51,839)	(1,039)	(25) ²	(52,903)
Subtotal	\$ 85	\$ 14,595	\$ 307	\$(25)	\$14,962
Cash collateral ³					(1,676)
Fair value included in financial instruments owned					\$13,286

<i>in millions</i>	Derivative Liabilities at Fair Value as of June 2013				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$ 11	\$ 22,623	\$ 63	\$ –	\$22,697
Credit	–	1,595	602	–	2,197
Currencies	–	8,066	3	–	8,069
Commodities	–	515	1	–	516
Equities	132	30,052	2,669	–	32,853
Gross fair value of derivative liabilities	143	62,851	3,338	–	66,332
Counterparty netting ¹	–	(51,839)	(1,039)	(25) ²	(52,903)
Subtotal	\$143	\$ 11,012	\$2,299	\$(25)	\$13,429
Cash collateral ³					(607)
Fair value included in financial instruments sold, but not yet purchased					\$12,822

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

² Represents the netting of receivable balances with payable balances for the same counterparty across levels of the fair value hierarchy under enforceable netting agreements.

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

Notes to Consolidated Statement of Financial Condition (Unaudited)

Derivatives with Credit-Related Contingent Features

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

<i>in millions</i>	As of June 2013
Net derivative liabilities under bilateral agreements	\$ 306
Collateral posted	4
Additional collateral or termination payments for a one-notch downgrade	6
Additional collateral or termination payments for a two-notch downgrade	11

Credit Derivatives

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

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

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

payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.

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

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

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

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

Notes to Consolidated Statement of Financial Condition (Unaudited)

As of June 2013, written and purchased credit derivatives had total gross notional amounts of \$70.77 billion and \$80.95 billion, respectively, for total net notional purchased protection of \$10.18 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		
	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)
<i>\$ in millions</i>									
As of June 2013									
Credit spread on underlying (basis points)									
0-250	\$14,756	\$39,848	\$11,460	\$66,064	\$62,205	\$13,335	\$1,294	\$507	\$787
251-500	87	2,565	47	2,699	2,508	669	91	17	74
501-1,000	262	798	175	1,235	1,204	176	22	19	3
Greater than 1,000	148	570	56	774	738	112	21	119	(98)
Total	\$15,253	\$43,781	\$11,738	\$70,772	\$66,655	\$14,292	\$1,428	\$662	\$766

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

² This purchased protection represents the notional amount of purchased credit derivatives in excess of the notional amount included in "Offsetting Purchased Credit Derivatives."

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 8. Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

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

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

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

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. 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 and resale agreements;
- securities borrowed and loaned consisting of certain firm financing activities;
- certain unsecured short-term borrowings, consisting of all promissory notes;
- certain unsecured long-term borrowings;
- certain receivables from customers and counterparties, consisting of certain margin loans; and
- certain other secured financings.

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

See below for information about the significant inputs used to value other financial assets and financial liabilities at fair value, including significant unobservable inputs used to value the level 3 instruments within these categories.

**Notes to Consolidated Statement of Financial Condition
(Unaudited)**

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are collateral funding spreads, the amount and timing of expected future cash flows and interest rates. See Note 9 for further information about collateralized agreements.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, collateral funding spreads, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. The significant unobservable input used to value level 3 other secured financings as of June 2013 is as follows:

- Funding spreads: 29 bps

Generally, increases in funding spreads, in isolation, would result in a lower fair value measurement.

See Note 9 for further information about collateralized financings.

Unsecured Short-term and Long-Term Borrowings.

The significant inputs to the valuation of unsecured short-term and long-term borrowings at fair value are the amount and timing of expected future cash flows, interest rates, as well as the credit spreads of the firm. See Notes 13 and 14 for further information about unsecured short-term and long-term borrowings, respectively.

Receivables from Customers and Counterparties.

Receivables from customers and counterparties at fair value are primarily comprised of certain margin loans. The significant inputs to the valuation of such receivables are interest rates, the amount and timing of expected future cash flows and funding spreads.

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 June 2013.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Fair Value of Other Financial Assets and Financial Liabilities by Level

accounted for at fair value primarily under the fair value option.

The tables below present, by level within the fair value hierarchy, other financial assets and financial liabilities

<i>in millions</i>	Other Financial Assets at Fair Value as of June 2013			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$21,749	\$ 8,977	\$ –	\$ 30,726
Securities borrowed	–	83,035	–	83,035
Securities purchased under agreements to resell	–	79,472	–	79,472
Receivables from customers and counterparties	–	165	–	165
Total	\$21,749	\$171,649	\$ –	\$193,398

<i>in millions</i>	Other Financial Liabilities at Fair Value as of June 2013			
	Level 1	Level 2	Level 3	Total
Unsecured short-term borrowings	\$ –	\$ 311	\$ –	\$ 311
Securities loaned	–	35,015	–	35,015
Securities sold under agreements to repurchase	–	129,101	–	129,101
Other secured financings	–	8,359	300	8,659
Unsecured long-term borrowings	–	160	–	160
Total	\$ –	\$172,946	\$300	\$173,246

¹ Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes \$21.75 billion of level 1 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, primarily consisting of U.S. Treasury securities.

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 and between level 2 and level 3 during the six months ended June 2013.

Notes to Consolidated Statement of Financial Condition (Unaudited)

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.

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

<i>in millions</i>	As of June 2013
Securities borrowed ¹	\$214,407
Securities purchased under agreements to resell ²	79,472
Securities loaned ¹	88,998
Securities sold under agreements to repurchase ²	129,101

¹ As of June 2013, \$83.04 billion of securities borrowed, and \$35.02 billion of securities loaned were at fair value.

² Resale and repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.

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 consolidated statement 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 June 2013.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Securities Borrowed and Loaned Transactions

In a securities borrowed transaction, the firm borrows securities from a counterparty in exchange for cash. When the firm returns the securities, the counterparty returns the cash. Interest is generally paid periodically over the life of the transaction. Interest as affected by rebates on securities borrowed transactions is recognized as interest income on an accrual basis.

In a securities loaned transaction, the firm lends securities to a counterparty typically in exchange for cash or securities, or a letter of credit. When the counterparty returns the securities, the firm returns the cash or securities posted as collateral. Interest is generally paid periodically over the life of the transaction. Interest as affected by rebates for securities loaned transactions is recognized as interest expense on an accrual basis.

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 consisting of the firm's matched book and certain firm financing activities, 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.

All other securities borrowed and loaned 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 carried at fair value and included in the firm's fair value hierarchy, they would have been classified in level 2 as of June 2013.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Offsetting Arrangements

The table below presents 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 consolidated statement of financial condition. Substantially all of the gross carrying values of these arrangements are subject to enforceable netting agreements. The table below also presents the

amounts not offset in the consolidated statement 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 table below.

	As of June 2013			
	Assets		Liabilities	
<i>in millions</i>	Securities borrowed	Securities purchased under agreements to resell	Securities loaned	Securities sold under agreements to repurchase
Amounts included in the consolidated statement of financial condition				
Gross carrying value	\$ 217,886	\$ 123,872	\$ 88,998	\$ 168,003
Counterparty netting	–	(38,902)	–	(38,902)
Total	217,886¹	84,970¹	88,998	129,101
Amounts that have not been offset in the consolidated statement of financial condition				
Counterparty netting	(74,629)	(14,502)	(74,629)	(14,502)
Collateral	(124,289)	(60,813)	(13,477)	(82,154)
Total	\$ 18,968	\$ 9,655	\$ 892	\$ 32,445

¹ As of June 2013, the firm had \$3.48 billion of securities borrowed transactions and \$5.50 billion of securities received under resale agreements that were segregated to satisfy certain regulatory requirements. These securities are included in "Cash and securities segregated for regulatory and other purposes."

Notes to Consolidated Statement of Financial Condition (Unaudited)

Other Secured Financings

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

- intercompany financings;
- liabilities of consolidated VIEs; and
- other structured financing arrangements.

Other secured financings include arrangements that are nonrecourse. As of June 2013, nonrecourse other secured financings were \$101 million.

The firm has elected to apply the fair value option to certain 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 June 2013.

The table below presents other secured financings by maturity.

<i>in millions</i>	As of June 2013
Other secured financings (short-term) ¹ :	\$35,634
Other secured financings (long-term):	
2014	1,533
2015	250
2016	–
2017	–
2018	–
2019-thereafter	60
Total other secured financings (long-term)	1,843
Total other secured financings	\$37,477

¹ The weighted average interest rate was 1.03% as of June 2013.

Notes to Consolidated Statement of Financial Condition (Unaudited)

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 these 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, in connection with other secured financings to counterparties who may or may not have the right to deliver or repledge them.

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

<i>in millions</i>	As of June 2013
Collateral available to be delivered or repledged	\$451,776
Collateral that was delivered or repledged	355,538

The table below presents information about assets pledged by the firm.

<i>in millions</i>	As of June 2013
Financial instruments owned, at fair value pledged to counterparties that:	
Had the right to deliver or repledge	\$ 39,750
Did not have the right to deliver or repledge	62,193

Note 10.

Securitization Activities

The firm securitizes residential mortgages, corporate bonds 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 resale. 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.

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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

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

During the six months ended June 2013, the firm securitized \$14.14 billion of financial assets in which the firm had continuing involvement, all related to residential mortgages, substantially all in connection with government agency securitizations.

The table below presents the firm's continuing involvement in nonconsolidated securitization entities to which the firm sold

assets, as well as the total outstanding principal amount of transferred assets in which the firm has continuing involvement. In this table:

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

	As of June 2013		
<i>in millions</i>	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests
U.S. government agency-issued collateralized mortgage obligations ¹	\$57,483	\$3,178	\$-
Other residential mortgage-backed ²	242	41	-
CDOs, CLOs and other ³	4,915	75	7
Total	\$62,640	\$3,294	\$7

¹ Outstanding principal amount and fair value of retained interests primarily relate to securitizations during 2013 and 2012.

² Outstanding principal amount and fair value of retained interests primarily relate to prime securitizations during 2009.

³ Outstanding principal amount and fair value of retained interests primarily relate to CDOs and collateralized loan obligations (CLOs) securitizations during 2007 and 2006.

Notes to Consolidated Statement of Financial Condition (Unaudited)

In addition to the interests in the table above, the firm had other continuing involvement in the form of derivative transactions and guarantees with certain nonconsolidated VIEs. The carrying value of these derivatives was a net liability of less than \$1 million as of June 2013. The notional amounts of these derivatives are included in maximum exposure to loss in the nonconsolidated VIE tables in Note 11.

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

	As of June 2013	
	Type of Retained Interests	
	Mortgage-Backed	Other ¹
<i>\$ in millions</i>		
Fair value of retained interests	\$3,219	\$ 75
Weighted average life (years)	9.6	1.3
Constant prepayment rate ²	6.6%	N.M.
Impact of 10% adverse change ²	\$ (26)	N.M.
Impact of 20% adverse change ²	(50)	N.M.
Discount rate ³	4.1%	N.M.
Impact of 10% adverse change	\$ (80)	N.M.
Impact of 20% adverse change	(160)	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 June 2013. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$75 million as of June 2013.

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

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

The preceding table does not give effect to the offsetting benefit of other financial instruments that are held to mitigate risks inherent in these retained interests. Changes in fair value based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear.

In addition, the impact of a change in a particular assumption in the preceding table is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

Notes to Consolidated Statement of Financial Condition (Unaudited)

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 mortgage securities to mortgage-backed VIEs and corporate bonds 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.

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 commercial mortgage-backed and other asset-backed securitization entities. 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;

Notes to Consolidated Statement of Financial Condition (Unaudited)

- 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 table below presents 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 table 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, the maximum exposure to loss is the carrying value of these interests.
- For 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 derivatives provided to VIEs.

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

- All assets held by the firm related to mortgage-backed, corporate CDO and CLO, real estate, credit-related and other investing, other asset-backed and investment fund VIEs are included in "Financial instruments owned, at fair value."

Nonconsolidated VIEs					
As of June 2013					
<i>in millions</i>	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Total
Assets in VIE	\$73,590¹	\$12,600	\$1,298	\$1,722	\$89,210
Carrying Value of the Firm's Variable Interests					
Assets	4,315	459	75	108	4,957
Maximum Exposure to Loss in Nonconsolidated VIEs					
Retained and purchased interests	4,305	459	–	108	4,872
Derivatives ²	–	373	–	–	373
Loans and investments	10	–	75	–	85
Total	\$ 4,315	\$ 832	\$ 75	\$ 108	\$ 5,330

¹ Assets in VIE and maximum exposure to loss include \$4.37 billion and \$348 million, respectively, as of June 2013, related to CDOs backed by mortgage obligations.

² The aggregate amounts include \$373 million as of June 2013, related to derivative transactions with VIEs to which the firm transferred assets.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Consolidated VIEs

The table below presents 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.

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

The table below excludes 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 CDOs, mortgage-backed and other asset-backed VIEs do not have recourse to the general credit of the firm.

	Consolidated VIEs
	As of June 2013
	CDOs, mortgage-backed and other asset-backed
<i>in millions</i>	
Assets	
Financial instruments owned, at fair value	\$101
Total	\$101
Liabilities	
Other secured financings	\$ 92
Total	\$ 92

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 12.

Other Assets

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

<i>in millions</i>	As of June 2013
Property, leasehold improvements and equipment ¹	\$ 899
Income tax-related assets ²	1,326
Goodwill and identifiable intangible assets ³	245
Miscellaneous receivables and other	202
Total	\$ 2,672

¹ Net of accumulated depreciation and amortization of \$4.51 billion as of June 2013.

² See Note 18 for further information about income taxes.

³ As of June 2013, the net carrying amount of the firm's goodwill and identifiable intangible assets was \$50 million and \$195 million, respectively. Identifiable intangible assets were recorded net of accumulated amortization of \$976 million. These intangible assets include the firm's exchange-traded fund lead market maker rights, NYSE designated market maker rights and customer lists.

Property, Leasehold Improvements and Equipment

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

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

Identifiable Intangible Assets

The firm's identifiable intangible assets are considered to have finite lives and are amortized over their estimated lives.

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.

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

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

Goodwill

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

Goodwill is assessed annually for impairment or more frequently if events occur or circumstances change that indicate an impairment may exist.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 13. Short-Term Borrowings

Short-term borrowings were comprised of the following:

<i>in millions</i>	As of June 2013
Other secured financings (short-term)	\$35,634
Unsecured short-term borrowings	24,458
Total	\$60,092

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 obtains unsecured short-term borrowings primarily from Group Inc. In addition, the firm also obtains unsecured short-term borrowings through issuing promissory notes, commercial paper and certain hybrid financial instruments which are accounted for 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 June 2013.

The table below presents unsecured short-term borrowings.

<i>in millions</i>	As of June 2013
Current portion of unsecured long-term borrowings	\$ 25
Promissory notes	310
Borrowings from affiliates	24,088
Other short-term borrowings	35
Total	\$24,458

Note 14. Long-Term Borrowings

Long-term borrowings were comprised of the following:

<i>in millions</i>	As of June 2013
Other secured financings (long-term)	\$ 1,843
Unsecured long-term borrowings	160
Total	\$ 2,003

See Note 9 for further information about other secured financings.

Subordinated Borrowings

As of June 2013, the firm had outstanding borrowings of \$5.00 billion from Group Inc. under four subordinated loan agreements, which mature in 2014. In addition, the firm has a \$20.11 billion revolving subordinated loan agreement with Group Inc., which also matures in 2014. As of June 2013, \$16.50 billion was drawn down under this agreement.

Amounts borrowed under these subordinated loan agreements bear interest at a rate of LIBOR plus .75% per annum. The carrying value of these borrowings approximates fair value.

The subordinated borrowings from Group Inc. are available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the firm's continued compliance with minimum net capital requirements, they may not be repaid.

Note 15. Other Liabilities and Accrued Expenses

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

<i>in millions</i>	As of June 2013
Compensation and benefits	\$2,652
Income tax-related liabilities ¹	1,855
Accrued expenses and other	1,554
Total	\$6,061

¹ See Note 18 for further information about income taxes.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 16.

Commitments, Contingencies and Guarantees

Commitments

The table below presents the firm's commitments.

<i>in millions</i>	Commitment Amount by Period of Expiration as of June 2013				Total Commitments as of June 2013
	Remainder of 2013	2014- 2015	2016- 2017	2018- Thereafter	
Commitments to extend credit ¹	\$ 100	\$ –	\$33	\$–	\$ 133
Contingent and forward starting resale and securities borrowing agreements ²	7,769	–	–	–	7,769
Forward starting repurchase and secured lending agreements ²	4,862	–	–	–	4,862
Letters of credit ³	–	1	–	–	1
Other	161	50	6	2	219
Total commitments	\$12,892	\$51	\$39	\$2	\$12,984

¹ Commitments to extend credit are presented net of amounts syndicated to third parties.

² These agreements generally settle within three business days.

³ Consists of commitments under letters of credit issued by various banks which the firm provides to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements.

Commitments to Extend Credit

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

The firm generally accounts for commitments to extend credit at fair value.

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

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

all contractual conditions to the resale agreement and these commitments can expire unused.

Leases

The firm has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2018. 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.

<i>in millions</i>	As of June 2013
Remainder of 2013	\$ 2
2014	4
2015	4
2016	4
2017	4
2018	2
Total	\$20

Notes to Consolidated Statement of Financial Condition (Unaudited)

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

Contingencies

Legal Proceedings. See Note 20 for information about legal proceedings

Guarantees

The firm enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. Disclosures about derivatives are not required if they may be cash settled and the firm has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of

the contract. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties, central clearing counterparties and certain other counterparties. Accordingly, the firm has not included such contracts in the table below.

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

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

	As of June 2013					Total
	Carrying Value of Net Liability	Maximum Payout/Notional Amount by Period of Expiration				
<i>in millions</i>		Remainder of 2013	2014- 2015	2016- 2017	2018- Thereafter	
Derivatives ¹	\$21	\$523	\$935	\$769	\$90	\$2,317

¹ These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore these amounts do not reflect the firm's overall risk related to its derivative activities.

**Notes to Consolidated Statement of Financial Condition
(Unaudited)**

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 consolidated statement of financial condition as of June 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 consolidated statement of financial condition as of June 2013.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 17. Transactions with Related Parties

The firm enters into transactions with Group Inc. and affiliates in the normal course of business as part of market-making and general operations.

Amounts payable to, and receivable from, such affiliates are reflected in the consolidated statement of financial condition as of June 30, 2013, as set forth below:

<i>in millions</i>	As of June 2013
Assets	
Collateralized agreements:	
Securities borrowed (includes \$38,564 at fair value)	\$ 78,037
Securities purchased under agreements to resell, at fair value	16,754
Receivables from brokers, dealers and clearing organizations	6,593
Receivables from customers and counterparties	750
Financial instruments owned, at fair value ¹	3,582
Other assets	1
Liabilities	
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	\$ 24,087
Collateralized agreements:	
Securities loaned (includes \$35,009 at fair value)	80,388
Securities sold under agreements to repurchase, at fair value	25,285
Other secured financings	28,818
Payables to brokers, dealers and clearing organizations	7,197
Payables to customers and counterparties	6,176
Financial instruments sold, but not yet purchased, at fair value ²	1,201
Unsecured long-term borrowings, at fair value	160
Subordinated borrowings	21,500

¹ The firm, from time to time, makes markets in debt issued by Group Inc. and certain affiliates. Included in "Financial instruments owned, at fair value" are \$1.31 billion of such issuances and \$2.25 billion of intercompany derivative contracts.

² Consists of intercompany derivative contracts.

The firm recognized interest income and expense in connection with securities borrowed, securities loaned, securities purchased under agreements to resell, securities sold under agreements to repurchase, unsecured short and long term borrowings, other secured financings and subordinated borrowings from Group Inc.

The firm receives and provides operational and administrative support and management services to affiliates and allocates costs for the services provided.

The firm enters into various types of activities with affiliates and allocates revenues to, and receives revenues from, such affiliates for their participation.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 18.

Income Taxes

Provision for Income Taxes

Effective November 29, 2003, GS&Co. elected to be taxed as a corporation for U.S. federal income tax purposes. As a corporation, for tax purposes, the firm is subject to U.S. federal and various state and local income taxes on its earnings. The firm is also subject to taxes in foreign jurisdictions on certain of its operations. The firm is included with Group Inc. and subsidiaries in the consolidated corporate federal tax return as well as the consolidated/combined state and local returns. The firm computes its tax liability as if it was filing a tax return on a modified separate company basis and settles such liability with Group Inc. pursuant to the tax sharing agreement. To the extent the firm generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to the tax sharing agreement. During 2012 the firm's method of allocating state and local income tax liability was modified to reflect its share of the consolidated/combined state and local income tax liability. This change did not have a material effect on the statement of financial condition.

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.

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. During the six months ended June 2013, the firm did not record a valuation allowance to reduce deferred tax assets. Tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively.

The table below presents the significant components of deferred tax assets and liabilities.

<i>in millions</i>	As of June 2013
Deferred tax assets	
Compensation and benefits	\$ 971
Unrealized losses	144
ASC 740 asset related to unrecognized tax benefits	65
Other, net	362
Total deferred tax assets	\$1,542
Depreciation and amortization	249
Total deferred tax liabilities	\$ 249

Unrecognized Tax Benefits

The firm recognizes tax positions in the consolidated statement of financial condition 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 statement of financial condition. As of June 2013, the firm recorded a liability of \$161 million related to uncertainty in income taxes. In addition, the accrued liability for interest expense related to income tax matters was \$25 million as of June 2013.

Regulatory Tax Examinations

All years subsequent to and including 2005 for U.S. Federal and 2004 for New York State and City remain open to examination by the taxing authorities.

In January 2013, Group Inc. was accepted into the Compliance Assurance Process program by the IRS. This program will allow Group Inc. to work with the IRS to identify and resolve potential U.S. Federal tax issues before the filing of tax returns. The 2013 tax return will be the first return examined under this program.

Notes to Consolidated Statement of Financial Condition (Unaudited)

Note 19.

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.

<i>in millions</i>	As of June 2013
U.S. government and federal agency obligations ¹	\$96,129
% of total assets	18.8%

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

As of June 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.

<i>in millions</i>	As of June 2013
U.S. government and federal agency obligations	\$108,122
Non-U.S. government and agency obligations ¹	61,045

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

Note 20.

Legal Proceedings

The firm is involved in a number of judicial, regulatory and arbitration proceedings 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.

Notes to Consolidated Statement of Financial Condition (Unaudited)

With respect to matters 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 June 2013 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 June 2013, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such matters where management has been able to estimate a range of reasonably possible aggregate loss to be approximately \$3.4 billion in excess of the aggregate reserves for such matters. Because more than one Group Inc. subsidiary may be named in a particular proceeding, the sum of the upper end of the range of reasonably possible loss amounts for all Group Inc. subsidiaries will not equal the upper end of the range of the consolidated reasonably possible loss reported by Group Inc. in its financial statements.

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 threatened 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, (iii) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) there are novel legal issues presented. However, in these cases, 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.

Note 21.

Net Capital Requirements

GS&Co. is a registered U.S. broker-dealer and futures commission merchant subject to Rule 15c3-1 of the Securities and Exchange Commission (SEC) and Rule 1.17 of the Commodity Futures Trading Commission (CFTC), which

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. has elected to compute net capital in accordance with the "Alternative Net Capital Requirement," as permitted by Rule 15c3-1. As of June 2013, GS&Co. has regulatory net capital, as defined by Rule 15c3-1, of \$13.99 billion, which exceeded the amount required by \$11.97 billion. Certain other subsidiaries of GS&Co. are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of June 2013, these subsidiaries were in compliance with their local capital adequacy requirements. As of June 2013, GS&Co. made a computation related to the reserve requirement for Proprietary Accounts of Introducing Brokers (PAIB) that indicated the firm's PAIB credits exceed its PAIB debits. The amount held on deposit in the reserve bank at June 2013 was \$217 million.

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 June 2013, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

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. In December 2012, the firm registered as a "swap dealer" under the CFTC rules. The firm will be subject to regulatory capital requirements, which have not yet been finalized by the CFTC and SEC.

Note 22.

Subsequent Events

Management has evaluated whether any events or transactions occurred subsequent to the date of the statement of financial condition and through September 3, 2013, and determined that there were no material events or transactions that would require recognition or disclosure in this consolidated statement of financial condition.