

Consolidated Statements of Earnings

| <i>in millions, except per share amounts</i> | Year Ended December | | |
|---|---------------------|-----------------|-----------------|
| | 2013 | 2012 | 2011 |
| Revenues | | | |
| Investment banking | \$ 6,004 | \$ 4,941 | \$ 4,361 |
| Investment management | 5,194 | 4,968 | 4,691 |
| Commissions and fees | 3,255 | 3,161 | 3,773 |
| Market making | 9,368 | 11,348 | 9,287 |
| Other principal transactions | 6,993 | 5,865 | 1,507 |
| Total non-interest revenues | 30,814 | 30,283 | 23,619 |
| Interest income | 10,060 | 11,381 | 13,174 |
| Interest expense | 6,668 | 7,501 | 7,982 |
| Net interest income | 3,392 | 3,880 | 5,192 |
| Net revenues, including net interest income | 34,206 | 34,163 | 28,811 |
| Operating expenses | | | |
| Compensation and benefits | 12,613 | 12,944 | 12,223 |
| Brokerage, clearing, exchange and distribution fees | 2,341 | 2,208 | 2,463 |
| Market development | 541 | 509 | 640 |
| Communications and technology | 776 | 782 | 828 |
| Depreciation and amortization | 1,322 | 1,738 | 1,865 |
| Occupancy | 839 | 875 | 1,030 |
| Professional fees | 930 | 867 | 992 |
| Insurance reserves | 176 | 598 | 529 |
| Other expenses | 2,931 | 2,435 | 2,072 |
| Total non-compensation expenses | 9,856 | 10,012 | 10,419 |
| Total operating expenses | 22,469 | 22,956 | 22,642 |
| Pre-tax earnings | 11,737 | 11,207 | 6,169 |
| Provision for taxes | 3,697 | 3,732 | 1,727 |
| Net earnings | 8,040 | 7,475 | 4,442 |
| Preferred stock dividends | 314 | 183 | 1,932 |
| Net earnings applicable to common shareholders | \$ 7,726 | \$ 7,292 | \$ 2,510 |
| Earnings per common share | | | |
| Basic | \$ 16.34 | \$ 14.63 | \$ 4.71 |
| Diluted | 15.46 | 14.13 | 4.51 |
| Average common shares outstanding | | | |
| Basic | 471.3 | 496.2 | 524.6 |
| Diluted | 499.6 | 516.1 | 556.9 |

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

Consolidated Statements of Comprehensive Income

| <i>in millions</i> | Year Ended December | | |
|--|---------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| Net earnings | \$8,040 | \$7,475 | \$4,442 |
| Other comprehensive income/(loss) adjustments, net of tax: | | | |
| Currency translation | (50) | (89) | (55) |
| Pension and postretirement liabilities | 38 | 168 | (145) |
| Available-for-sale securities | (327) | 244 | (30) |
| Cash flow hedges | 8 | — | — |
| Other comprehensive income/(loss) | (331) | 323 | (230) |
| Comprehensive income | \$7,709 | \$7,798 | \$4,212 |

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

Consolidated Statements of Financial Condition

| <i>in millions, except share and per share amounts</i> | As of December | |
|--|------------------|------------------|
| | 2013 | 2012 |
| Assets | | |
| Cash and cash equivalents | \$ 61,133 | \$ 72,669 |
| Cash and securities segregated for regulatory and other purposes (includes \$31,937 and \$30,484 at fair value as of December 2013 and December 2012, respectively) | 49,671 | 49,671 |
| Collateralized agreements: | | |
| Securities purchased under agreements to resell and federal funds sold (includes \$161,297 and \$141,331 at fair value as of December 2013 and December 2012, respectively) | 161,732 | 141,334 |
| Securities borrowed (includes \$60,384 and \$38,395 at fair value as of December 2013 and December 2012, respectively) | 164,566 | 136,893 |
| Receivables from brokers, dealers and clearing organizations | 23,840 | 18,480 |
| Receivables from customers and counterparties (includes \$7,416 and \$7,866 at fair value as of December 2013 and December 2012, respectively) | 88,935 | 72,874 |
| Financial instruments owned, at fair value (includes \$62,348 and \$67,177 pledged as collateral as of December 2013 and December 2012, respectively) | 339,121 | 407,011 |
| Other assets (includes \$18 and \$13,426 at fair value as of December 2013 and December 2012, respectively) | 22,509 | 39,623 |
| Total assets | \$911,507 | \$938,555 |
| Liabilities and shareholders' equity | | |
| Deposits (includes \$7,255 and \$5,100 at fair value as of December 2013 and December 2012, respectively) | \$ 70,807 | \$ 70,124 |
| Collateralized financings: | | |
| Securities sold under agreements to repurchase, at fair value | 164,782 | 171,807 |
| Securities loaned (includes \$973 and \$1,558 at fair value as of December 2013 and December 2012, respectively) | 18,745 | 13,765 |
| Other secured financings (includes \$23,591 and \$30,337 at fair value as of December 2013 and December 2012, respectively) | 24,814 | 32,010 |
| Payables to brokers, dealers and clearing organizations | 5,349 | 5,283 |
| Payables to customers and counterparties | 199,416 | 189,202 |
| Financial instruments sold, but not yet purchased, at fair value | 127,426 | 126,644 |
| Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$19,067 and \$17,595 at fair value as of December 2013 and December 2012, respectively) | 44,692 | 44,304 |
| Unsecured long-term borrowings (includes \$11,691 and \$12,593 at fair value as of December 2013 and December 2012, respectively) | 160,965 | 167,305 |
| Other liabilities and accrued expenses (includes \$388 and \$12,043 at fair value as of December 2013 and December 2012, respectively) | 16,044 | 42,395 |
| Total liabilities | 833,040 | 862,839 |
| Commitments, contingencies and guarantees | | |
| Shareholders' equity | | |
| Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$7,200 and \$6,200 as of December 2013 and December 2012, respectively | 7,200 | 6,200 |
| Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 837,219,068 and 816,807,400 shares issued as of December 2013 and December 2012, respectively, and 446,359,012 and 465,148,387 shares outstanding as of December 2013 and December 2012, respectively | 8 | 8 |
| Restricted stock units and employee stock options | 3,839 | 3,298 |
| Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding | — | — |
| Additional paid-in capital | 48,998 | 48,030 |
| Retained earnings | 71,961 | 65,223 |
| Accumulated other comprehensive loss | (524) | (193) |
| Stock held in treasury, at cost, par value \$0.01 per share; 390,860,058 and 351,659,015 shares as of December 2013 and December 2012, respectively | (53,015) | (46,850) |
| Total shareholders' equity | 78,467 | 75,716 |
| Total liabilities and shareholders' equity | \$911,507 | \$938,555 |

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

Consolidated Statements of Changes in Shareholders' Equity

| in millions | Year Ended December | | |
|--|---------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| Preferred stock | | | |
| Balance, beginning of year | \$ 6,200 | \$ 3,100 | \$ 6,957 |
| Issued | 1,000 | 3,100 | — |
| Repurchased | — | — | (3,857) |
| Balance, end of year | 7,200 | 6,200 | 3,100 |
| Common stock | | | |
| Balance, beginning of year | 8 | 8 | 8 |
| Issued | — | — | — |
| Balance, end of year | 8 | 8 | 8 |
| Restricted stock units and employee stock options | | | |
| Balance, beginning of year | 3,298 | 5,681 | 7,706 |
| Issuance and amortization of restricted stock units and employee stock options | 2,017 | 1,368 | 2,863 |
| Delivery of common stock underlying restricted stock units | (1,378) | (3,659) | (4,791) |
| Forfeiture of restricted stock units and employee stock options | (79) | (90) | (93) |
| Exercise of employee stock options | (19) | (2) | (4) |
| Balance, end of year | 3,839 | 3,298 | 5,681 |
| Additional paid-in capital | | | |
| Balance, beginning of year | 48,030 | 45,553 | 42,103 |
| Issuance of common stock | — | — | 103 |
| Delivery of common stock underlying share-based awards | 1,483 | 3,939 | 5,160 |
| Cancellation of restricted stock units in satisfaction of withholding tax requirements | (599) | (1,437) | (1,911) |
| Preferred stock issuance costs | (9) | (13) | — |
| Excess net tax benefit/(provision) related to share-based awards | 94 | (11) | 138 |
| Cash settlement of share-based compensation | (1) | (1) | (40) |
| Balance, end of year | 48,998 | 48,030 | 45,553 |
| Retained earnings | | | |
| Balance, beginning of year | 65,223 | 58,834 | 57,163 |
| Net earnings | 8,040 | 7,475 | 4,442 |
| Dividends and dividend equivalents declared on common stock and restricted stock units | (988) | (903) | (769) |
| Dividends declared on preferred stock | (314) | (183) | (2,002) |
| Balance, end of year | 71,961 | 65,223 | 58,834 |
| Accumulated other comprehensive loss | | | |
| Balance, beginning of year | (193) | (516) | (286) |
| Other comprehensive income/(loss) | (331) | 323 | (230) |
| Balance, end of year | (524) | (193) | (516) |
| Stock held in treasury, at cost | | | |
| Balance, beginning of year | (46,850) | (42,281) | (36,295) |
| Repurchased | (6,175) | (4,637) | (6,036) |
| Reissued | 40 | 77 | 65 |
| Other | (30) | (9) | (15) |
| Balance, end of year | (53,015) | (46,850) | (42,281) |
| Total shareholders' equity | \$ 78,467 | \$ 75,716 | \$ 70,379 |

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

Consolidated Statements of Cash Flows

| in millions | Year Ended December | | |
|---|---------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| Cash flows from operating activities | | | |
| Net earnings | \$ 8,040 | \$ 7,475 | \$ 4,442 |
| Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities | | | |
| Depreciation and amortization | 1,322 | 1,738 | 1,869 |
| Deferred income taxes | 29 | (356) | 726 |
| Share-based compensation | 2,015 | 1,319 | 2,849 |
| Gain on sale of hedge fund administration business | — | (494) | — |
| Gain on sale of European insurance business | (211) | — | — |
| Changes in operating assets and liabilities | | | |
| Cash and securities segregated for regulatory and other purposes | (143) | 10,817 | (10,532) |
| Net receivables from brokers, dealers and clearing organizations | (5,313) | (2,838) | (3,780) |
| Net payables to customers and counterparties | 1,631 | (17,661) | 13,883 |
| Securities borrowed, net of securities loaned | (22,698) | 23,031 | 8,940 |
| Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold | (28,971) | 53,527 | 122 |
| Financial instruments owned, at fair value | 51,079 | (48,783) | 5,085 |
| Financial instruments sold, but not yet purchased, at fair value | 933 | (18,867) | 4,243 |
| Other, net | (3,170) | 3,971 | (5,346) |
| Net cash provided by operating activities | 4,543 | 12,879 | 22,501 |
| Cash flows from investing activities | | | |
| Purchase of property, leasehold improvements and equipment | (706) | (961) | (1,184) |
| Proceeds from sales of property, leasehold improvements and equipment | 62 | 49 | 78 |
| Business acquisitions, net of cash acquired | (2,274) | (593) | (431) |
| Proceeds from sales of investments | 2,503 | 1,195 | 2,645 |
| Purchase of available-for-sale securities | (738) | (5,220) | (2,752) |
| Proceeds from sales of available-for-sale securities | 817 | 4,537 | 3,129 |
| Loans held for investment, net | (8,392) | (2,741) | (856) |
| Net cash provided by/(used for) investing activities | (8,728) | (3,734) | 629 |
| Cash flows from financing activities | | | |
| Unsecured short-term borrowings, net | 1,336 | (1,952) | (3,780) |
| Other secured financings (short-term), net | (7,272) | 1,540 | (1,195) |
| Proceeds from issuance of other secured financings (long-term) | 6,604 | 4,687 | 9,809 |
| Repayment of other secured financings (long-term), including the current portion | (3,630) | (11,576) | (8,878) |
| Proceeds from issuance of unsecured long-term borrowings | 30,851 | 27,734 | 29,169 |
| Repayment of unsecured long-term borrowings, including the current portion | (30,473) | (36,435) | (29,187) |
| Derivative contracts with a financing element, net | 874 | 1,696 | 1,602 |
| Deposits, net | 683 | 24,015 | 7,540 |
| Preferred stock repurchased | — | — | (3,857) |
| Common stock repurchased | (6,175) | (4,640) | (6,048) |
| Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units | (1,302) | (1,086) | (2,771) |
| Proceeds from issuance of preferred stock, net of issuance costs | 991 | 3,087 | — |
| Proceeds from issuance of common stock, including stock option exercises | 65 | 317 | 368 |
| Excess tax benefit related to share-based compensation | 98 | 130 | 358 |
| Cash settlement of share-based compensation | (1) | (1) | (40) |
| Net cash provided by/(used for) financing activities | (7,351) | 7,516 | (6,910) |
| Net increase/(decrease) in cash and cash equivalents | (11,536) | 16,661 | 16,220 |
| Cash and cash equivalents, beginning of year | 72,669 | 56,008 | 39,788 |
| Cash and cash equivalents, end of year | \$ 61,133 | \$ 72,669 | \$ 56,008 |

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were \$5.69 billion, \$9.25 billion and \$8.05 billion for 2013, 2012 and 2011, respectively.

Cash payments for income taxes, net of refunds, were \$4.07 billion, \$1.88 billion and \$1.78 billion for 2013, 2012 and 2011, respectively.

Non-cash activities:

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

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

Notes to Consolidated Financial Statements

Note 1.

Description of Business

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

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

Investment Banking

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

Institutional Client Services

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

Investing & Lending

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

Investment Management

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

Note 2.

Basis of Presentation

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

All references to 2013, 2012 and 2011 refer to the firm's years ended, or the dates, as the context requires, December 31, 2013, December 31, 2012 and December 31, 2011, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Note 3.

Significant Accounting Policies

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

| | |
|---|---------|
| Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value | Note 4 |
| Fair Value Measurements | Note 5 |
| Cash Instruments | Note 6 |
| Derivatives and Hedging Activities | Note 7 |
| Fair Value Option | Note 8 |
| Collateralized Agreements and Financings | Note 9 |
| Securitization Activities | Note 10 |
| Variable Interest Entities | Note 11 |
| Other Assets | Note 12 |
| Goodwill and Identifiable Intangible Assets | Note 13 |
| Deposits | Note 14 |
| Short-Term Borrowings | Note 15 |
| Long-Term Borrowings | Note 16 |
| Other Liabilities and Accrued Expenses | Note 17 |
| Commitments, Contingencies and Guarantees | Note 18 |
| Shareholders' Equity | Note 19 |
| Regulation and Capital Adequacy | Note 20 |
| Earnings Per Common Share | Note 21 |
| Transactions with Affiliated Funds | Note 22 |
| Interest Income and Interest Expense | Note 23 |
| Income Taxes | Note 24 |
| Business Segments | Note 25 |
| Credit Concentrations | Note 26 |
| Legal Proceedings | Note 27 |
| Employee Benefit Plans | Note 28 |
| Employee Incentive Plans | Note 29 |
| Parent Company | Note 30 |

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 one or more variable interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 11 for further information about VIEs.

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

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

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

Use of Estimates

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

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value.

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

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

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

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

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

Transfers of Assets

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

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of December 2013 and December 2012, “Cash and cash equivalents” included \$4.14 billion and \$6.75 billion, respectively, of cash and due from banks, and \$56.99 billion and \$65.92 billion, respectively, of interest-bearing deposits with banks.

Receivables from Customers and Counterparties

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

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm’s prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6, 7 and 8. Had these payables been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of December 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 or similar arrangements (collectively, credit support agreements). An enforceable credit support agreement grants the non-defaulting party exercising termination rights the right to liquidate the collateral and apply the proceeds to any amounts owed. In order to assess enforceability of the firm's right of setoff under netting and credit support agreements, the firm evaluates various factors including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement.

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

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

Insurance Activities

The firm sold a majority stake in each of its Americas reinsurance business (April 2013) and its European insurance business (December 2013). As a result, the firm no longer consolidates these businesses. The remaining investments of approximately 20% in the Americas reinsurance business and approximately 36% in the European insurance business are accounted for at fair value under the fair value option and are included in "Financial instruments owned, at fair value" as of December 2013. Results from these remaining investments are included in the Investing & Lending segment.

Prior to the sales, certain of the firm's insurance contracts were accounted for at fair value under the fair value option, with changes in fair value included in "Market making" revenues. See Note 8 for further information about the fair values of these insurance contracts. Revenues from variable annuity and life insurance and reinsurance contracts not accounted for at fair value generally consisted of fees assessed on contract holder account balances for mortality charges, policy administration fees and surrender charges. These revenues were recognized in earnings over the period that services were provided and were included in "Market making" revenues. Changes in reserves, including interest credited to policyholder account balances, were recognized in "Insurance reserves." Premiums earned for underwriting property catastrophe reinsurance were recognized in earnings over the coverage period, net of premiums ceded for the cost of reinsurance, and were included in "Market making" revenues. Expenses for liabilities related to property catastrophe reinsurance claims, including estimates of losses that have been incurred but not reported, were included in "Insurance reserves."

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

Recent Accounting Developments

Derecognition of in Substance Real Estate (ASC 360).

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

Disclosures about Offsetting Assets and Liabilities (ASC 210).

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210) — Disclosures about Offsetting Assets and Liabilities." ASU No. 2011-11, 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, results of operations or cash flows. See Notes 7 and 9 for further information about the firm's offsetting and related arrangements.

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

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (ASC 815).

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

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.

| | As of December 2013 | | As of December 2012 | |
|---|-----------------------------|---|-----------------------------|---|
| | Financial Instruments Owned | Financial Instruments Sold, But Not Yet Purchased | Financial Instruments Owned | Financial Instruments Sold, But Not Yet Purchased |
| <i>in millions</i> | | | | |
| Commercial paper, certificates of deposit, time deposits and other money market instruments | \$ 8,608 | \$ — | \$ 6,057 | \$ — |
| U.S. government and federal agency obligations | 71,072 | 20,920 | 93,241 | 15,905 |
| Non-U.S. government and agency obligations | 40,944 | 26,999 | 62,250 | 32,361 |
| Mortgage and other asset-backed loans and securities: | | | | |
| Loans and securities backed by commercial real estate | 6,596 | 1 | 9,805 | — |
| Loans and securities backed by residential real estate | 9,025 | 2 | 8,216 | 4 |
| Bank loans and bridge loans | 17,400 | 925 ² | 22,407 | 1,779 ² |
| Corporate debt securities | 17,412 | 5,253 | 20,981 | 5,761 |
| State and municipal obligations | 1,476 | 51 | 2,477 | 1 |
| Other debt obligations | 3,129 | 4 | 2,251 | — |
| Equities and convertible debentures | 101,024 | 22,583 | 96,454 | 20,406 |
| Commodities ¹ | 4,556 | 966 | 11,696 | — |
| Derivatives | 57,879 | 49,722 | 71,176 | 50,427 |
| Total | \$339,121 | \$127,426 | \$407,011 | \$126,644 |

1. As of December 2012, includes \$4.29 billion of commodities that have been transferred to third parties, which were accounted for as collateralized financings rather than sales. No such transactions related to commodities included in "Financial instruments owned, at fair value" were outstanding as of December 2013.

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

Gains and Losses from Market Making and Other Principal Transactions

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

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

| Product Type <i>in millions</i> | Year Ended December | | |
|---|---------------------|------------------|-----------------|
| | 2013 | 2012 | 2011 |
| Interest rates | \$ 930 | \$ 4,445 | \$ 1,580 |
| Credit | 1,845 | 4,263 | 3,454 |
| Currencies | 2,446 | (1,001) | 958 |
| Equities | 2,655 | 2,482 | 2,014 |
| Commodities | 902 | 492 | 1,573 |
| Other | 590 ² | 667 ³ | (292) |
| Market making | 9,368 | 11,348 | 9,287 |
| Other principal transactions¹ | 6,993 | 5,865 | 1,507 |
| Total | \$16,361 | \$17,213 | \$10,794 |

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

2. Includes a gain of \$211 million on the sale of a majority stake in the firm’s European insurance business.

3. Includes a gain of \$494 million on the sale of the firm’s hedge fund administration business.

Note 5.

Fair Value Measurements

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

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

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

The fair value hierarchy is as follows:

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

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

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

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

Notes to Consolidated Financial Statements

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.

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

| <i>\$ in millions</i> | As of December | |
|--|------------------|------------|
| | 2013 | 2012 |
| Total level 1 financial assets | \$156,030 | \$ 190,737 |
| Total level 2 financial assets | 499,480 | 502,293 |
| Total level 3 financial assets | 40,013 | 47,095 |
| Cash collateral and counterparty netting | (95,350) | (101,612) |
| Total financial assets at fair value | \$600,173 | \$ 638,513 |
| Total assets ¹ | \$911,507 | \$ 938,555 |
| Total level 3 financial assets as a percentage of Total assets | 4.4% | 5.0% |
| Total level 3 financial assets as a percentage of Total financial assets at fair value | 6.7% | 7.4% |
| Total level 1 financial liabilities | \$ 68,412 | \$ 65,994 |
| Total level 2 financial liabilities | 300,583 | 318,764 |
| Total level 3 financial liabilities | 12,046 | 25,679 |
| Cash collateral and counterparty netting | (25,868) | (32,760) |
| Total financial liabilities at fair value | \$355,173 | \$ 377,677 |
| Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value | 3.4% | 6.8% |

1. Includes approximately \$890 billion and \$915 billion as of December 2013 and December 2012, respectively, that is carried at fair value or at amounts that generally approximate fair value.

Level 3 financial assets as of December 2013 decreased compared with December 2012, primarily reflecting a decrease in derivative assets, bank loans and bridge loans, and loans and securities backed by commercial real estate. The decrease in derivative assets primarily reflected a decline in credit derivative assets, principally due to settlements and unrealized losses. The decrease in bank loans and bridge loans, and loans and securities backed by commercial real estate primarily reflected settlements and sales, partially offset by purchases and transfers into level 3.

Level 3 financial liabilities as of December 2013 decreased compared with December 2012, primarily reflecting a decrease in other liabilities and accrued expenses, principally due to the sale of a majority stake in the firm’s European insurance business in December 2013.

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

Note 6.

Cash Instruments

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

Level 1 Cash Instruments

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

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

Level 2 Cash Instruments

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

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

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

Level 3 Cash Instruments

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

Valuation Techniques and Significant Inputs

The table below presents the valuation techniques and the nature of significant inputs. These valuation techniques and

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

| Level 3 Cash Instruments | Valuation Techniques and Significant Inputs |
|---|---|
| <p>Loans and securities backed by commercial real estate</p> <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 | <p>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:</p> <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) • A measure of expected future cash flows in a default scenario (recovery rates) implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples. Recovery rates are expressed as a percentage of notional or face value of the instrument and reflect the benefit of credit enhancements on certain instruments • Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds) |
| <p>Loans and securities backed by residential real estate</p> <ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination | <p>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:</p> <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 |
| <p>Bank loans and bridge loans</p> | <p>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:</p> <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 and LCDX (indices that track the performance of corporate credit and loans, respectively) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration |
| <p>Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations</p> | <p>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:</p> <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 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 |
| <p>Equities and convertible debentures (including private equity investments and investments in real estate entities)</p> | <p>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:</p> <ul style="list-style-type: none"> • Industry multiples (primarily EBITDA multiples) and public comparables • Transactions in similar instruments • Discounted cash flow techniques • Third-party appraisals • Net asset value per share (NAV) <p>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:</p> <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 |

Significant Unobservable Inputs

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

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

| Level 3 Cash Instruments | Level 3 Assets as of December 2013 (in millions) | Valuation Techniques and Significant Unobservable Inputs | Range of Significant Unobservable Inputs (Weighted Average) as of December 2013 |
|--|--|---|---|
| Loans and securities backed by commercial real estate <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 | \$2,692 | Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) • Basis | 2.7% to 29.1% (10.1%) 26.2% to 88.1% (74.4%) 0.6 to 5.7 (2.0) (9) points to 20 points (5 points) |
| 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 | \$1,961 | Discounted cash flows: <ul style="list-style-type: none"> • Yield • Cumulative loss rate • Duration (years) | 2.6% to 25.8% (10.1%) 9.8% to 56.6% (24.9%) 1.4 to 16.7 (3.6) |
| Bank loans and bridge loans | \$9,324 | Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) | 1.0% to 39.6% (9.3%) 40.0% to 85.0% (54.9%) 0.5 to 5.3 (2.1) |
| Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations | \$3,977 | Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) | 1.5% to 40.2% (8.9%) 0.0% to 70.0% (61.9%) 0.6 to 16.1 (4.2) |
| Equities and convertible debentures (including private equity investments and investments in real estate entities) | \$14,685¹ | Comparable multiples: <ul style="list-style-type: none"> • Multiples Discounted cash flows: <ul style="list-style-type: none"> • Discount rate/yield • Long-term growth rate/ compound annual growth rate • Capitalization rate | 0.6x to 18.8x (6.9x) 6.0% to 29.1% (14.6%) 1.0% to 19.0% (8.1%) 4.6% to 11.3% (7.1%) |

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

Notes to Consolidated Financial Statements

| Level 3 Cash Instruments | Level 3 Assets as of December 2012 <i>(in millions)</i> | Valuation Techniques and Significant Unobservable Inputs | Range of Significant Unobservable Inputs (Weighted Average) as of December 2012 |
|--|--|---|---|
| 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 | \$3,389 | Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) • Basis | 4.0% to 43.3% (9.8%) 37.0% to 96.2% (81.7%) 0.1 to 7.0 (2.6) (13) points to 18 points (2 points) |
| 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 | \$1,619 | Discounted cash flows: <ul style="list-style-type: none"> • Yield • Cumulative loss rate • Duration (years) | 3.1% to 17.0% (9.7%) 0.0% to 61.6% (31.6%) 1.3 to 5.9 (3.7) |
| Bank loans and bridge loans | \$11,235 | Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) | 0.3% to 34.5% (8.3%) 16.5% to 85.0% (56.0%) 0.2 to 4.4 (1.9) |
| Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations | \$4,651 | Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) | 0.6% to 33.7% (8.6%) 0.0% to 70.0% (53.4%) 0.5 to 15.5 (4.0) |
| Equities and convertible debentures (including private equity investments and investments in real estate entities) | \$14,855 ¹ | Comparable multiples: <ul style="list-style-type: none"> • Multiples Discounted cash flows: <ul style="list-style-type: none"> • Discount rate/yield • Long-term growth rate/ compound annual growth rate • Capitalization rate | 0.7x to 21.0x (7.2x) 10.0% to 25.0% (14.3%) 0.7% to 25.0% (9.3%) 3.9% to 11.4% (7.3%) |

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

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

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

Notes to Consolidated Financial Statements

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

| <i>in millions</i> | Cash Instrument Liabilities at Fair Value as of December 2013 | | | |
|--|---|-----------------|---------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. government and federal agency obligations | \$ 20,871 | \$ 49 | \$ — | \$ 20,920 |
| Non-U.S. government and agency obligations | 25,325 | 1,674 | — | 26,999 |
| Mortgage and other asset-backed loans and securities: | | | | |
| Loans and securities backed by commercial real estate | — | — | 1 | 1 |
| Loans and securities backed by residential real estate | — | 2 | — | 2 |
| Bank loans and bridge loans | — | 641 | 284 | 925 |
| Corporate debt securities | 10 | 5,241 | 2 | 5,253 |
| State and municipal obligations | — | 50 | 1 | 51 |
| Other debt obligations | — | 3 | 1 | 4 |
| Equities and convertible debentures | 22,107 | 468 | 8 | 22,583 |
| Commodities | — | 966 | — | 966 |
| Total | \$ 68,313 | \$ 9,094 | \$ 297 | \$ 77,704 |

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

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

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

Notes to Consolidated Financial Statements

| <i>in millions</i> | Cash Instrument Assets at Fair Value as of December 2012 | | | |
|---|--|------------------|---------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Commercial paper, certificates of deposit, time deposits and other money market instruments | \$ 2,155 | \$ 3,902 | \$ — | \$ 6,057 |
| U.S. government and federal agency obligations | 42,856 | 50,385 | — | 93,241 |
| Non-U.S. government and agency obligations | 46,715 | 15,509 | 26 | 62,250 |
| Mortgage and other asset-backed loans and securities ¹ : | | | | |
| Loans and securities backed by commercial real estate | — | 6,416 | 3,389 | 9,805 |
| Loans and securities backed by residential real estate | — | 6,597 | 1,619 | 8,216 |
| Bank loans and bridge loans | — | 11,172 | 11,235 | 22,407 |
| Corporate debt securities ² | 111 | 18,049 | 2,821 | 20,981 |
| State and municipal obligations | — | 1,858 | 619 | 2,477 |
| Other debt obligations ² | — | 1,066 | 1,185 | 2,251 |
| Equities and convertible debentures | 72,875 | 8,724 | 14,855 ³ | 96,454 |
| Commodities | — | 11,696 | — | 11,696 |
| Total | \$164,712 | \$135,374 | \$35,749 | \$335,835 |

| <i>in millions</i> | Cash Instrument Liabilities at Fair Value as of December 2012 | | | |
|--|---|-----------------|---------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. government and federal agency obligations | \$ 15,475 | \$ 430 | \$ — | \$ 15,905 |
| Non-U.S. government and agency obligations | 31,011 | 1,350 | — | 32,361 |
| Mortgage and other asset-backed loans and securities: | | | | |
| Loans and securities backed by residential real estate | — | 4 | — | 4 |
| Bank loans and bridge loans | — | 1,143 | 636 | 1,779 |
| Corporate debt securities | 28 | 5,731 | 2 | 5,761 |
| State and municipal obligations | — | 1 | — | 1 |
| Equities and convertible debentures | 19,416 | 986 | 4 | 20,406 |
| Total | \$ 65,930 | \$ 9,645 | \$ 642 | \$ 76,217 |

1. Includes \$489 million and \$446 million of CDOs backed by real estate in level 2 and level 3, respectively.

2. Includes \$284 million and \$1.76 billion of CDOs and CLOs backed by corporate obligations in level 2 and level 3, respectively.

3. Includes \$12.67 billion of private equity investments, \$1.58 billion of investments in real estate entities and \$600 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 2013, transfers into level 2 from level 1 of cash instruments were \$1 million, reflecting transfers of public equity securities due to decreased market activity in these instruments. Transfers into level 1 from level 2 of cash instruments were \$79 million, reflecting transfers of public equity securities, primarily due to increased market activity in these instruments.

During 2012, transfers into level 2 from level 1 of cash instruments were \$1.85 billion, including transfers of non-U.S. government obligations of \$1.05 billion, reflecting the level of market activity in these instruments, and transfers of equity securities of \$806 million, primarily reflecting the impact of transfer restrictions. Transfers into level 1 from level 2 of cash instruments were \$302 million, including transfers of non-U.S. government obligations of \$180 million, reflecting the level of market activity in these instruments, and transfers of equity securities of \$102 million, where the firm was able to obtain quoted prices for certain actively traded instruments.

Notes to Consolidated Financial Statements

Level 3 Rollforward

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

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

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

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

Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2013

| <i>in millions</i> | Balance, beginning of year | Net realized gains/(losses) | Net unrealized gains/(losses) relating to instruments still held at year-end | Purchases | Sales | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of year |
|--|----------------------------|-----------------------------|--|----------------|------------------|------------------|------------------------|--------------------------|----------------------|
| Non-U.S. government and agency obligations | \$ 26 | \$ 7 | \$ 5 | \$ 12 | \$ (20) | \$ — | \$ 10 | \$ — | \$ 40 |
| Mortgage and other asset-backed loans and securities: | | | | | | | | | |
| Loans and securities backed by commercial real estate | 3,389 | 206 | 224 | 733 | (894) | (1,055) | 262 | (173) | 2,692 |
| Loans and securities backed by residential real estate | 1,619 | 143 | 150 | 660 | (467) | (269) | 209 | (84) | 1,961 |
| Bank loans and bridge loans | 11,235 | 529 | 444 | 3,725 | (2,390) | (4,778) | 942 | (383) | 9,324 |
| Corporate debt securities | 2,821 | 407 | 398 | 1,140 | (1,584) | (576) | 404 | (137) | 2,873 |
| State and municipal obligations | 619 | 6 | (2) | 134 | (492) | (2) | 6 | (12) | 257 |
| Other debt obligations | 1,185 | 47 | 38 | 648 | (445) | (161) | 14 | (519) | 807 |
| Equities and convertible debentures | 14,855 | 189 | 1,709 | 1,866 | (862) | (1,610) | 882 | (2,344) | 14,685 |
| Total | \$35,749 | \$1,534¹ | \$2,966¹ | \$8,918 | \$(7,154) | \$(8,451) | \$2,729 | \$(3,652) | \$32,639 |

Level 3 Cash Instrument Liabilities at Fair Value for the Year Ended December 2013

| <i>in millions</i> | Balance, beginning of year | Net realized (gains)/losses | Net unrealized (gains)/losses relating to instruments still held at year-end | Purchases | Sales | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of year |
|--------------------|----------------------------|-----------------------------|--|-----------------|---------------|-------------|------------------------|--------------------------|----------------------|
| Total | \$ 642 | \$ (1) | \$ (64) | \$ (432) | \$ 269 | \$ 8 | \$ 35 | \$ (160) | \$ 297 |

1. The aggregate amounts include gains of approximately \$1.09 billion, \$2.69 billion and \$723 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

The net unrealized gain on level 3 cash instruments of \$3.03 billion (reflecting \$2.97 billion on cash instrument assets and \$64 million on cash instrument liabilities) for 2013 primarily consisted of gains on private equity investments, principally driven by strong corporate performance, bank loans and bridge loans, primarily due to tighter credit spreads and favorable company-specific events, and corporate debt securities, primarily due to tighter credit spreads.

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

Transfers out of level 3 during 2013 primarily reflected transfers of certain private equity investments to level 2, principally due to increased transparency of market prices as a result of market transactions in these instruments.

Notes to Consolidated Financial Statements

Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2012

| <i>in millions</i> | Balance, beginning of year | Net realized gains/(losses) | Net unrealized gains/(losses) relating to instruments still held at year-end | Purchases | Sales | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of year |
|--|----------------------------|-----------------------------|--|-----------------|------------------|------------------|------------------------|--------------------------|----------------------|
| Non-U.S. government and agency obligations | \$ 148 | \$ 2 | \$ (52) | \$ 16 | \$ (40) | \$ (45) | \$ 1 | \$ (4) | \$ 26 |
| Mortgage and other asset-backed loans and securities: | | | | | | | | | |
| Loans and securities backed by commercial real estate | 3,346 | 238 | 232 | 1,613 | (910) | (1,389) | 337 | (78) | 3,389 |
| Loans and securities backed by residential real estate | 1,709 | 146 | 276 | 703 | (844) | (380) | 65 | (56) | 1,619 |
| Bank loans and bridge loans | 11,285 | 592 | 322 | 4,595 | (2,794) | (2,738) | 1,178 | (1,205) | 11,235 |
| Corporate debt securities | 2,480 | 331 | 266 | 1,143 | (961) | (438) | 197 | (197) | 2,821 |
| State and municipal obligations | 599 | 26 | 2 | 96 | (90) | (22) | 8 | — | 619 |
| Other debt obligations | 1,451 | 64 | (25) | 759 | (355) | (125) | 39 | (623) ¹ | 1,185 |
| Equities and convertible debentures | 13,667 | 292 | 992 | 3,071 | (702) | (1,278) | 965 | (2,152) | 14,855 |
| Total | \$34,685 | \$1,691² | \$2,013² | \$11,996 | \$(6,696) | \$(6,415) | \$2,790 | \$(4,315) | \$35,749 |

Level 3 Cash Instrument Liabilities at Fair Value for the Year Ended December 2012

| <i>in millions</i> | Balance, beginning of year | Net realized (gains)/losses | Net unrealized (gains)/losses relating to instruments still held at year-end | Purchases | Sales | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of year |
|--------------------|----------------------------|-----------------------------|--|-----------------|---------------|--------------|------------------------|--------------------------|----------------------|
| Total | \$ 905 | \$ (19) | \$ (54) | \$ (530) | \$ 366 | \$ 45 | \$ 63 | \$ (134) | \$ 642 |

1. Primarily reflects transfers related to the firm's reinsurance business of level 3 "Other debt obligations" within cash instruments at fair value to level 3 "Other assets," within other financial assets at fair value, as this business was classified as held for sale as of December 2012. See Note 8 for further information.

2. The aggregate amounts include gains of approximately \$617 million, \$2.13 billion and \$962 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

The net unrealized gain on level 3 cash instruments of \$2.07 billion (reflecting \$2.01 billion of gains on cash instrument assets and \$54 million of gains on cash instrument liabilities) for 2012 primarily consisted of gains on private equity investments, mortgage and other asset-backed loans and securities, bank loans and bridge loans, and corporate debt securities. Unrealized gains for 2012 primarily reflected the impact of an increase in global equity prices and tighter credit spreads.

Transfers into level 3 during 2012 primarily reflected transfers from level 2 of certain bank loans and bridge

loans, and private equity investments, principally due to a lack of market transactions in these instruments.

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

Investments in Funds That Calculate Net Asset Value Per Share

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

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

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

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

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

The firm continues to manage its existing funds, taking into account the transition periods under the Volcker Rule. The firm is currently redeeming certain of its interests in hedge funds to comply with the Volcker Rule. Since March 2012, the firm has redeemed approximately \$2.21 billion of these interests in hedge funds, including approximately \$1.15 billion during 2013 and \$1.06 billion during 2012.

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

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

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

| <i>in millions</i> | As of December 2012 | |
|----------------------|---------------------------|----------------------|
| | Fair Value of Investments | Unfunded Commitments |
| Private equity funds | \$ 7,680 | \$2,778 |
| Credit funds | 3,927 | 2,843 |
| Hedge funds | 2,167 | — |
| Real estate funds | 2,006 | 870 |
| Total | \$15,780 | \$6,491 |

Note 7.

Derivatives and Hedging Activities**Derivative Activities**

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

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

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

The firm enters into various types of derivatives, including:

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

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

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

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

| <i>in millions</i> | As of December 2012 | |
|--------------------|---------------------|------------------------|
| | Derivative Assets | Derivative Liabilities |
| Exchange-traded | \$ 3,772 | \$ 2,937 |
| OTC | 67,404 | 47,490 |
| Total | \$71,176 | \$50,427 |

Notes to Consolidated Financial Statements

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 statements of financial condition, as well as cash and securities collateral posted and received under enforceable credit support

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

| in millions | As of December 2013 | | | As of December 2012 | | |
|---|-------------------------------|-------------------------------|---------------------|-------------------------------|-------------------------------|---------------------|
| | Derivative Assets | Derivative Liabilities | Notional Amount | Derivative Assets | Derivative Liabilities | Notional Amount |
| Derivatives not accounted for as hedges | | | | | | |
| Interest rates | \$ 641,186 | \$ 587,110 | \$44,110,483 | \$ 584,584 | \$ 545,605 | \$34,891,763 |
| Exchange-traded | 157 | 271 | 2,366,448 | 47 | 26 | 2,502,867 |
| OTC-cleared ¹ | 266,230 | 252,596 | 24,888,301 | 8,847 | 11,011 | 14,678,349 |
| Bilateral OTC | 374,799 | 334,243 | 16,855,734 | 575,690 | 534,568 | 17,710,547 |
| Credit | 60,751 | 56,340 | 2,946,376 | 85,816 | 74,927 | 3,615,757 |
| OTC-cleared | 3,943 | 4,482 | 348,848 | 3,359 | 2,638 | 304,100 |
| Bilateral OTC | 56,808 | 51,858 | 2,597,528 | 82,457 | 72,289 | 3,311,657 |
| Currencies | 70,757 | 63,659 | 4,311,971 | 72,128 | 60,808 | 3,833,114 |
| Exchange-traded | 98 | 122 | 23,908 | 31 | 82 | 12,341 |
| OTC-cleared | 88 | 97 | 11,319 | 14 | 14 | 5,487 |
| Bilateral OTC | 70,571 | 63,440 | 4,276,744 | 72,083 | 60,712 | 3,815,286 |
| Commodities | 18,007 | 18,228 | 701,101 | 23,320 | 24,350 | 774,115 |
| Exchange-traded | 4,323 | 3,661 | 346,057 | 5,360 | 5,040 | 344,823 |
| OTC-cleared | 11 | 12 | 135 | 26 | 23 | 327 |
| Bilateral OTC | 13,673 | 14,555 | 354,909 | 17,934 | 19,287 | 428,965 |
| Equities | 56,719 | 55,472 | 1,406,499 | 49,483 | 43,681 | 1,202,181 |
| Exchange-traded | 10,544 | 13,157 | 534,840 | 9,409 | 8,864 | 441,494 |
| Bilateral OTC | 46,175 | 42,315 | 871,659 | 40,074 | 34,817 | 760,687 |
| Subtotal | 847,420 | 780,809 | 53,476,430 | 815,331 | 749,371 | 44,316,930 |
| Derivatives accounted for as hedges | | | | | | |
| Interest rates | 11,403 | 429 | 132,879 | 23,772 | 66 | 128,302 |
| OTC-cleared ¹ | 1,327 | 27 | 10,637 | — | — | — |
| Bilateral OTC | 10,076 | 402 | 122,242 | 23,772 | 66 | 128,302 |
| Currencies | 74 | 56 | 9,296 | 21 | 86 | 8,452 |
| OTC-cleared | 1 | 10 | 869 | — | — | 3 |
| Bilateral OTC | 73 | 46 | 8,427 | 21 | 86 | 8,449 |
| Commodities | 36 | — | 335 | — | — | — |
| Exchange-traded | — | — | 23 | — | — | — |
| Bilateral OTC | 36 | — | 312 | — | — | — |
| Subtotal | 11,513 | 485 | 142,510 | 23,793 | 152 | 136,754 |
| Gross fair value/notional amount of derivatives | \$ 858,933² | \$ 781,294² | \$53,618,940 | \$ 839,124² | \$ 749,523² | \$44,453,684 |
| Amounts that have been offset in the consolidated statements of financial condition | | | | | | |
| Counterparty netting | (707,411) | (707,411) | | (668,460) | (668,460) | |
| Exchange-traded | (10,845) | (10,845) | | (11,075) | (11,075) | |
| OTC-cleared ¹ | (254,756) | (254,756) | | (11,507) | (11,507) | |
| Bilateral OTC | (441,810) | (441,810) | | (645,878) | (645,878) | |
| Cash collateral | (93,643) | (24,161) | | (99,488) | (30,636) | |
| OTC-cleared ¹ | (16,353) | (2,515) | | (468) | (2,160) | |
| Bilateral OTC | (77,290) | (21,646) | | (99,020) | (28,476) | |
| Fair value included in financial instruments owned/financial instruments sold, but not yet purchased | \$ 57,879 | \$ 49,722 | | \$ 71,176 | \$ 50,427 | |
| Amounts that have not been offset in the consolidated statements of financial condition | | | | | | |
| Cash collateral received/posted | (636) | (2,806) | | (812) | (2,994) | |
| Securities collateral received/posted | (13,225) | (10,521) | | (17,225) | (14,262) | |
| Total | \$ 44,018 | \$ 36,395 | | \$ 53,139 | \$ 33,171 | |

1. Pursuant to the rule changes at a clearing organization, effective December 31, 2013, transactions with this clearing organization are no longer considered settled each day. This change resulted in an increase of gross interest rate derivative assets and liabilities of \$251.76 billion and \$235.07 billion, respectively, as of December 2013, and a corresponding increase in counterparty netting and cash collateral with no impact to the consolidated statements of financial condition. The impact of reflecting transactions with this clearing organization as settled as of December 2012 resulted in a reduction of gross interest rate derivative assets and liabilities of \$315.40 billion and \$298.69 billion, respectively.

2. Includes derivative assets and derivative liabilities of \$23.18 billion and \$23.46 billion, respectively, as of December 2013, and derivative assets and derivative liabilities of \$24.62 billion and \$25.73 billion, respectively, as of December 2012, 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.

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.

Level 3 Derivatives

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

- For the majority of the firm's interest rate and currency derivatives classified within level 3, significant unobservable inputs include correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates) and specific interest rate volatilities.
- For level 3 credit derivatives, significant unobservable inputs include illiquid credit spreads and upfront credit points, which are unique to specific reference obligations and reference entities, recovery rates and certain correlations required to value credit and mortgage derivatives (e.g., the likelihood of default of the underlying reference obligation relative to one another).

- For level 3 equity derivatives, significant unobservable inputs generally include equity volatility inputs for options that are very long-dated and/or have strike prices that differ significantly from current market prices. In addition, the valuation of certain structured trades requires the use of level 3 correlation inputs, such as the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class such as commodities.
- For level 3 commodity derivatives, significant unobservable inputs include volatilities for options with strike prices that differ significantly from current market prices and prices or spreads for certain products for which the product quality or physical location of the commodity is not aligned with benchmark indices.

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

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralized portion of derivative portfolios. The firm also makes funding valuation adjustments to collateralized derivatives where the terms of the agreement do not permit the firm to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

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

Significant Unobservable Inputs

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

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

| Level 3 Derivative Product Type | Net Level 3 Assets/(Liabilities) as of December 2013 (in millions) | Valuation Techniques and Significant Unobservable Inputs | Range of Significant Unobservable Inputs (Average / Median) as of December 2013 |
|---------------------------------|---|--|---|
| Interest rates | \$(86) | Option pricing models: Correlation ² Volatility | 22% to 84% (58% / 60%) 36 basis points per annum (bpa) to 165 bpa (107 bpa / 112 bpa) |
| Credit | \$4,176 ¹ | Option pricing models, correlation models and discounted cash flows models: Correlation ² Credit spreads Upfront credit points Recovery rates | 5% to 93% (61% / 61%) 1 basis points (bps) to 1,395 bps (153 bps / 116 bps) ³ 0 points to 100 points (46 points / 43 points) 20% to 85% (50% / 40%) |
| Currencies | \$(200) | Option pricing models: Correlation ² | 65% to 79% (72% / 72%) |
| Commodities | \$60 ¹ | Option pricing models and discounted cash flows models: Volatility Spread per million British Thermal units (MMBTU) of natural gas Spread per Metric Tonne (MT) of coal | 15% to 52% (23% / 21%) \$(1.74) to \$5.62 (\$(0.11) / \$(0.04)) \$(17.00) to \$0.50 (\$(6.54) / \$(5.00)) |
| Equities | \$(959) | Option pricing models: Correlation ² Volatility | 23% to 99% (58% / 59%) 6% to 63% (20% / 20%) |

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

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

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

Notes to Consolidated Financial Statements

| Level 3 Derivative Product Type | Net Level 3 Assets/(Liabilities) as of December 2012 (in millions) | Valuation Techniques and Significant Unobservable Inputs | Range of Significant Unobservable Inputs (Average / Median) as of December 2012 |
|---------------------------------|---|---|--|
| Interest rates | \$(355) | Option pricing models: Correlation ² Volatility | 22% to 97% (67% / 68%) 37 bpa to 59 bpa (48 bpa / 47 bpa) |
| Credit | \$6,228 ¹ | Option pricing models, correlation models and discounted cash flows models: Correlation ² Credit spreads Recovery rates | 5% to 95% (50% / 50%) 9 bps to 2,341 bps (225 bps / 140 bps) ³ 15% to 85% (54% / 53%) |
| Currencies | \$35 | Option pricing models: Correlation ² | 65% to 87% (76% / 79%) |
| Commodities | \$(304) ¹ | Option pricing models and discounted cash flows models: Volatility Spread per MMBTU of natural gas Price per megawatt hour of power Price per barrel of oil | 13% to 53% (30% / 29%) \$(0.61) to \$6.07 (\$0.02 / \$0.00) \$17.30 to \$57.39 (\$33.17 / \$32.80) \$86.64 to \$98.43 (\$92.76 / \$93.62) |
| Equities | \$(1,248) | Option pricing models: Correlation ² Volatility | 48% to 98% (68% / 67%) 15% to 73% (31% / 30%) |

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

2. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (51)% to 66% (Average: 30% / Median: 35%) as of December 2012.

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

Range of Significant Unobservable Inputs

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

- **Correlation:** Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of a commodity price and a foreign exchange rate), as well as across regions. Generally, cross-asset correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.
- **Volatility:** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.
- **Credit spreads, upfront credit points and recovery rates:** The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.
- **Commodity prices and spreads:** The ranges for commodity prices and spreads cover variability in products, maturities and locations, as well as peak and off-peak prices.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

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

Notes to Consolidated Financial Statements

Fair Value of Derivatives by Level

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

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

| Derivative Assets at Fair Value as of December 2013 | | | | | |
|---|---------|------------|----------|---------------------|------------------|
| <i>in millions</i> | Level 1 | Level 2 | Level 3 | Cross-Level Netting | Total |
| Interest rates | \$91 | \$ 652,104 | \$ 394 | \$ — | \$ 652,589 |
| Credit | — | 52,834 | 7,917 | — | 60,751 |
| Currencies | — | 70,481 | 350 | — | 70,831 |
| Commodities | — | 17,517 | 526 | — | 18,043 |
| Equities | 3 | 55,826 | 890 | — | 56,719 |
| Gross fair value of derivative assets | 94 | 848,762 | 10,077 | — | 858,933 |
| Counterparty netting | — | (702,703) | (3,001) | (1,707) | (707,411) |
| Subtotal | \$94 | \$ 146,059 | \$ 7,076 | \$(1,707) | \$ 151,522 |
| Cash collateral | | | | | (93,643) |
| Fair value included in financial instruments owned | | | | | \$ 57,879 |

| Derivative Liabilities at Fair Value as of December 2013 | | | | | |
|---|---------|------------|----------|---------------------|------------------|
| <i>in millions</i> | Level 1 | Level 2 | Level 3 | Cross-Level Netting | Total |
| Interest rates | \$93 | \$ 586,966 | \$ 480 | \$ — | \$ 587,539 |
| Credit | — | 52,599 | 3,741 | — | 56,340 |
| Currencies | — | 63,165 | 550 | — | 63,715 |
| Commodities | — | 17,762 | 466 | — | 18,228 |
| Equities | 6 | 53,617 | 1,849 | — | 55,472 |
| Gross fair value of derivative liabilities | 99 | 774,109 | 7,086 | — | 781,294 |
| Counterparty netting | — | (702,703) | (3,001) | (1,707) | (707,411) |
| Subtotal | \$99 | \$ 71,406 | \$ 4,085 | \$(1,707) | \$ 73,883 |
| Cash collateral | | | | | (24,161) |
| Fair value included in financial instruments sold, but not yet purchased | | | | | \$ 49,722 |

Notes to Consolidated Financial Statements

Derivative Assets at Fair Value as of December 2012

| <i>in millions</i> | Level 1 | Level 2 | Level 3 | Cross-Level Netting | Total |
|--|---------|------------|----------|---------------------|------------|
| Interest rates | \$13 | \$ 608,151 | \$ 192 | \$ — | \$ 608,356 |
| Credit | — | 74,907 | 10,909 | — | 85,816 |
| Currencies | — | 71,157 | 992 | — | 72,149 |
| Commodities | — | 22,697 | 623 | — | 23,320 |
| Equities | 43 | 48,698 | 742 | — | 49,483 |
| Gross fair value of derivative assets | 56 | 825,610 | 13,458 | — | 839,124 |
| Counterparty netting | — | (662,798) | (3,538) | (2,124) | (668,460) |
| Subtotal | \$56 | \$ 162,812 | \$ 9,920 | \$(2,124) | \$ 170,664 |
| Cash collateral | | | | | (99,488) |
| Fair value included in financial instruments owned | | | | | \$ 71,176 |

Derivative Liabilities at Fair Value as of December 2012

| <i>in millions</i> | Level 1 | Level 2 | Level 3 | Cross-Level Netting | Total |
|---|---------|------------|----------|---------------------|------------|
| Interest rates | \$14 | \$ 545,110 | \$ 547 | \$ — | \$ 545,671 |
| Credit | — | 70,246 | 4,681 | — | 74,927 |
| Currencies | — | 59,937 | 957 | — | 60,894 |
| Commodities | — | 23,423 | 927 | — | 24,350 |
| Equities | 50 | 41,641 | 1,990 | — | 43,681 |
| Gross fair value of derivative liabilities | 64 | 740,357 | 9,102 | — | 749,523 |
| Counterparty netting | — | (662,798) | (3,538) | (2,124) | (668,460) |
| Subtotal | \$64 | \$ 77,559 | \$ 5,564 | \$(2,124) | \$ 81,063 |
| Cash collateral | | | | | (30,636) |
| Fair value included in financial instruments sold, but not yet purchased | | | | | \$ 50,427 |

Level 3 Rollforward

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

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

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

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

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

Level 3 Derivative Assets and Liabilities at Fair Value for the Year Ended December 2013

| <i>in millions</i> | Asset/ (liability) balance, beginning of year | Net realized gains/ (losses) | Net unrealized gains/(losses) relating to instruments still held at year-end | Purchases | Sales | Settlements | Transfers into level 3 | Transfers out of level 3 | Asset/ (liability) balance, end of year |
|--------------------------------|---|---------------------------------------|---|--------------|----------------|---------------|------------------------------|--------------------------------|---|
| Interest rates — net | \$ (355) | \$ (78) | \$ 168 | \$ 1 | \$ (8) | \$ 196 | \$ (9) | \$ (1) | \$ (86) |
| Credit — net | 6,228 | (1) | (977) | 201 | (315) | (1,508) | 695 | (147) | 4,176 |
| Currencies — net | 35 | (93) | (419) | 22 | (6) | 169 | 139 | (47) | (200) |
| Commodities — net | (304) | (6) | 58 | 21 | (48) | 281 | 50 | 8 | 60 |
| Equities — net | (1,248) | (67) | (202) | 77 | (472) | 1,020 | (15) | (52) | (959) |
| Total derivatives — net | \$ 4,356 | \$(245)¹ | \$(1,372)¹ | \$322 | \$(849) | \$ 158 | \$860 | \$(239) | \$2,991 |

1. The aggregate amounts include losses of approximately \$1.29 billion and \$324 million reported in "Market making" and "Other principal transactions," respectively.

The net unrealized loss on level 3 derivatives of \$1.37 billion for 2013 principally resulted from changes in level 2 inputs and was primarily attributable to losses on certain credit derivatives, principally due to the impact of tighter credit spreads, and losses on certain currency derivatives, primarily due to changes in foreign exchange rates.

Transfers into level 3 derivatives during 2013 primarily reflected transfers of credit derivative assets from level 2, principally due to reduced transparency of upfront credit points and correlation inputs used to value these derivatives.

Transfers out of level 3 derivatives during 2013 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable credit spread and correlation inputs no longer being significant to the valuation of these derivatives and unobservable inputs not being significant to the net risk of certain portfolios.

Notes to Consolidated Financial Statements

Level 3 Derivative Assets and Liabilities at Fair Value for the Year Ended December 2012

| <i>in millions</i> | Asset/ (liability) balance, beginning of year | Net realized gains/ (losses) | Net unrealized gains/(losses) relating to instruments still held at year-end | Purchases | Sales | Settlements | Transfers into level 3 | Transfers out of level 3 | Asset/ (liability) balance, end of year |
|-------------------------|---|---------------------------------------|---|-----------|-----------|-------------|------------------------------|--------------------------------|---|
| Interest rates — net | \$ (371) | \$ (60) | \$ 19 | \$ 7 | \$ (28) | \$ 71 | \$ 68 | \$ (61) | \$ (355) |
| Credit — net | 6,300 | 246 | (701) | 138 | (270) | (1,597) | 2,503 | (391) | 6,228 |
| Currencies — net | 842 | (17) | (502) | 17 | (5) | (144) | 65 | (221) | 35 |
| Commodities — net | (605) | (11) | 228 | 63 | (410) | 307 | (41) | 165 | (304) |
| Equities — net | (432) | (80) | (276) | 123 | (724) | 267 | (50) | (76) | (1,248) |
| Total derivatives — net | \$5,734 | \$ 78 ¹ | \$(1,232) ¹ | \$348 | \$(1,437) | \$(1,096) | \$2,545 | \$(584) | \$ 4,356 |

1. The aggregate amounts include losses of approximately \$903 million and \$251 million reported in “Market making” and “Other principal transactions,” respectively.

The net unrealized loss on level 3 derivatives of \$1.23 billion for 2012 principally resulted from changes in level 2 inputs and was primarily attributable to the impact of tighter credit spreads, changes in foreign exchange rates and increases in global equity prices on certain derivatives, partially offset by the impact of a decline in volatility on certain commodity derivatives.

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

Transfers out of level 3 derivatives during 2012 primarily reflected transfers to level 2 of certain credit derivative assets, principally due to unobservable inputs no longer being significant to the valuation of these derivatives, transfers to level 2 of certain currency derivative assets, principally due to unobservable correlation inputs no longer being significant to the valuation of these derivatives, and transfers to level 2 of certain commodity derivative liabilities, principally due to increased transparency of volatility inputs used to value these derivatives.

Impact of Credit Spreads on Derivatives

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

The net gain/(loss), including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm’s) on derivatives was \$(66) million for 2013, \$(735) million for 2012 and \$573 million for 2011.

Bifurcated Embedded Derivatives

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

| <i>in millions</i> | As of December | |
|---------------------------|----------------|--------------|
| | 2013 | 2012 |
| Fair value of assets | \$ 285 | \$ 320 |
| Fair value of liabilities | 373 | 398 |
| Net liability | \$ 88 | \$ 78 |
| Notional amount | \$7,580 | \$10,567 |

Notes to Consolidated Financial Statements

OTC Derivatives

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

- Counterparty netting within the same product type and tenor category is included within such product type and tenor category;

- Counterparty netting across product types within a tenor category is reflected in “Netting across product types;” and
- Counterparty netting across tenor categories is reflected in “Cross maturity netting.”

in millions

OTC Derivatives as of December 2013

| Assets Product Type | 0 - 12 Months | 1 - 5 Years | 5 Years or Greater | Total |
|--------------------------------------|--------------------------------|------------------------------|-------------------------------------|------------------|
| Interest rates | \$ 7,235 | \$26,029 | \$75,731 | \$108,995 |
| Credit | 1,233 | 8,410 | 5,787 | 15,430 |
| Currencies | 9,499 | 8,478 | 7,361 | 25,338 |
| Commodities | 2,843 | 4,040 | 143 | 7,026 |
| Equities | 7,016 | 9,229 | 4,972 | 21,217 |
| Netting across product types | (2,559) | (5,063) | (3,395) | (11,017) |
| Subtotal | \$25,267 | \$51,123 | \$90,599 | \$166,989 |
| Cross maturity netting | | | | (19,744) |
| Cash collateral ¹ | | | | (93,643) |
| Total | | | | \$ 53,602 |

| Liabilities Product Type | 0 - 12 Months | 1 - 5 Years | 5 Years or Greater | Total |
|---|--------------------------------|------------------------------|-------------------------------------|------------------|
| Interest rates | \$ 5,019 | \$16,910 | \$21,903 | \$ 43,832 |
| Credit | 2,339 | 6,778 | 1,901 | 11,018 |
| Currencies | 8,843 | 5,042 | 4,313 | 18,198 |
| Commodities | 3,062 | 2,424 | 2,387 | 7,873 |
| Equities | 6,325 | 6,964 | 4,068 | 17,357 |
| Netting across product types | (2,559) | (5,063) | (3,395) | (11,017) |
| Subtotal | \$23,029 | \$33,055 | \$31,177 | \$ 87,261 |
| Cross maturity netting | | | | (19,744) |
| Cash collateral ¹ | | | | (24,161) |
| Total | | | | \$ 43,356 |

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

Notes to Consolidated Financial Statements

in millions

OTC Derivatives as of December 2012

| Assets Product Type | 0 - 12 Months | 1 - 5 Years | 5 Years or Greater | Total |
|--------------------------------------|------------------|----------------|-----------------------|------------------|
| Interest rates | \$10,318 | \$28,445 | \$ 80,449 | \$119,212 |
| Credit | 2,190 | 12,244 | 7,970 | 22,404 |
| Currencies | 11,100 | 8,379 | 11,044 | 30,523 |
| Commodities | 3,840 | 3,862 | 304 | 8,006 |
| Equities | 3,757 | 7,730 | 6,957 | 18,444 |
| Netting across product types | (2,811) | (5,831) | (5,082) | (13,724) |
| Subtotal | \$28,394 | \$54,829 | \$101,642 | \$184,865 |
| Cross maturity netting | | | | (17,973) |
| Cash collateral ¹ | | | | (99,488) |
| Total | | | | \$ 67,404 |

| Liabilities Product Type | 0 - 12 Months | 1 - 5 Years | 5 Years or Greater | Total |
|---|------------------|----------------|-----------------------|------------------|
| Interest rates | \$ 6,266 | \$17,860 | \$ 32,422 | \$ 56,548 |
| Credit | 809 | 7,537 | 3,168 | 11,514 |
| Currencies | 8,586 | 4,849 | 5,782 | 19,217 |
| Commodities | 3,970 | 3,119 | 2,267 | 9,356 |
| Equities | 3,775 | 5,476 | 3,937 | 13,188 |
| Netting across product types | (2,811) | (5,831) | (5,082) | (13,724) |
| Subtotal | \$20,595 | \$33,010 | \$ 42,494 | \$ 96,099 |
| Cross maturity netting | | | | (17,973) |
| Cash collateral ¹ | | | | (30,636) |
| Total | | | | \$ 47,490 |

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

Derivatives with Credit-Related Contingent Features

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

| <i>in millions</i> | As of December | |
|---|----------------|----------|
| | 2013 | 2012 |
| Net derivative liabilities under bilateral agreements | \$22,176 | \$27,885 |
| Collateral posted | 18,178 | 24,296 |
| Additional collateral or termination payments for a one-notch downgrade | 911 | 1,534 |
| Additional collateral or termination payments for a two-notch downgrade | 2,989 | 2,500 |

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.

Notes to Consolidated Financial Statements

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

As of December 2013, written and purchased credit derivatives had total gross notional amounts of \$1.43 trillion and \$1.52 trillion, respectively, for total net notional purchased protection of \$81.55 billion. As of December 2012, written and purchased credit derivatives had total gross notional amounts of \$1.76 trillion and \$1.86 trillion, respectively, for total net notional purchased protection of \$98.33 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 December 2013 | | | | | | | | | |
| Credit spread on underlying (basis points) | | | | | | | | | |
| 0 - 250 | \$286,029 | \$ 950,126 | \$ 79,241 | \$1,315,396 | \$1,208,334 | \$183,665 | \$32,508 | \$ 4,396 | \$ 28,112 |
| 251 - 500 | 7,148 | 42,570 | 10,086 | 59,804 | 44,642 | 16,884 | 2,837 | 1,147 | 1,690 |
| 501 - 1,000 | 3,968 | 18,637 | 1,854 | 24,459 | 22,748 | 2,992 | 101 | 1,762 | (1,661) |
| Greater than 1,000 | 5,600 | 27,911 | 1,226 | 34,737 | 30,510 | 6,169 | 514 | 12,436 | (11,922) |
| Total | \$302,745 | \$1,039,244 | \$ 92,407 | \$1,434,396 | \$1,306,234 | \$209,710 | \$35,960 | \$19,741 | \$ 16,219 |

As of December 2012

Credit spread on underlying (basis points)

| | | | | | | | | | |
|--------------------|------------------|--------------------|------------------|--------------------|--------------------|------------------|-----------------|-----------------|-------------------|
| 0 - 250 | \$360,289 | \$ 989,941 | \$103,481 | \$1,453,711 | \$1,343,561 | \$201,459 | \$28,817 | \$ 8,249 | \$ 20,568 |
| 251 - 500 | 13,876 | 126,659 | 35,086 | 175,621 | 157,371 | 19,063 | 4,284 | 7,848 | (3,564) |
| 501 - 1,000 | 9,209 | 52,012 | 5,619 | 66,840 | 60,456 | 8,799 | 769 | 4,499 | (3,730) |
| Greater than 1,000 | 11,453 | 49,721 | 3,622 | 64,796 | 57,774 | 10,812 | 568 | 21,970 | (21,402) |
| Total | \$394,827 | \$1,218,333 | \$147,808 | \$1,760,968 | \$1,619,162 | \$240,133 | \$34,438 | \$42,566 | \$ (8,128) |

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

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

Hedge Accounting

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

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

Fair Value Hedges

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

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

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

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

| <i>in millions</i> | Year Ended December | | |
|-------------------------------------|---------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| Interest rate hedges | \$(8,683) | \$(2,383) | \$ 4,679 |
| Hedged borrowings and bank deposits | 6,999 | 665 | (6,300) |
| Hedge ineffectiveness | \$(1,684) | \$(1,718) | \$(1,621) |

Net Investment Hedges

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

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

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

| <i>in millions</i> | Year Ended December | | |
|--|---------------------|---------|--------|
| | 2013 | 2012 | 2011 |
| Currency hedges | \$150 | \$(233) | \$ 160 |
| Foreign currency-denominated debt hedges | 470 | 347 | (147) |

The gain/(loss) related to ineffectiveness was not material for 2013, 2012 or 2011. The loss reclassified to earnings from accumulated other comprehensive income was not material for 2013 or 2012, and was \$186 million for 2011.

As of December 2013 and December 2012, the firm had designated \$1.97 billion and \$2.77 billion, respectively, of foreign currency-denominated debt, included in “Unsecured long-term borrowings” and “Unsecured short-term borrowings,” as hedges of net investments in non-U.S. subsidiaries.

Cash Flow Hedges

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

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

For qualifying cash flow hedges, the gains or losses on derivatives, to the extent effective, are included in “Cash flow hedges” within the consolidated statements of comprehensive income. Gains or losses resulting from hedge ineffectiveness are included in “Other principal transactions” in the consolidated statements of earnings.

The effective portion of the gains, before taxes, recognized on these cash flow hedges was \$14 million for 2013. The gain/(loss) related to hedge ineffectiveness was not material for 2013. There were no gains/(losses) excluded from the assessment of hedge effectiveness or reclassified to earnings from accumulated other comprehensive income during 2013.

The amounts recorded in “Cash flow hedges” will be reclassified to “Other principal transactions” in the same periods as the corresponding gain or loss on the sale of the hedged energy commodities, which is also recorded in “Other principal transactions.” The firm expects to reclassify \$5 million of gains, net of taxes, related to cash flow hedges from “Cash flow hedges” to earnings within the next twelve months. The length of time over which the firm is hedging its exposure to the variability in future cash flows for forecasted transactions is approximately two years.

Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

Resale and Repurchase Agreements and Securities Borrowed and Loaned.

The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates. The ranges of significant unobservable inputs used to value level 3 resale and repurchase agreements are as follows:

As of December 2013:

- Yield: 1.3% to 3.9% (weighted average: 1.4%)
- Duration: 0.2 to 2.7 years (weighted average: 2.5 years)

As of December 2012:

- Yield: 1.7% to 5.4% (weighted average: 1.9%)
- Duration: 0.4 to 4.5 years (weighted average: 4.1 years)

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

See Note 9 for further information about collateralized agreements.

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

As of December 2013:

- Funding spreads: 40 bps to 250 bps (weighted average: 162 bps)
- Yield: 0.9% to 14.3% (weighted average: 5.0%)
- Duration: 0.8 to 16.1 years (weighted average: 3.7 years)

As of December 2012:

- Yield: 0.3% to 20.0% (weighted average: 4.2%)
- Duration: 0.3 to 10.8 years (weighted average: 2.4 years)

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

See Note 9 for further information about collateralized financings.

Unsecured Short-term and Long-term Borrowings.

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

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

Insurance Contracts. During 2013, the firm sold a majority stake in both its Americas reinsurance business (April 2013) and its European insurance business (December 2013). See Note 3 for further information about these sales. Prior to selling these businesses, the firm had elected the fair value option on certain insurance contracts. These contracts could be settled only in cash and qualified for the fair value option because they were recognized financial instruments. These contracts were valued using market transactions and other market evidence where possible, including market-based inputs to models, calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant inputs were interest rates, inflation rates, volatilities, funding spreads, yield and duration, which incorporated policy lapse and projected mortality assumptions. When unobservable inputs to a valuation model were significant to the fair value measurement of an instrument, the instrument was classified in level 3. As of December 2012, assets and liabilities related to the European insurance business were included in "Receivables from customers and counterparties" and "Other liabilities and accrued expenses," respectively, and assets and liabilities related to the Americas reinsurance business, which was classified as held for sale as of December 2012, were included in "Other assets" and "Other liabilities and accrued expenses," respectively. The ranges of significant unobservable inputs used to value level 3 insurance contracts as of December 2012 were as follows:

- Funding spreads: 39 bps to 61 bps (weighted average: 49 bps)
- Yield: 4.4% to 15.1% (weighted average: 6.2%)
- Duration: 5.3 to 8.8 years (weighted average: 7.6 years)

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

Due to the distinctive nature of each of the firm's level 3 insurance contracts, the interrelationship of inputs was not necessarily uniform across such contracts.

Receivables from Customers and Counterparties.

Receivables from customers and counterparties at fair value, excluding insurance contracts, are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads. As of December 2012, level 3 secured loans were primarily related to the firm's European insurance business, in which a majority stake was sold in December 2013. See Note 3 for further information about this sale. The ranges of significant unobservable inputs used to value the level 3 secured loans are as follows:

As of December 2013:

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

As of December 2012:

- Funding spreads: 85 bps to 99 bps (weighted average: 99 bps)

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

Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Such receivables are primarily comprised of customer margin loans and collateral posted in connection with certain derivative transactions. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these items been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2013.

Receivables from customers and counterparties not accounted for at fair value also includes loans held for investment, which are primarily comprised of collateralized loans to private wealth management clients and corporate loans. As of December 2013 and December 2012, the carrying value of such loans was \$14.90 billion and \$6.50 billion, respectively, which generally approximated fair value. As of December 2013, had these loans been carried at fair value and included in the fair value hierarchy, \$6.16 billion and \$8.75 billion would have been classified in level 2 and level 3, respectively. As of December 2012, had these loans been carried at fair value and included in the fair value hierarchy, \$2.41 billion and \$4.06 billion would have been classified in level 2 and level 3, respectively.

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

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

Notes to Consolidated Financial Statements

Fair Value of Other Financial Assets and Financial Liabilities by Level

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

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

| <i>in millions</i> | Other Financial Assets at Fair Value as of December 2013 | | | |
|--|--|------------------|---------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Securities segregated for regulatory and other purposes ¹ | \$19,502 | \$ 12,435 | \$ — | \$ 31,937 |
| Securities purchased under agreements to resell | — | 161,234 | 63 | 161,297 |
| Securities borrowed | — | 60,384 | — | 60,384 |
| Receivables from customers and counterparties | — | 7,181 | 235 | 7,416 |
| Other assets | — | 18 | — | 18 |
| Total | \$19,502 | \$241,252 | \$ 298 | \$261,052 |

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

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes \$19.50 billion of level 1 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.

Notes to Consolidated Financial Statements

| <i>in millions</i> | Other Financial Assets at Fair Value as of December 2012 | | | |
|--|--|------------------|------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Securities segregated for regulatory and other purposes ¹ | \$21,549 | \$ 8,935 | \$ — | \$ 30,484 |
| Securities purchased under agreements to resell | — | 141,053 | 278 | 141,331 |
| Securities borrowed | — | 38,395 | — | 38,395 |
| Receivables from customers and counterparties | — | 7,225 | 641 | 7,866 |
| Other assets ² | 4,420 | 8,499 | 507 ³ | 13,426 |
| Total | \$25,969 | \$204,107 | \$ 1,426 | \$231,502 |

| <i>in millions</i> | Other Financial Liabilities at Fair Value as of December 2012 | | | |
|--|---|------------------|---------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Deposits | \$ — | \$ 4,741 | \$ 359 | \$ 5,100 |
| Securities sold under agreements to repurchase | — | 169,880 | 1,927 | 171,807 |
| Securities loaned | — | 1,558 | — | 1,558 |
| Other secured financings | — | 28,925 | 1,412 | 30,337 |
| Unsecured short-term borrowings | — | 15,011 | 2,584 | 17,595 |
| Unsecured long-term borrowings | — | 10,676 | 1,917 | 12,593 |
| Other liabilities and accrued expenses | — | 769 | 11,274 ⁴ | 12,043 |
| Total | \$ — | \$231,560 | \$19,473 | \$251,033 |

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 \$21.55 billion of level 1 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.

2. Consists of assets classified as held for sale related to the firm's Americas reinsurance business, primarily consisting of securities accounted for as available-for-sale and insurance separate account assets which are accounted for at fair value under other U.S. GAAP.

3. Consists of insurance contracts and derivatives classified as held for sale related to the firm's Americas reinsurance business. See "Insurance Contracts" above and Note 7 for further information about valuation techniques and inputs related to insurance contracts and derivatives, respectively.

4. Includes \$692 million of liabilities classified as held for sale related to the firm's Americas reinsurance business accounted for at fair value under the fair value option.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 during 2013 or 2012. The tables below present information about transfers between level 2 and level 3.

Level 3 Rollforward

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

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

Notes to Consolidated Financial Statements

Level 3 Other Financial Assets at Fair Value for the Year Ended December 2013

| <i>in millions</i> | Balance, beginning of year | Net realized gains/(losses) | Net unrealized gains/(losses) relating to instruments still held at year-end | Purchases | Sales | Issuances | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of year |
|---|----------------------------|-----------------------------|--|-------------|-----------------|-------------|----------------|------------------------|--------------------------|----------------------|
| Securities purchased under agreements to resell | \$ 278 | \$ 4 | \$ — | \$ — | \$ — | \$ — | \$ (16) | \$ — | \$ (203) | \$ 63 |
| Receivables from customers and counterparties | 641 | 1 | 14 | 54 | (474) | — | (1) | — | — | 235 |
| Other assets | 507 | — | — | — | (507) | — | — | — | — | — |
| Total | \$ 1,426 | \$ 5¹ | \$ 14¹ | \$54 | \$ (981) | \$ — | \$ (17) | \$ — | \$ (203) | \$ 298 |

1. The aggregate amounts include gains of approximately \$14 million, \$1 million and \$4 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

Level 3 Other Financial Liabilities at Fair Value for the Year Ended December 2013

| <i>in millions</i> | Balance, beginning of year | Net realized (gains)/losses | Net unrealized (gains)/losses relating to instruments still held at year-end | Purchases | Sales | Issuances | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of year |
|---|----------------------------|-----------------------------|--|---------------|--------------------|----------------|-------------------|------------------------|--------------------------|----------------------|
| Deposits | \$ 359 | \$ — | \$ (6) | \$ — | \$ — | \$ 109 | \$ (6) | \$ — | \$ (71) | \$ 385 |
| Securities sold under agreements to repurchase, at fair value | 1,927 | — | — | — | — | — | (917) | — | — | 1,010 |
| Other secured financings | 1,412 | 10 | 2 | — | — | 708 | (894) | 126 | (345) | 1,019 |
| Unsecured short-term borrowings | 2,584 | 1 | 239 | — | — | 1,624 | (1,502) | 714 | (273) | 3,387 |
| Unsecured long-term borrowings | 1,917 | 22 | 43 | (3) | — | 470 | (558) | 671 | (725) | 1,837 |
| Other liabilities and accrued expenses | 11,274 | (29) | (2) | — | (10,288) | — | (426) | — | (503) | 26 |
| Total | \$19,473 | \$ 4¹ | \$276¹ | \$ (3) | \$ (10,288) | \$2,911 | \$ (4,303) | \$1,511 | \$ (1,917) | \$7,664 |

1. The aggregate amounts include losses of approximately \$184 million, \$88 million and \$8 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.

The net unrealized loss on level 3 other financial liabilities of \$276 million for 2013 primarily reflected losses on certain hybrid financial instruments included in unsecured short-term borrowings, principally due to an increase in global equity prices.

Sales of other liabilities and accrued expenses during 2013 primarily reflected the sale of a majority stake in the firm's European insurance business.

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

Transfers into level 3 of other financial liabilities during 2013 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings from level 2, principally due to decreased transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during 2013 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments, and transfers of subordinated liabilities included in other liabilities and accrued expenses to level 2, principally due to increased price transparency as a result of market transactions in the related underlying investments.

Notes to Consolidated Financial Statements

Level 3 Other Financial Assets at Fair Value for the Year Ended December 2012

| <i>in millions</i> | Balance, beginning of year | Net realized gains/(losses) | Net unrealized gains/(losses) relating to instruments still held at year-end | Purchases | Sales | Issuances | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of year |
|---|----------------------------|-----------------------------|--|---------------|------------|-------------|-----------------|------------------------|--------------------------|----------------------|
| Securities purchased under agreements to resell | \$ 557 | \$ 7 | \$ — | \$ 116 | \$— | \$ — | \$ (402) | \$ — | \$ — | \$ 278 |
| Receivables from customers and counterparties | 795 | — | 37 | 199 | — | — | (17) | — | (373) | 641 |
| Other assets | — | — | 82 | — | — | — | (23) | 448 | — | 507 |
| Total | \$ 1,352 | \$ 7¹ | \$ 119¹ | \$ 315 | \$— | \$ — | \$ (442) | \$448 | \$ (373) | \$ 1,426 |

1. The aggregate amounts include gains/(losses) of approximately \$119 million, \$(3) million and \$10 million reported in "Market making," "Other principal transactions" and "Interest Income," respectively.

Level 3 Other Financial Liabilities at Fair Value for the Year Ended December 2012

| <i>in millions</i> | Balance, beginning of year | Net realized (gains)/losses | Net unrealized (gains)/losses relating to instruments still held at year-end | Purchases | Sales | Issuances | Settlements | Transfers into level 3 | Transfers out of level 3 | Balance, end of year |
|---|----------------------------|-----------------------------|--|----------------|------------|----------------|------------------|------------------------|--------------------------|----------------------|
| Deposits | \$ 13 | \$ — | \$ 5 | \$ — | \$— | \$ 326 | \$ (1) | \$ 16 | \$ — | \$ 359 |
| Securities sold under agreements to repurchase, at fair value | 2,181 | — | — | — | — | — | (254) | — | — | 1,927 |
| Other secured financings | 1,752 | 12 | (51) | — | — | 854 | (1,155) | — | — | 1,412 |
| Unsecured short-term borrowings | 3,294 | (13) | 204 | (13) | — | 762 | (1,206) | 240 | (684) | 2,584 |
| Unsecured long-term borrowings | 2,191 | 31 | 286 | — | — | 329 | (344) | 225 | (801) | 1,917 |
| Other liabilities and accrued expenses | 8,996 | 78 | 941 | 1,617 | — | — | (360) | 2 | — | 11,274 |
| Total | \$18,427 | \$108¹ | \$1,385¹ | \$1,604 | \$— | \$2,271 | \$(3,320) | \$483 | \$(1,485) | \$19,473 |

1. The aggregate amounts include losses of approximately \$1.37 billion, \$113 million and \$15 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.

The net unrealized loss on level 3 other financial liabilities of \$1.39 billion for 2012 primarily reflected the impact of tighter funding spreads and changes in foreign exchange rates on certain insurance liabilities, and an increase in global equity prices and tighter credit spreads on certain hybrid financial instruments.

Transfers into level 3 of other financial assets during 2012 reflected transfers of level 3 assets classified as held for sale related to the firm's reinsurance business, which were previously included in level 3 "Financial instruments owned, at fair value."

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

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

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

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

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

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

| <i>in millions</i> | Gains/(Losses) on Financial Assets and Financial Liabilities at Fair Value Under the Fair Value Option | | |
|--|--|------------------|----------------|
| | Year Ended December | | |
| | 2013 | 2012 | 2011 |
| Receivables from customers and counterparties ¹ | \$ 25 | \$ 190 | \$ 97 |
| Other secured financings | (412) | (190) | (63) |
| Unsecured short-term borrowings ² | (151) | (973) | 2,149 |
| Unsecured long-term borrowings ³ | 683 | (1,523) | 2,336 |
| Other liabilities and accrued expenses ⁴ | (167) | (1,486) | (911) |
| Other ⁵ | (56) | (81) | 90 |
| Total | \$ (78) | \$(4,063) | \$3,698 |

1. Primarily consists of gains/(losses) on certain insurance contracts and certain transfers accounted for as receivables rather than purchases.

2. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$(46) million for 2013, \$(814) million for 2012 and \$2.01 billion for 2011.

3. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$902 million for 2013, \$(887) million for 2012 and \$1.80 billion for 2011.

4. Primarily consists of gains/(losses) on certain insurance contracts and subordinated liabilities issued by consolidated VIEs.

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

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

Loans and Lending Commitments

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

| <i>in millions</i> | As of December | |
|---|----------------|----------|
| | 2013 | 2012 |
| Performing loans and long-term receivables | | |
| Aggregate contractual principal in excess of the related fair value | \$ 3,106 | \$ 2,742 |
| Loans on nonaccrual status and/or more than 90 days past due ¹ | | |
| Aggregate contractual principal in excess of the related fair value | 18,715 | 22,610 |
| Aggregate contractual principal in excess of the related fair value (excluding loans carried at zero fair value and considered uncollectible) | 11,041 | 13,298 |
| Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due | 2,781 | 1,832 |

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

As of December 2013 and December 2012, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$1.22 billion and \$1.99 billion, respectively, and the related total contractual amount of these lending commitments was \$51.54 billion and \$59.29 billion, respectively. See Note 18 for further information about lending commitments.

Long-Term Debt Instruments

The aggregate contractual principal amount of long-term other secured financings for which the fair value option was elected exceeded the related fair value by \$154 million and \$115 million as of December 2013 and December 2012, respectively. The aggregate contractual principal amount of unsecured long-term borrowings for which the fair value option was elected exceeded the related fair value by \$92 million as of December 2013, whereas the fair value exceeded the related aggregate contractual principal amount by \$379 million as of December 2012. The amounts above include both principal and non-principal-protected long-term borrowings.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain/(loss) attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was \$2.69 billion for 2013, \$3.07 billion for 2012 and \$(805) million for 2011. Changes in the fair value of loans and lending commitments are primarily attributable to changes in instrument-specific credit spreads. Substantially all of the firm's performing loans and lending commitments are floating-rate.

Impact of Credit Spreads on Borrowings

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

| <i>in millions</i> | Year Ended December | | |
|-------------------------------------|---------------------|---------|-------|
| | 2013 | 2012 | 2011 |
| Net gains/(losses) including hedges | \$(296) | \$(714) | \$596 |
| Net gains/(losses) excluding hedges | (317) | (800) | 714 |

Note 9.

Collateralized Agreements and Financings

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

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

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

| <i>in millions</i> | As of December | |
|--|------------------|-----------|
| | 2013 | 2012 |
| Securities purchased under agreements to resell ¹ | \$161,732 | \$141,334 |
| Securities borrowed ² | 164,566 | 136,893 |
| Securities sold under agreements to repurchase ¹ | 164,782 | 171,807 |
| Securities loaned ² | 18,745 | 13,765 |

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

2. As of December 2013 and December 2012, \$60.38 billion and \$38.40 billion of securities borrowed and \$973 million and \$1.56 billion of securities loaned were at fair value, respectively.

Resale and Repurchase Agreements

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

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

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

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

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, “repos to maturity” are accounted for as sales. A repo to maturity is a transaction in which the firm transfers a security under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the firm effectively no longer has a repurchase obligation and has relinquished control over the underlying security and, accordingly, accounts for the transaction as a sale. The firm had no repos to maturity outstanding as of December 2013 or December 2012.

Securities Borrowed and Loaned Transactions

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

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

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

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

Securities borrowed and loaned within Securities Services are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such arrangements approximates fair value. While these arrangements are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6, 7 and 8. Had these arrangements been included in the firm’s fair value hierarchy, they would have been classified in level 2 as of December 2013 and December 2012.

Notes to Consolidated Financial Statements

Offsetting Arrangements

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

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

| | As of December 2013 | | | |
|--|---|----------------------------|--|-------------------|
| | Assets | | Liabilities | |
| | Securities purchased under agreements to resell | Securities borrowed | Securities sold under agreements to repurchase | Securities loaned |
| <i>in millions</i> | | | | |
| Amounts included in the consolidated statements of financial condition | | | | |
| Gross carrying value | \$ 190,536 | \$ 172,283 | \$ 183,913 | \$ 23,700 |
| Counterparty netting | (19,131) | (4,955) | (19,131) | (4,955) |
| Total | 171,405¹ | 167,328¹ | 164,782 | 18,745 |
| Amounts that have not been offset in the consolidated statements of financial condition | | | | |
| Counterparty netting | (10,725) | (2,224) | (10,725) | (2,224) |
| Collateral | (152,914) | (147,223) | (141,300) | (16,278) |
| Total | \$ 7,766 | \$ 17,881 | \$ 12,757 | \$ 243 |

| | As of December 2012 | | | |
|--|---|----------------------------|--|-------------------|
| | Assets | | Liabilities | |
| | Securities purchased under agreements to resell | Securities borrowed | Securities sold under agreements to repurchase | Securities loaned |
| <i>in millions</i> | | | | |
| Amounts included in the consolidated statements of financial condition | | | | |
| Gross carrying value | \$ 175,656 | \$ 151,162 | \$ 201,688 | \$ 23,509 |
| Counterparty netting | (29,766) | (9,744) | (29,766) | (9,744) |
| Total | 145,890^{1,2} | 141,418¹ | 171,922² | 13,765 |
| Amounts that have not been offset in the consolidated statements of financial condition | | | | |
| Counterparty netting | (27,512) | (2,583) | (27,512) | (2,583) |
| Collateral | (104,344) | (117,552) | (106,638) | (10,990) |
| Total | \$ 14,034 | \$ 21,283 | \$ 37,772 | \$ 192 |

1. As of December 2013 and December 2012, the firm had \$9.67 billion and \$4.41 billion, respectively, of securities received under resale agreements and \$2.77 billion and \$4.53 billion, respectively, of securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in "Cash and securities segregated for regulatory and other purposes."

2. As of December 2012, the firm classified \$148 million of resale agreements and \$115 million of repurchase agreements related to the firm's Americas reinsurance business as held for sale. See Note 3 for further information about this sale.

Other Secured Financings

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

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

Other secured financings include arrangements that are nonrecourse. As of December 2013 and December 2012, nonrecourse other secured financings were \$1.54 billion and \$1.76 billion, respectively.

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

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. While these financings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these financings been included in the firm's fair value hierarchy, they would have primarily been classified in level 2 and level 3 as of December 2013 and December 2012, respectively.

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

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

- long-term secured financings that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable; and
- weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.

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

| \$ in millions | As of December 2012 | | |
|---|---------------------|-----------------|-----------------|
| | U.S. Dollar | Non-U.S. Dollar | Total |
| Other secured financings (short-term): | | | |
| At fair value | \$16,504 | \$ 6,181 | \$22,685 |
| At amortized cost | 34 | 326 | 360 |
| <i>Weighted average interest rates</i> | <i>6.18%</i> | <i>0.10%</i> | |
| Other secured financings (long-term): | | | |
| At fair value | 6,134 | 1,518 | 7,652 |
| At amortized cost | 577 | 736 | 1,313 |
| <i>Weighted average interest rates</i> | <i>3.38%</i> | <i>2.55%</i> | |
| Total ¹ | \$23,249 | \$ 8,761 | \$32,010 |
| Amount of other secured financings collateralized by: | | | |
| Financial instruments ² | \$22,323 | \$ 8,442 | \$30,765 |
| Other assets | 926 | 319 | 1,245 |

1. Includes \$1.54 billion and \$8.68 billion related to transfers of financial assets accounted for as financings rather than sales as of December 2013 and December 2012, respectively. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value" of \$1.58 billion and \$8.92 billion as of December 2013 and December 2012, respectively.

2. Includes \$14.75 billion and \$17.24 billion of other secured financings collateralized by financial instruments owned, at fair value as of December 2013 and December 2012, respectively, and includes \$9.50 billion and \$13.53 billion of other secured financings collateralized by financial instruments received as collateral and pledged as of December 2013 and December 2012, respectively.

Notes to Consolidated Financial Statements

The table below presents other secured financings by maturity.

| <i>in millions</i> | As of December 2013 |
|--|--------------------------------|
| Other secured financings (short-term) | \$17,290 |
| Other secured financings (long-term): | |
| 2015 | 3,896 |
| 2016 | 1,951 |
| 2017 | 162 |
| 2018 | 781 |
| 2019-thereafter | 734 |
| Total other secured financings (long-term) | 7,524 |
| Total other secured financings | \$24,814 |

Collateral Received and Pledged

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

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

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

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

| <i>in millions</i> | As of December | |
|---|-----------------------|-----------|
| | 2013 | 2012 |
| Collateral available to be delivered or repledged | \$608,390 | \$540,949 |
| Collateral that was delivered or repledged | 450,127 | 397,652 |

The table below presents information about assets pledged.

| <i>in millions</i> | As of December | |
|--|-----------------------|-----------|
| | 2013 | 2012 |
| Financial instruments owned, at fair value pledged to counterparties that: | | |
| Had the right to deliver or repledge | \$ 62,348 | \$ 67,177 |
| Did not have the right to deliver or repledge | 84,799 | 120,980 |
| Other assets pledged to counterparties that: | | |
| Did not have the right to deliver or repledge | 769 | 2,031 |

Note 10.**Securitization Activities**

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

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

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

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

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

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

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

| <i>in millions</i> | Year Ended December | | |
|----------------------------------|---------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Residential mortgages | \$29,772 | \$33,755 | \$40,131 |
| Commercial mortgages | 6,086 | 300 | — |
| Other financial assets | — | — | 269 |
| Total | \$35,858 | \$34,055 | \$40,400 |
| Cash flows on retained interests | \$ 249 | \$ 389 | \$ 569 |

Notes to Consolidated Financial Statements

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

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

| <i>in millions</i> | As of December 2013 | | |
|---|------------------------------|----------------------------------|-----------------------------------|
| | Outstanding Principal Amount | Fair Value of Retained Interests | Fair Value of Purchased Interests |
| U.S. government agency-issued collateralized mortgage obligations | \$61,543 | \$3,455 | \$ — |
| Other residential mortgage-backed | 2,072 | 46 | — |
| Other commercial mortgage-backed | 7,087 | 140 | 153 |
| CDOs, CLOs and other | 6,861 | 86 | 8 |
| Total¹ | \$77,563 | \$3,727 | \$161 |

| <i>in millions</i> | As of December 2012 | | |
|---|------------------------------|----------------------------------|-----------------------------------|
| | Outstanding Principal Amount | Fair Value of Retained Interests | Fair Value of Purchased Interests |
| U.S. government agency-issued collateralized mortgage obligations | \$57,685 | \$4,654 | \$ — |
| Other residential mortgage-backed | 3,656 | 106 | — |
| Other commercial mortgage-backed | 1,253 | 1 | 56 |
| CDOs, CLOs and other | 8,866 | 51 | 331 |
| Total¹ | \$71,460 | \$4,812 | \$387 |

1. Outstanding principal amount includes \$418 million and \$835 million as of December 2013 and December 2012, respectively, related to securitization entities in which the firm's only continuing involvement is retained servicing which is not a variable interest.

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

- the outstanding principal amount and fair value of retained interests for U.S. government agency-issued collateralized mortgage obligations as of December 2013 primarily relate to securitizations during 2013 and 2012, and as of December 2012 primarily relate to securitizations during 2012 and 2011;
- the outstanding principal amount and fair value of retained interests for other residential mortgage-backed obligations as of both December 2013 and December 2012 primarily relate to prime and Alt-A securitizations during 2007 and 2006;
- the outstanding principal amount and fair value of retained interests for other commercial mortgage-backed obligations as of December 2013 primarily relate to securitizations during 2013. As of December 2012, the outstanding principal amount primarily relates to securitizations during 2012 and 2007 and the fair value of retained interests primarily relates to securitizations during 2012; and
- the outstanding principal amount and fair value of retained interests for CDOs, CLOs and other as of December 2013 primarily relate to CDO and CLO securitizations during 2007 and as of December 2012 primarily relate to securitizations during 2007 and 2006.

Notes to Consolidated Financial Statements

In addition to the interests in the table above, the firm had other continuing involvement in the form of derivative transactions and guarantees with certain nonconsolidated VIEs. The carrying value of these derivatives and guarantees was a net asset of \$26 million and \$45 million as of December 2013 and December 2012, respectively. The notional amounts of these derivatives and guarantees are included in maximum exposure to loss in the nonconsolidated VIE tables in Note 11.

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

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

| <i>\$ in millions</i> | As of December 2013 | |
|----------------------------------|----------------------------|--------------------|
| | Type of Retained Interests | |
| | Mortgage-Backed | Other ¹ |
| Fair value of retained interests | \$3,641 | \$ 86 |
| Weighted average life (years) | 8.3 | 1.9 |
| Constant prepayment rate | 7.5% | N.M. |
| Impact of 10% adverse change | \$ (36) | N.M. |
| Impact of 20% adverse change | (64) | N.M. |
| Discount rate | 3.9% | N.M. |
| Impact of 10% adverse change | \$ (85) | N.M. |
| Impact of 20% adverse change | (164) | N.M. |

| <i>\$ in millions</i> | As of December 2012 | |
|----------------------------------|----------------------------|--------------------|
| | Type of Retained Interests | |
| | Mortgage-Backed | Other ¹ |
| Fair value of retained interests | \$4,761 | \$ 51 |
| Weighted average life (years) | 8.2 | 2.0 |
| Constant prepayment rate | 10.9% | N.M. |
| Impact of 10% adverse change | \$ (57) | N.M. |
| Impact of 20% adverse change | (110) | N.M. |
| Discount rate | 4.6% | N.M. |
| Impact of 10% adverse change | \$ (96) | N.M. |
| Impact of 20% adverse change | (180) | 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 December 2013 and December 2012. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$86 million and \$51 million as of December 2013 and December 2012, respectively.

Note 11.

Variable Interest Entities

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

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

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

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

Real Estate, Credit-Related and Other Investing VIEs.

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

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

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

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

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

VIE Consolidation Analysis

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

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

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

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

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

Nonconsolidated VIEs

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

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

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

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

- Substantially all assets held by the firm related to mortgage-backed, corporate CDO and CLO, other asset-backed, and investment fund VIEs are included in "Financial instruments owned, at fair value." Substantially all liabilities held by the firm related to corporate CDO and CLO and other asset-backed VIEs are included in "Financial instruments sold, but not yet purchased, at fair value."
- Assets held by the firm related to real estate, credit-related and other investing VIEs are primarily included in "Financial instruments owned, at fair value" and "Receivables from customers and counterparties," and liabilities are substantially all included in "Financial Instruments sold, but not yet purchased, at fair value."
- Assets held by the firm related to power-related VIEs are primarily included in "Financial instruments owned, at fair value" and "Other assets."

Notes to Consolidated Financial Statements

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

| | Nonconsolidated VIEs | | | | | | |
|---|------------------------------|-------------------------|---|--------------------|---------------|------------------|------------------|
| | As of December 2012 | | | | | | |
| <i>in millions</i> | Mortgage-backed | Corporate CDOs and CLOs | Real estate, credit-related and other investing | Other asset-backed | Power-related | Investment funds | Total |
| Assets in VIE | \$79,171 ² | \$23,842 | \$9,244 | \$3,510 | \$147 | \$1,898 | \$117,812 |
| Carrying Value of the Firm's Variable Interests | | | | | | | |
| Assets | 6,269 | 1,193 | 1,801 | 220 | 32 | 4 | 9,519 |
| Liabilities | — | 12 | — | 30 | — | — | 42 |
| Maximum Exposure to Loss in Nonconsolidated VIEs | | | | | | | |
| Retained interests | 4,761 | 51 | — | — | — | — | 4,812 |
| Purchased interests | 1,162 | 659 | — | 204 | — | — | 2,025 |
| Commitments and guarantees ¹ | — | 1 | 438 | — | — | 1 | 440 |
| Derivatives ¹ | 1,574 | 6,761 | — | 952 | — | — | 9,287 |
| Loans and investments | 39 | — | 1,801 | — | 32 | 4 | 1,876 |
| Total | \$ 7,536 ² | \$ 7,472 | \$2,239 | \$1,156 | \$ 32 | \$ 5 | \$ 18,440 |

1. The aggregate amounts include \$2.01 billion and \$3.25 billion as of December 2013 and December 2012, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.

2. Assets in VIE and maximum exposure to loss include \$4.55 billion and \$900 million, respectively, as of December 2013, and \$3.57 billion and \$1.72 billion, respectively, as of December 2012, related to CDOs backed by mortgage obligations.

Notes to Consolidated Financial Statements

Consolidated VIEs

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

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

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

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

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

| | Consolidated VIEs | | | |
|--|---|--|---------------------------|----------------|
| | As of December 2012 | | | |
| | Real estate, credit-related and other investing | CDOs, mortgage-backed and other asset-backed | Principal-protected notes | Total |
| <i>in millions</i> | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 236 | \$107 | \$ — | \$ 343 |
| Cash and securities segregated for regulatory and other purposes | 134 | — | 92 | 226 |
| Receivables from brokers, dealers and clearing organizations | 5 | — | — | 5 |
| Financial instruments owned, at fair value | 2,958 | 763 | 124 | 3,845 |
| Other assets | 1,080 | — | — | 1,080 |
| Total | \$4,413 | \$870 | \$ 216 | \$5,499 |
| Liabilities | | | | |
| Other secured financings | \$ 594 | \$699 | \$ 301 | \$1,594 |
| Financial instruments sold, but not yet purchased, at fair value | — | 107 | — | 107 |
| Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings | — | — | 1,584 | 1,584 |
| Unsecured long-term borrowings | 4 | — | 334 | 338 |
| Other liabilities and accrued expenses | 1,478 | — | — | 1,478 |
| Total | \$2,076 | \$806 | \$2,219 | \$5,101 |

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 December | |
|--|-----------------|-----------------|
| | 2013 | 2012 |
| Property, leasehold improvements and equipment | \$ 9,196 | \$ 8,217 |
| Goodwill and identifiable intangible assets | 4,376 | 5,099 |
| Income tax-related assets ¹ | 5,241 | 5,620 |
| Equity-method investments ² | 417 | 453 |
| Miscellaneous receivables and other | 3,279 | 20,234 |
| Total | \$22,509 | \$39,623 |

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

2. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of \$6.07 billion and \$5.54 billion as of December 2013 and December 2012, respectively, which are included in "Financial instruments owned, at fair value." The firm has generally elected the fair value option for such investments acquired after the fair value option became available.

Assets Held for Sale

In the fourth quarter of 2012, the firm classified its Americas reinsurance business within its Institutional Client Services segment as held for sale. As of December 2012, assets related to this business were \$16.92 billion. In the table above, \$16.77 billion of such assets were included in "Miscellaneous receivables and other" (primarily available-for-sale securities and separate account assets) and \$149 million were included in "Goodwill and identifiable intangible assets." Liabilities related to this business of \$14.62 billion as of December 2012 were included in "Other liabilities and accrued expenses."

The firm completed the sale of a majority stake in its Americas reinsurance business in April 2013. See Note 3 for further information.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment in the table above is presented net of accumulated depreciation and amortization of \$9.04 billion and \$9.05 billion as of December 2013 and December 2012, respectively. Property, leasehold improvements and equipment included \$6.02 billion and \$6.20 billion as of December 2013 and December 2012, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities, including VIEs, consolidated by the firm.

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

Impairments

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

Primarily as a result of a decline in the market conditions in which certain of the firm's consolidated investments operate, during 2013 and 2012, the firm determined certain assets were impaired and recorded impairment losses of \$216 million (\$160 million related to property, leasehold improvements and equipment and \$56 million related to identifiable intangible assets) for 2013 and \$404 million (\$253 million related to property, leasehold improvements and equipment and \$151 million related to identifiable intangible and other assets) for 2012.

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

Note 13.**Goodwill and Identifiable Intangible Assets**

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

| <i>in millions</i> | Goodwill | |
|--|----------------|----------------|
| | As of December | |
| | 2013 | 2012 |
| Investment Banking: | | |
| Financial Advisory | \$ 98 | \$ 98 |
| Underwriting | 183 | 183 |
| Institutional Client Services: | | |
| Fixed Income, Currency and Commodities Client Execution | 269 | 269 |
| Equities Client Execution | 2,404 | 2,402 |
| Securities Services | 105 | 105 |
| Investing & Lending | 60 | 59 |
| Investment Management | 586 | 586 |
| Total | \$3,705 | \$3,702 |

| <i>in millions</i> | Identifiable Intangible Assets | |
|---|-----------------------------------|----------------|
| | As of December | |
| | 2013 | 2012 |
| Investment Banking: | | |
| Financial Advisory | \$ — | \$ 1 |
| Institutional Client Services: | | |
| Fixed Income, Currency and Commodities Client Execution ¹ | 35 | 421 |
| Equities Client Execution ² | 348 | 565 |
| Investing & Lending | 180 | 281 |
| Investment Management | 108 | 129 |
| Total | \$ 671 | \$1,397 |

1. The decrease from December 2012 to December 2013 is related to the sale of the firm’s television broadcast royalties in the first quarter of 2013.

2. The decrease from December 2012 to December 2013 is primarily related to the sale of a majority stake in the firm’s Americas reinsurance business in April 2013. See Note 3 for further information about this sale.

Goodwill

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

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

The quantitative goodwill impairment test consists of two steps.

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

The firm performed a quantitative goodwill impairment test during the fourth quarter of 2012 (2012 quantitative goodwill test) and determined that goodwill was not impaired.

When performing the quantitative test in 2012, the firm estimated the fair value of each reporting unit and compared it to the respective reporting unit’s net book value (estimated carrying value). The reporting units were valued using relative value and residual income valuation techniques because the firm believes market participants would use these techniques to value the firm’s reporting units. The net book value of each reporting unit reflected an allocation of total shareholders’ equity and represented the estimated amount of shareholders’ equity required to support the activities of the reporting unit under guidelines issued by the Basel Committee on Banking Supervision (Basel Committee) in December 2010. In performing its 2012 quantitative goodwill test, the firm determined that goodwill was not impaired, and the estimated fair value of the firm’s reporting units, in which substantially all of the firm’s goodwill is held, significantly exceeded their estimated carrying values.

Notes to Consolidated Financial Statements

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

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

- **Macroeconomic conditions.** Since the 2012 quantitative goodwill test was performed, the firm's general operating environment improved as credit spreads tightened, global equity prices increased significantly, levels of volatility were generally lower and industry-wide equity underwriting activity improved.
- **Industry and market considerations.** Since the 2012 quantitative goodwill test was performed, industry-wide metrics have trended positively and many industry participants, including the firm, experienced increases in stock price, price-to-book multiples and price-to-earnings multiples. In addition, clarity was obtained on a number of regulations. It is early in the process of determining the impact of these regulations, the rules are highly complex and their full impact will not be known until market practices are fully developed. However, the firm does not expect compliance to have a significant negative impact on reporting unit results.
- **Cost factors.** Although certain expenses increased, there were no significant negative changes to the firm's overall cost structure since the 2012 quantitative goodwill test was performed.

- **Overall financial performance.** During 2013, the firm's net earnings, pre-tax margin, diluted earnings per share, return on average common shareholders' equity and book value per common share increased as compared with 2012.
- **Entity-specific events.** There were no entity-specific events since the 2012 quantitative goodwill test was performed that would have had a significant negative impact on the valuation of the firm's reporting units.
- **Events affecting reporting units.** There were no events since the 2012 quantitative goodwill test was performed that would have had a significant negative impact on the valuation of the firm's reporting units.
- **Sustained changes in stock price.** Since the 2012 quantitative goodwill test was performed, the firm's stock price has increased significantly. In addition, the stock price exceeded book value per common share throughout most of 2013.

The firm also considered other factors in its qualitative assessment, including changes in the book value of reporting units, the estimated excess of the fair values as compared with the carrying values for the reporting units in the 2012 quantitative goodwill test, projected earnings and the cost of equity. The firm considered all of the above factors in the aggregate as part of its qualitative assessment.

As a result of the 2013 qualitative assessment, the firm determined that it was more likely than not that the fair value of each of the reporting units exceeded its respective carrying amount. Therefore, the firm determined that goodwill was not impaired and that a quantitative goodwill impairment test was not required.

Identifiable Intangible Assets

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

| <i>\$ in millions</i> | | As of December | | |
|---|---------------------------------|-----------------|--|----------|
| | | 2013 | Weighted Average Remaining Lives (years) | 2012 |
| Customer lists | Gross carrying amount | \$ 1,102 | | \$ 1,099 |
| | Accumulated amortization | (706) | | (643) |
| | Net carrying amount | 396 | 7 | 456 |
| Commodities-related intangibles ¹ | Gross carrying amount | 510 | | 513 |
| | Accumulated amortization | (341) | | (226) |
| | Net carrying amount | 169 | 8 | 287 |
| Television broadcast royalties ² | Gross carrying amount | — | | 560 |
| | Accumulated amortization | — | | (186) |
| | Net carrying amount | — | N/A ² | 374 |
| Insurance-related intangibles ³ | Gross carrying amount | — | | 380 |
| | Accumulated amortization | — | | (231) |
| | Net carrying amount | — | N/A ³ | 149 |
| Other ⁴ | Gross carrying amount | 906 | | 950 |
| | Accumulated amortization | (800) | | (819) |
| | Net carrying amount | 106 | 11 | 131 |
| Total | Gross carrying amount | 2,518 | | 3,502 |
| | Accumulated amortization | (1,847) | | (2,105) |
| | Net carrying amount | \$ 671 | 8 | \$ 1,397 |

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

2. These assets were sold in the first quarter of 2013 and total proceeds received approximated carrying value.

3. These assets were related to the firm's Americas reinsurance business, in which a majority stake was sold in April 2013. See Note 3 for further information about this sale.

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

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

The tables below present amortization expense for identifiable intangible assets for 2013, 2012 and 2011, and the estimated future amortization expense through 2018 for identifiable intangible assets as of December 2013.

| <i>in millions</i> | Year Ended December | | |
|----------------------|---------------------|-------|-------|
| | 2013 | 2012 | 2011 |
| Amortization expense | \$205 | \$338 | \$389 |

| <i>in millions</i> | As of December 2013 |
|--------------------|---|
| | Estimated future amortization expense: |
| 2014 | \$127 |
| 2015 | 95 |
| 2016 | 92 |
| 2017 | 90 |
| 2018 | 80 |

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

Note 14. Deposits

The table below presents deposits held in U.S. and non-U.S. offices, substantially all of which were interest-bearing. Substantially all U.S. deposits were held at Goldman Sachs Bank USA (GS Bank USA) as of December 2013 and December 2012. Substantially all non-U.S. deposits were held at Goldman Sachs International Bank (GSIB) as of December 2013 and held at Goldman Sachs Bank (Europe) plc (GS Bank Europe) and GSIB as of December 2012. On January 18, 2013, GS Bank Europe surrendered its banking license to the Central Bank of Ireland after transferring its deposits to GSIB and subsequently changed its name to Goldman Sachs Ireland Finance plc.

| <i>in millions</i> | As of December | |
|--------------------|-----------------------------|-----------------------------|
| | 2013 | 2012 |
| U.S. offices | \$61,016 | \$62,377 |
| Non-U.S. offices | 9,791 | 7,747 |
| Total | \$70,807¹ | \$70,124¹ |

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

| <i>in millions</i> | As of December 2013 | | |
|--------------------|-----------------------------|----------------------------|-----------------------------|
| | U.S. | Non-U.S. | Total |
| 2014 | \$ 4,047 | \$5,080 | \$ 9,127 |
| 2015 | 4,269 | — | 4,269 |
| 2016 | 2,285 | — | 2,285 |
| 2017 | 2,796 | — | 2,796 |
| 2018 | 1,830 | — | 1,830 |
| 2019 - thereafter | 4,481 | — | 4,481 |
| Total | \$19,708² | \$5,080³ | \$24,788¹ |

1. Includes \$7.26 billion and \$5.10 billion as of December 2013 and December 2012, respectively, of time deposits accounted for at fair value under the fair value option. See Note 8 for further information about deposits accounted for at fair value.

2. Includes \$42 million greater than \$100,000, of which \$31 million matures within three months, \$4 million matures within three to six months, \$4 million matures within six to twelve months, and \$3 million matures after twelve months.

3. Substantially all were greater than \$100,000.

As of December 2013 and December 2012, savings and demand deposits, which represent deposits with no stated maturity, were \$46.02 billion and \$46.51 billion, respectively, which were recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the firm designates certain derivatives as fair value hedges on substantially all of its time deposits for which it has not elected the fair value option. Accordingly, \$17.53 billion and \$18.52 billion as of December 2013 and December 2012, respectively, of time deposits were effectively converted from fixed-rate obligations to floating-rate obligations and were recorded at amounts that generally approximate fair value. While these savings and demand deposits and time deposits are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these deposits been included in the firm's fair value hierarchy, they would have been classified in level 2.

Note 15.**Short-Term Borrowings**

Short-term borrowings were comprised of the following:

| <i>in millions</i> | As of December | |
|---------------------------------------|-----------------|-----------------|
| | 2013 | 2012 |
| Other secured financings (short-term) | \$17,290 | \$23,045 |
| Unsecured short-term borrowings | 44,692 | 44,304 |
| Total | \$61,982 | \$67,349 |

See Note 9 for further information about other secured financings.

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

The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under the fair value option. See Note 8 for further information about unsecured short-term borrowings that are accounted for at fair value. The carrying value of unsecured short-term borrowings that are not recorded at fair value generally approximates fair value due to the short-term nature of the obligations. While these unsecured short-term borrowings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2013 and December 2012.

The table below presents unsecured short-term borrowings.

| <i>\$ in millions</i> | As of December | |
|--|-----------------|-----------------|
| | 2013 | 2012 |
| Current portion of unsecured long-term borrowings ¹ | \$25,312 | \$25,344 |
| Hybrid financial instruments | 13,391 | 12,295 |
| Promissory notes | 292 | 260 |
| Commercial paper | 1,011 | 884 |
| Other short-term borrowings | 4,686 | 5,521 |
| Total | \$44,692 | \$44,304 |
| Weighted average interest rate ² | 1.65% | 1.57% |

1. Includes \$24.20 billion and \$24.65 billion as of December 2013 and December 2012, respectively, issued by Group Inc.

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

Note 16.**Long-Term Borrowings**

Long-term borrowings were comprised of the following:

| <i>in millions</i> | As of December | |
|--------------------------------------|------------------|------------------|
| | 2013 | 2012 |
| Other secured financings (long-term) | \$ 7,524 | \$ 8,965 |
| Unsecured long-term borrowings | 160,965 | 167,305 |
| Total | \$168,489 | \$176,270 |

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

| <i>in millions</i> | As of December 2013 | | |
|--|---------------------|-----------------|------------------|
| | U.S. Dollar | Non-U.S. Dollar | Total |
| Fixed-rate obligations ¹ | | | |
| Group Inc. | \$ 83,537 | \$34,362 | \$117,899 |
| Subsidiaries | 1,978 | 989 | 2,967 |
| Floating-rate obligations ² | | | |
| Group Inc. | 19,446 | 16,168 | 35,614 |
| Subsidiaries | 3,144 | 1,341 | 4,485 |
| Total | \$108,105 | \$52,860 | \$160,965 |

| <i>in millions</i> | As of December 2012 | | |
|--|---------------------|-----------------|------------------|
| | U.S. Dollar | Non-U.S. Dollar | Total |
| Fixed-rate obligations ¹ | | | |
| Group Inc. | \$ 86,170 | \$36,207 | \$122,377 |
| Subsidiaries | 2,391 | 662 | 3,053 |
| Floating-rate obligations ² | | | |
| Group Inc. | 17,075 | 19,227 | 36,302 |
| Subsidiaries | 3,719 | 1,854 | 5,573 |
| Total | \$109,355 | \$57,950 | \$167,305 |

1. Interest rates on U.S. dollar-denominated debt ranged from 1.35% to 10.04% (with a weighted average rate of 5.19%) and 0.20% to 10.04% (with a weighted average rate of 5.48%) as of December 2013 and December 2012, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.33% to 13.00% (with a weighted average rate of 4.29%) and 0.10% to 14.85% (with a weighted average rate of 4.66%) as of December 2013 and December 2012, respectively.

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

Notes to Consolidated Financial Statements

The table below presents unsecured long-term borrowings by maturity date and reflects the following:

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

| <i>in millions</i> | As of December 2013 | | |
|---------------------------|---------------------|----------------|------------------|
| | Group Inc. | Subsidiaries | Total |
| 2015 | \$ 23,170 | \$ 682 | \$ 23,852 |
| 2016 | 21,634 | 220 | 21,854 |
| 2017 | 20,044 | 489 | 20,533 |
| 2018 | 21,843 | 1,263 | 23,106 |
| 2019 - thereafter | 66,822 | 4,798 | 71,620 |
| Total ¹ | \$153,513 | \$7,452 | \$160,965 |

1. Includes \$7.48 billion of adjustments to the carrying value of certain unsecured long-term borrowings resulting from the application of hedge accounting by year of maturity as follows: \$301 million in 2015, \$775 million in 2016, \$999 million in 2017, \$970 million in 2018 and \$4.43 billion in 2019 and thereafter.

The firm designates certain derivatives as fair value hedges to effectively convert a substantial portion of its fixed-rate unsecured long-term borrowings which are not accounted for at fair value into floating-rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of December 2013 and December 2012. See Note 7 for further information about hedging activities. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to changes in the firm's

own credit spreads would be an increase of approximately 3% and 1% in the carrying value of total unsecured long-term borrowings as of December 2013 and December 2012, respectively. As these borrowings are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2013 and December 2012.

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

| <i>in millions</i> | As of December 2013 | | |
|--------------------------------|---------------------|----------------|------------------|
| | Group Inc. | Subsidiaries | Total |
| Fixed-rate obligations | | | |
| At fair value | \$ — | \$ 471 | \$ 471 |
| At amortized cost ¹ | 31,741 | 1,959 | 33,700 |
| Floating-rate obligations | | | |
| At fair value | 8,671 | 2,549 | 11,220 |
| At amortized cost ¹ | 113,101 | 2,473 | 115,574 |
| Total | \$153,513 | \$7,452 | \$160,965 |

| <i>in millions</i> | As of December 2012 | | |
|--------------------------------|---------------------|----------------|------------------|
| | Group Inc. | Subsidiaries | Total |
| Fixed-rate obligations | | | |
| At fair value | \$ 28 | \$ 94 | \$ 122 |
| At amortized cost ¹ | 22,500 | 2,047 | 24,547 |
| Floating-rate obligations | | | |
| At fair value | 8,166 | 4,305 | 12,471 |
| At amortized cost ¹ | 127,985 | 2,180 | 130,165 |
| Total | \$158,679 | \$8,626 | \$167,305 |

1. The weighted average interest rates on the aggregate amounts were 2.73% (5.23% related to fixed-rate obligations and 2.04% related to floating-rate obligations) and 2.47% (5.26% related to fixed-rate obligations and 1.98% related to floating-rate obligations) as of December 2013 and December 2012, respectively. These rates exclude financial instruments accounted for at fair value under the fair value option.

Subordinated Borrowings

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated borrowings, which are junior to senior borrowings. As of both December 2013 and December 2012, subordinated debt had maturities ranging from 2015 to 2038. The table below presents subordinated borrowings.

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

| \$ in millions | As of December 2012 | | |
|--------------------------------------|---------------------|-----------------|-------------------|
| | Par Amount | Carrying Amount | Rate ¹ |
| Subordinated debt ² | \$14,409 | \$17,358 | 4.24% |
| Junior subordinated debt | 2,835 | 4,228 | 3.16% |
| Total subordinated borrowings | \$17,244 | \$21,586 | 4.06% |

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

2. Par amount and carrying amount of subordinated debt issued by Group Inc. was \$13.94 billion and \$16.41 billion, respectively, as of December 2013, and \$13.85 billion and \$16.80 billion, respectively, as of December 2012.

Junior Subordinated Debt

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

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

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

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

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

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

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

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

Note 17.**Other Liabilities and Accrued Expenses**

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

| <i>in millions</i> | As of December | |
|--|-----------------|---------------------|
| | 2013 | 2012 |
| Compensation and benefits | \$ 7,874 | \$ 8,292 |
| Insurance-related liabilities ¹ | — | 10,274 |
| Noncontrolling interests ² | 326 | 508 |
| Income tax-related liabilities ³ | 1,974 | 2,724 |
| Employee interests in consolidated funds | 210 | 246 |
| Subordinated liabilities issued by consolidated VIEs | 477 | 1,360 |
| Accrued expenses and other | 5,183 | 18,991 ⁴ |
| Total | \$16,044 | \$42,395 |

1. Represents liabilities for future benefits and unpaid claims carried at fair value under the fair value option related to the firm's European insurance business, in which a majority stake was sold in December 2013. See Note 3 for further information.
2. Primarily relates to consolidated investment funds.
3. See Note 24 for further information about income taxes.
4. Includes \$14.62 billion of liabilities classified as held for sale as of December 2012 related to the firm's Americas reinsurance business, in which a majority stake was sold in April 2013. See Note 12 for further information.

Note 18.**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 December 2013 | | | | Total Commitments as of December | |
|---|--|-----------------|-----------------|---------------------|-------------------------------------|------------------|
| | 2014 | 2015- 2016 | 2017- 2018 | 2019- Thereafter | 2013 | 2012 |
| Commitments to extend credit | | | | | | |
| Commercial lending: | | | | | | |
| Investment-grade | \$ 9,735 | \$16,903 | \$32,960 | \$ 901 | \$ 60,499 | \$ 53,736 |
| Non-investment-grade | 4,339 | 6,590 | 10,396 | 4,087 | 25,412 | 21,102 |
| Warehouse financing | 995 | 721 | — | — | 1,716 | 784 |
| Total commitments to extend credit | 15,069 | 24,214 | 43,356 | 4,988 | 87,627 | 75,622 |
| Contingent and forward starting resale and securities borrowing agreements | 34,410 | — | — | — | 34,410 | 47,599 |
| Forward starting repurchase and secured lending agreements | 8,256 | — | — | — | 8,256 | 6,144 |
| Letters of credit ¹ | 465 | 21 | 10 | 5 | 501 | 789 |
| Investment commitments | 1,359 | 5,387 | 20 | 350 | 7,116 | 7,339 |
| Other | 3,734 | 102 | 54 | 65 | 3,955 | 4,624 |
| Total commitments | \$63,293 | \$29,724 | \$43,440 | \$5,408 | \$141,865 | \$142,117 |

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

Commitments to Extend Credit

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

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

As of December 2013 and December 2012, approximately \$35.66 billion and \$16.09 billion, respectively, of the firm's lending commitments were held for investment and were accounted for on an accrual basis. The carrying value and the estimated fair value of such lending commitments were liabilities of \$132 million and \$1.02 billion, respectively, as of December 2013, and \$63 million and \$523 million,

respectively, as of December 2012. As these lending commitments are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these commitments been included in the firm's fair value hierarchy, they would have primarily been classified in level 3 as of December 2013 and December 2012.

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

Notes to Consolidated Financial Statements

Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was \$29.24 billion and \$32.41 billion as of December 2013 and December 2012, respectively. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the firm realizes on such commitments, up to a maximum of approximately \$950 million. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$1.13 billion, of which \$870 million and \$300 million of protection had been provided as of December 2013 and December 2012, respectively. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG. These instruments primarily include credit default swaps that reference the same or similar underlying instrument or entity, or credit default swaps that reference a market index.

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

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

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

Investment Commitments

The firm's investment commitments consist of commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages. These commitments include \$659 million and \$872 million as of December 2013 and December 2012, respectively, related to real estate private investments and \$6.46 billion and \$6.47 billion as of December 2013 and December 2012, respectively, related to corporate and other private investments. Of these amounts, \$5.48 billion and \$6.21 billion as of December 2013 and December 2012, respectively, relate to commitments to invest in funds managed by the firm. If these commitments are called, they would be funded at market value on the date of investment.

Leases

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

| <i>in millions</i> | As of December 2013 |
|--------------------|--------------------------------|
| 2014 | \$ 387 |
| 2015 | 340 |
| 2016 | 280 |
| 2017 | 271 |
| 2018 | 222 |
| 2019 - thereafter | 1,195 |
| Total | \$2,695 |

Rent charged to operating expense was \$324 million for 2013, \$374 million for 2012 and \$475 million for 2011.

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

Contingencies

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

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

- **Representations and Warranties.** The firm has not been a significant originator of residential mortgage loans. The firm did purchase loans originated by others and generally received loan-level representations of the type described below from the originators. During the period 2005 through 2008, the firm sold approximately \$10 billion of loans to government-sponsored enterprises and approximately \$11 billion of loans to other third parties. In addition, the firm transferred loans to trusts and other mortgage securitization vehicles. As of December 2013 and December 2012, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately \$29 billion and \$35 billion, respectively. These amounts reflect paydowns and cumulative losses of approximately \$96 billion (\$22 billion of which are cumulative losses) as of December 2013 and approximately \$90 billion (\$20 billion of which are cumulative losses) as of December 2012. A small number of these Goldman Sachs-issued securitizations with an outstanding principal balance of \$463 million and total paydowns and cumulative losses of \$1.60 billion (\$534 million of which are cumulative losses) as of December 2013, and an outstanding principal balance of \$540 million and total paydowns and cumulative losses of \$1.52 billion (\$508 million of which are cumulative losses) as of December 2012, were structured with credit protection obtained from monoline insurers. In connection with both sales of loans and securitizations, the firm provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the firm purchased the loans.

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

The firm has received repurchase claims for residential mortgage loans based on alleged breaches of representations from government-sponsored enterprises, other third parties, trusts and other mortgage securitization vehicles, which have not been significant. During the years ended December 2013 and December 2012, the firm repurchased loans with an unpaid principal balance of less than \$10 million. The loss related to the repurchase of these loans was not material for 2013 or 2012. The firm has received a communication from counsel purporting to represent certain institutional investors in portions of Goldman Sachs-issued securitizations between 2003 and 2007, such securitizations having a total original notional face amount of approximately \$150 billion, offering to enter into a "settlement dialogue" with respect to alleged breaches of representations made by Goldman Sachs in connection with such offerings.

Ultimately, the firm's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors including the following: (i) the extent to which these claims are actually made within the statute of limitations taking into consideration the agreements to toll the statute of limitations the firm has entered into with trustees representing trusts; (ii) the extent to which there are underlying breaches of representations that give rise to valid claims for repurchase; (iii) in the case of loans originated by others, the extent to which the firm could be held liable and, if it is, the firm's ability to pursue and collect on any claims against the parties who made representations to the firm; (iv) macroeconomic factors, including developments in the residential real estate market; and (v) legal and regulatory developments. See Note 27 for more information about the agreements the firm has entered into to toll the statute of limitations.

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

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

In connection with the sale of Litton, the firm provided customary representations and warranties, and indemnities for breaches of these representations and warranties, to Ocwen. These indemnities are subject to various limitations, and are capped at approximately \$50 million. The firm has not yet received any claims under these indemnities. The firm also agreed to provide specific indemnities to Ocwen related to claims made by third parties with respect to servicing activities during the period that Litton was owned by the firm and which are in excess of the related reserves accrued for such matters by Litton at the time of the sale. These indemnities are capped at approximately \$125 million. The firm has recorded a reserve for the portion of these potential losses that it believes is probable and can be reasonably estimated. As of December 2013, claims under these indemnities, and payments made in connection with these claims, were not material to the firm.

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

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

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

Notes to Consolidated Financial Statements

In February 2013, Group Inc. and GS Bank USA entered into a settlement with the Federal Reserve Board relating to the servicing of residential mortgage loans and foreclosure processing. This settlement amends the Order which is described above, provides for the termination of the independent foreclosure review under the Order and calls for Group Inc. and GS Bank USA collectively to: (i) make cash payments into a settlement fund for distribution to eligible borrowers; and (ii) provide other assistance for foreclosure prevention and loss mitigation through January 2015. The other provisions of the Order will remain in effect.

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

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

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

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

| | As of December 2013 | | | | | Total |
|--|---------------------------------|--|-----------|-----------|-----------------|-----------|
| | Carrying Value of Net Liability | Maximum Payout/Notional Amount by Period of Expiration | | | | |
| | | 2014 | 2015-2016 | 2017-2018 | 2019-Thereafter | |
| <i>in millions</i> | | | | | | |
| Derivatives ¹ | \$7,634 | \$517,634 | \$180,543 | \$39,367 | \$57,736 | \$795,280 |
| Securities lending indemnifications ² | — | 26,384 | — | — | — | 26,384 |
| Other financial guarantees ³ | 213 | 1,361 | 620 | 1,140 | 1,046 | 4,167 |

1. These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore these amounts do not reflect the firm's overall risk related to its derivative activities. As of December 2012, the carrying value of the net liability and the notional amount related to derivative guarantees were \$8.58 billion and \$663.15 billion, respectively.

2. Collateral held by the lenders in connection with securities lending indemnifications was \$27.14 billion as of December 2013. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees. As of December 2012, the maximum payout and collateral held related to securities lending indemnifications were \$27.12 billion and \$27.89 billion, respectively.

3. Other financial guarantees excludes certain commitments to issue standby letters of credit that are included in "Commitments to extend credit." See table in "Commitments" above for a summary of the firm's commitments. As of December 2012, the carrying value of the net liability and the maximum payout related to other financial guarantees were \$152 million and \$3.48 billion, respectively.

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

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

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

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

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

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

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the consolidated statements of financial condition as of December 2013 and December 2012.

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 statements of financial condition as of December 2013 or December 2012.

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

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

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

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

Note 19.

Shareholders' Equity

Common Equity

Dividends declared per common share were \$2.05 in 2013, \$1.77 in 2012 and \$1.40 in 2011. On January 15, 2014, Group Inc. declared a dividend of \$0.55 per common share to be paid on March 28, 2014 to common shareholders of record on February 28, 2014.

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

During 2013, 2012 and 2011, the firm repurchased 39.3 million, 42.0 million and 47.0 million shares of its common stock at an average cost per share of \$157.11, \$110.31 and \$128.33, for a total cost of \$6.17 billion, \$4.64 billion and \$6.04 billion, respectively, under the share repurchase program. In addition, pursuant to the terms of certain share-based compensation plans, employees may remit shares to the firm or the firm may cancel restricted stock units (RSUs) to satisfy minimum statutory employee tax withholding requirements. Under these plans, during 2013, 2012 and 2011, employees remitted 161,211 shares, 33,477 shares and 75,517 shares with a total value of \$25 million, \$3 million and \$12 million, and the firm cancelled 4.0 million, 12.7 million and 12.0 million of RSUs with a total value of \$599 million, \$1.44 billion and \$1.91 billion, respectively.

On October 1, 2013, Berkshire Hathaway Inc. and certain of its subsidiaries (collectively, Berkshire Hathaway) exercised in full a warrant to purchase shares of the firm's common stock. The warrant, as amended in March 2013, required net share settlement, and the firm delivered 13.1 million shares of common stock to Berkshire Hathaway on October 4, 2013. The number of shares delivered represented the value of the difference between the average closing price of the firm's common stock over the 10 trading days preceding October 1, 2013 and the exercise price of \$115.00 multiplied by the number of shares of common stock (43.5 million) covered by the warrant.

Preferred Equity

The table below presents perpetual preferred stock issued and outstanding as of December 2013.

| Series | Shares Authorized | Shares Issued | Shares Outstanding | Dividend Rate | Redemption Value (in millions) |
|--------------|-------------------|----------------|--------------------|--|-----------------------------------|
| A | 50,000 | 30,000 | 29,999 | 3 month LIBOR + 0.75%, with floor of 3.75% per annum | \$ 750 |
| B | 50,000 | 32,000 | 32,000 | 6.20% per annum | 800 |
| C | 25,000 | 8,000 | 8,000 | 3 month LIBOR + 0.75%, with floor of 4.00% per annum | 200 |
| D | 60,000 | 54,000 | 53,999 | 3 month LIBOR + 0.67%, with floor of 4.00% per annum | 1,350 |
| E | 17,500 | 17,500 | 17,500 | 3 month LIBOR + 0.77%, with floor of 4.00% per annum | 1,750 |
| F | 5,000 | 5,000 | 5,000 | 3 month LIBOR + 0.77%, with floor of 4.00% per annum | 500 |
| I | 34,500 | 34,000 | 34,000 | 5.95% per annum | 850 |
| J | 46,000 | 40,000 | 40,000 | 5.50% per annum to, but excluding, May 10, 2023; 3 month LIBOR + 3.64% per annum thereafter | 1,000 |
| Total | 288,000 | 220,500 | 220,498 | | \$7,200 |

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

Each share of non-cumulative Series E and Series F Preferred Stock issued and outstanding has a par value of \$0.01, has a liquidation preference of \$100,000 and is redeemable at the option of the firm at any time, subject to certain covenant restrictions governing the firm's ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics, at a redemption price equal to \$100,000 plus declared and unpaid dividends. See Note 16 for further information about the replacement capital covenants applicable to the Series E and Series F Preferred Stock.

Each share of non-cumulative Series I Preferred Stock issued and outstanding has a par value of \$0.01, has a liquidation preference of \$25,000, is represented by 1,000 depositary shares and is redeemable at the firm's option beginning November 10, 2017 at a redemption price equal to \$25,000 plus accrued and unpaid dividends.

On April 25, 2013, Group Inc. issued 40,000 shares of perpetual 5.50% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series J, par value \$0.01 per share (Series J Preferred Stock), out of a total of 46,000 shares of Series J Preferred Stock authorized for issuance. Each share of Series J Preferred Stock issued and outstanding has a liquidation preference of \$25,000, is represented by 1,000 depositary shares and is redeemable at the firm's option beginning May 10, 2023 at a redemption price equal to \$25,000 plus accrued and unpaid dividends.

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

Notes to Consolidated Financial Statements

The tables below present preferred dividends declared on preferred stock.

| | Year Ended December | |
|--------------|---------------------|--------------------|
| | 2013 | |
| | <i>per share</i> | <i>in millions</i> |
| Series A | \$ 947.92 | \$ 28 |
| Series B | 1,550.00 | 50 |
| Series C | 1,011.11 | 8 |
| Series D | 1,011.11 | 54 |
| Series E | 4,044.44 | 71 |
| Series F | 4,044.44 | 20 |
| Series I | 1,553.63 | 53 |
| Series J | 744.79 | 30 |
| Total | | \$314 |

| | Year Ended December | |
|--------------|---------------------|--------------------|
| | 2012 | |
| | <i>per share</i> | <i>in millions</i> |
| Series A | \$ 960.94 | \$ 29 |
| Series B | 1,550.00 | 50 |
| Series C | 1,025.01 | 8 |
| Series D | 1,025.01 | 55 |
| Series E | 2,055.56 | 36 |
| Series F | 1,000.00 | 5 |
| Total | | \$183 |

| | Year Ended December | |
|-----------------------|---------------------|--------------------|
| | 2011 | |
| | <i>per share</i> | <i>in millions</i> |
| Series A | \$ 950.51 | \$ 28 |
| Series B | 1,550.00 | 50 |
| Series C | 1,013.90 | 8 |
| Series D | 1,013.90 | 55 |
| Series G ¹ | 2,500.00 | 125 |
| Total | | \$266 |

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

Accumulated Other Comprehensive Income/(Loss)

The tables below present accumulated other comprehensive income/(loss), net of tax by type.

| | As of December 2013 | | |
|---|----------------------------------|---|----------------------------|
| | Balance, beginning of year | Other comprehensive income/(loss) adjustments, net of tax | Balance, end of year |
| | | | |
| Currency translation | \$(314) | \$ (50) | \$(364) |
| Pension and postretirement liabilities | (206) | 38 | (168) |
| Available-for-sale securities | 327 | (327) | — |
| Cash flow hedges | — | 8 | 8 |
| Accumulated comprehensive income/ (loss), net of tax | \$(193) | \$(331) | \$(524) |

| | As of December 2012 | | |
|---|----------------------------------|---|----------------------------|
| | Balance, beginning of year | Other comprehensive income/(loss) adjustments, net of tax | Balance, end of year |
| | | | |
| Currency translation | \$(225) | \$ (89) | \$(314) |
| Pension and postretirement liabilities | (374) | 168 | (206) |
| Available-for-sale securities | 83 | 244 | 327 ¹ |
| Accumulated comprehensive income/ (loss), net of tax | \$(516) | \$ 323 | \$(193) |

1. As of December 2012, substantially all consisted of net unrealized gains on securities held by the firm's Americas reinsurance business, in which a majority stake was sold in April 2013. See Note 12 for further information about this sale.

Note 20.

Regulation and Capital Adequacy

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, the firm is subject to consolidated risk-based regulatory capital requirements. These requirements are computed in accordance with the Federal Reserve Board's risk-based capital regulations which, as of December 2013, were based on the Basel I Capital Accord of the Basel Committee and also reflected the Federal Reserve Board's revised market risk regulatory capital requirements which became effective on January 1, 2013. These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). The capital regulations also include requirements with respect to leverage. The firm's capital levels are also subject to qualitative judgments by its regulators about components of capital, risk weightings and other factors. Beginning January 1, 2014, the Federal Reserve Board implemented revised consolidated regulatory capital and leverage requirements discussed below.

The firm's U.S. bank depository institution subsidiary, GS Bank USA, is subject to similar capital and leverage regulations. Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action, the firm and GS Bank USA must meet specific capital requirements. The firm's and GS Bank USA's capital levels, as well as GS Bank USA's prompt corrective action classification, are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

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

Group Inc.

As of December 2013, Federal Reserve Board regulations required bank holding companies to maintain a minimum Tier 1 capital ratio of 4% and a minimum Total capital ratio of 8%. The required minimum Tier 1 capital ratio and Total capital ratio in order to meet the quantitative requirements for being a "well-capitalized" bank holding company under the Federal Reserve Board guidelines are 6% and 10%, respectively. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending on their particular condition, risk profile and growth plans. As of December 2013, the minimum Tier 1 leverage ratio was 3% for bank holding companies that had received the highest supervisory rating under Federal Reserve Board guidelines or that had implemented the Federal Reserve Board's risk-based capital measure for market risk. Beginning January 1, 2014, all bank holding companies became subject to a minimum Tier 1 leverage ratio of 4%.

Tier 1 leverage ratio is defined as Tier 1 capital divided by average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and the carrying value of certain equity investments in nonconsolidated entities that are subject to deduction from Tier 1 capital).

RWAs under the Federal Reserve Board's risk-based capital requirements are calculated based on measures of credit risk and market risk. Credit risk requirements for on-balance-sheet assets are generally based on the balance sheet value. For off-balance-sheet exposures, including OTC derivatives, commitments and guarantees, a credit equivalent amount is calculated based on the notional amount of each trade and, to the extent applicable, positive net exposure. All such assets and exposures are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or a qualifying securities firm or other entity (or if collateral is held, depending on the nature of the collateral).

As of December 2012, RWAs for market risk were determined by reference to the firm's Value-at-Risk (VaR) model, supplemented by the standardized measurement method used to determine RWAs for specific risk for certain positions. Under the Federal Reserve Board's revised market risk regulatory capital requirements, which became effective on January 1, 2013, RWAs for market risk are determined using VaR, stressed VaR, incremental risk, comprehensive risk and a standardized measurement method for specific risk.

Notes to Consolidated Financial Statements

The table below presents information regarding Group Inc.'s regulatory capital ratios and Tier 1 leverage ratio under Basel I, as implemented by the Federal Reserve Board. The information as of December 2013 reflects the revised market risk regulatory capital requirements. These changes resulted in increased regulatory capital requirements for market risk. The information as of December 2012 is prior to the implementation of these revised market risk regulatory capital requirements.

| \$ in millions | As of December | |
|-----------------------|----------------|-----------|
| | 2013 | 2012 |
| Tier 1 capital | \$ 72,471 | \$ 66,977 |
| Tier 2 capital | \$ 13,632 | \$ 13,429 |
| Total capital | \$ 86,103 | \$ 80,406 |
| Risk-weighted assets | \$433,226 | \$399,928 |
| Tier 1 capital ratio | 16.7% | 16.7% |
| Total capital ratio | 19.9% | 20.1% |
| Tier 1 leverage ratio | 8.1% | 7.3% |

Revised Capital Framework

The U.S. federal bank regulatory agencies (Agencies) have approved revised risk-based capital and leverage ratio regulations establishing a new comprehensive capital framework for U.S. banking organizations (Revised Capital Framework). These regulations are largely based on the Basel Committee's December 2010 final capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act.

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

Definition of Capital and Capital Ratios. The Revised Capital Framework introduced changes to the definition of regulatory capital, which, subject to transitional provisions, became effective across the firm's regulatory capital and leverage ratios on January 1, 2014. These changes include the introduction of a new capital measure called Common Equity Tier 1 (CET1), and the related regulatory capital ratio of CET1 to RWAs (CET1 ratio). In addition, the definition of Tier 1 capital has been narrowed to include only CET1 and instruments such as perpetual non-cumulative preferred stock, which meet certain criteria.

Certain aspects of the revised requirements phase in over time. These include increases in the minimum capital ratio requirements and the introduction of new capital buffers and certain deductions from regulatory capital (such as investments in nonconsolidated financial institutions). In addition, junior subordinated debt issued to trusts is being phased out of regulatory capital.

The minimum CET1 ratio is 4.0% as of January 1, 2014 and will increase to 4.5% on January 1, 2015. The minimum Tier 1 capital ratio increased from 4.0% to 5.5% on January 1, 2014 and will increase to 6.0% beginning January 1, 2015. The minimum Total capital ratio remains unchanged at 8.0%. These minimum ratios will be supplemented by a new capital conservation buffer that phases in, beginning January 1, 2016, in increments of 0.625% per year until it reaches 2.5% on January 1, 2019. The Revised Capital Framework also introduces a new counter-cyclical capital buffer, to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth.

Risk-Weighted Assets. In February 2014, the Federal Reserve Board informed us that we have completed a satisfactory "parallel run," as required of Advanced approach banking organizations under the Revised Capital Framework, and therefore changes to RWAs will take effect beginning with the second quarter of 2014. Accordingly, the calculation of RWAs in future quarters will be based on the following methodologies:

- During the first quarter of 2014 — the Basel I risk-based capital framework adjusted for certain items related to existing capital deductions and the phase-in of new capital deductions (Basel I Adjusted);
- During the remaining quarters of 2014 — the higher of RWAs computed under the Basel III Advanced approach or the Basel I Adjusted calculation; and
- Beginning in the first quarter of 2015 — the higher of RWAs computed under the Basel III Advanced or Standardized approach.

The primary difference between the Standardized approach and the Basel III Advanced approach is that the Standardized approach utilizes prescribed risk-weightings and does not contemplate the use of internal models to compute exposure for credit risk on derivatives and securities financing transactions, whereas the Basel III Advanced approach permits the use of such models, subject to supervisory approval. In addition, RWAs under the Standardized approach depend largely on the type of counterparty (e.g., whether the counterparty is a sovereign, bank, broker-dealer or other entity), rather than on assessments of each counterparty's creditworthiness. Furthermore, the Standardized approach does not include a capital requirement for operational risk. RWAs for market risk under both the Standardized and Basel III Advanced approaches are based on the Federal Reserve Board's revised market risk regulatory capital requirements described above.

Regulatory Leverage Ratios. The Revised Capital Framework increased the minimum Tier 1 leverage ratio applicable to the firm from 3% to 4% effective January 1, 2014.

In addition, the Revised Capital Framework will introduce a new Tier 1 supplementary leverage ratio (supplementary leverage ratio) for Advanced approach banking organizations, which compares Tier 1 capital (as defined under the Revised Capital Framework) to a measure of leverage exposure (defined as the sum of the firm's assets less certain CET1 deductions plus certain off-balance-sheet exposures). Effective January 1, 2018, the minimum supplementary leverage ratio requirement will be 3%; however, disclosure will be required beginning in the first quarter of 2015. While a definition of the leverage exposure measure was set out in the Revised Capital Framework, this measure and/or the minimum requirement applicable may be amended by the regulatory authorities prior to the January 2018 effective date.

Global Systemically Important Banking Institutions (G-SIBs)

The Basel Committee has updated its methodology for assessing the global systemic importance of banking institutions and determining the range of additional CET1 that should be maintained by those deemed to be G-SIBs. The required amount of additional CET1 for these institutions will initially range from 1% to 2.5% and could be higher in the future for a banking institution that increases its systemic footprint (e.g., by increasing total assets). In November 2013, the Financial Stability Board (established at the direction of the leaders of the Group of 20) indicated that the firm, based on its 2012 financial data, would be required to hold an additional 1.5% of CET1 as a G-SIB. The final determination of the amount of additional CET1 that the firm will be required to hold will initially be based on the firm's 2013 financial data and the manner and timing of the U.S. banking regulators' implementation of the Basel Committee's methodology. The Basel Committee indicated that G-SIBs will be required to meet the capital surcharges on a phased-in basis beginning in 2016 through 2019.

Bank Subsidiaries

GS Bank USA, an FDIC-insured, New York State-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve Board, the FDIC, the New York State Department of Financial Services and the Consumer Financial Protection Bureau, and is subject to minimum capital requirements (described below) that are calculated in a manner similar to those applicable to bank holding companies. For purposes of assessing the adequacy of its capital, GS Bank USA computes its risk-based capital ratios in accordance with the regulatory capital requirements applicable to state member banks, which, as of December 2013, were based on Basel I and also reflected the revised market risk regulatory capital requirements as implemented by the Federal Reserve Board. Beginning January 1, 2014, the Federal Reserve Board implemented the Revised Capital Framework discussed above.

Notes to Consolidated Financial Statements

Under the regulatory framework for prompt corrective action applicable to GS Bank USA, in order to meet the quantitative requirements for being a “well-capitalized” depository institution, GS Bank USA is required to maintain a Tier 1 capital ratio of at least 6%, a Total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. GS Bank USA agreed with the Federal Reserve Board to maintain minimum capital ratios in excess of these “well-capitalized” levels. Accordingly, for a period of time, GS Bank USA is expected to maintain a Tier 1 capital ratio of at least 8%, a Total capital ratio of at least 11% and a Tier 1 leverage ratio of at least 6%. As noted in the table below, GS Bank USA was in compliance with these minimum capital requirements as of December 2013 and December 2012.

The table below presents information regarding GS Bank USA’s regulatory capital ratios under Basel I, as implemented by the Federal Reserve Board. The information as of December 2013 reflects the revised market risk regulatory capital requirements, which became effective on January 1, 2013. These changes resulted in increased regulatory capital requirements for market risk. The information as of December 2012 is prior to the implementation of these revised market risk regulatory capital requirements.

| <i>\$ in millions</i> | As of December | |
|-----------------------|----------------|-----------|
| | 2013 | 2012 |
| Tier 1 capital | \$ 20,086 | \$ 20,704 |
| Tier 2 capital | \$ 116 | \$ 39 |
| Total capital | \$ 20,202 | \$ 20,743 |
| Risk-weighted assets | \$134,935 | \$109,669 |
| Tier 1 capital ratio | 14.9% | 18.9% |
| Total capital ratio | 15.0% | 18.9% |
| Tier 1 leverage ratio | 16.9% | 17.6% |

The Revised Capital Framework described above is also applicable to GS Bank USA, which is an Advanced approach banking organization under this framework. GS Bank USA has also been informed by the Federal Reserve Board that it has completed a satisfactory parallel run, as required of Advanced approach banking organizations under the Revised Capital Framework, and therefore changes to its calculations of RWAs will take effect beginning with the second quarter of 2014. Under the Revised Capital Framework, as of January 1, 2014, GS

Bank USA became subject to a new minimum CET1 ratio requirement of 4%, increasing to 4.5% in 2015. In addition, the Revised Capital Framework changes the standards for “well-capitalized” status under prompt corrective action regulations beginning January 1, 2015 by, among other things, introducing a CET1 ratio requirement of 6.5% and increasing the Tier 1 capital ratio requirement from 6% to 8%. In addition, commencing January 1, 2018, Advanced approach banking organizations must have a supplementary leverage ratio of 3% or greater.

The Basel Committee published its final guidelines for calculating incremental capital requirements for domestic systemically important banking institutions (D-SIBs). These guidelines are complementary to the framework outlined above for G-SIBs. The impact of these guidelines on the regulatory capital requirements of GS Bank USA will depend on how they are implemented by the banking regulators in the United States.

The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The amount deposited by the firm’s depository institution held at the Federal Reserve Bank was approximately \$50.39 billion and \$58.67 billion as of December 2013 and December 2012, respectively, which exceeded required reserve amounts by \$50.29 billion and \$58.59 billion as of December 2013 and December 2012, respectively.

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

The firm’s principal non-U.S. bank subsidiary, GSIB, is a wholly-owned credit institution, regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is subject to minimum capital requirements. As of December 2013 and December 2012, GSIB was in compliance with all regulatory capital requirements.

Broker-Dealer Subsidiaries

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

As of December 2013 and December 2012, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$15.81 billion and \$14.12 billion, respectively, which exceeded the amount required by \$13.76 billion and \$12.42 billion, respectively. As of December 2013 and December 2012, GSEC had regulatory net capital, as defined by Rule 15c3-1, of \$1.38 billion and \$2.02 billion, respectively, which exceeded the amount required by \$1.21 billion and \$1.92 billion, respectively.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of December 2013 and December 2012, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

Other Non-U.S. Regulated Subsidiaries

The firm's principal non-U.S. regulated subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's regulated U.K. broker-dealer, is regulated by the PRA and the FCA. GSJCL, the firm's Japanese broker-dealer, is regulated by Japan's Financial Services Agency. These and certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of December 2013 and December 2012, these subsidiaries were in compliance with their local capital adequacy requirements.

The Basel Committee's guidelines for calculating incremental capital requirements for D-SIBs may also impact certain of the firm's non-U.S. regulated subsidiaries, including GSI. However, the impact of these guidelines will depend on how they are implemented in local jurisdictions.

Restrictions on Payments

The regulatory requirements referred to above restrict Group Inc.'s ability to withdraw capital from its regulated subsidiaries. As of December 2013 and December 2012, Group Inc. was required to maintain approximately \$31.20 billion and \$31.01 billion, respectively, of minimum equity capital in these regulated subsidiaries. This minimum equity capital requirement includes certain restrictions imposed by federal and state laws as to the payment of dividends to Group Inc. by its regulated subsidiaries. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board, the FDIC and the New York State Department of Financial Services have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization.

Note 21.**Earnings Per Common Share**

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

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

| <i>in millions, except per share amounts</i> | Year Ended December | | |
|--|---------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| Numerator for basic and diluted EPS — net earnings applicable to common shareholders | \$7,726 | \$7,292 | \$2,510 |
| Denominator for basic EPS — weighted average number of common shares | 471.3 | 496.2 | 524.6 |
| Effect of dilutive securities: | | | |
| RSUs | 7.2 | 11.3 | 14.6 |
| Stock options and warrants | 21.1 | 8.6 | 17.7 |
| Dilutive potential common shares | 28.3 | 19.9 | 32.3 |
| Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares | 499.6 | 516.1 | 556.9 |
| Basic EPS | \$16.34 | \$14.63 | \$ 4.71 |
| Diluted EPS | 15.46 | 14.13 | 4.51 |

In the table above, unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of \$0.05 for 2013 and \$0.07 for both 2012 and 2011.

The diluted EPS computations in the table above do not include antidilutive RSUs and common shares underlying antidilutive stock options and warrants of 6.0 million for 2013, 52.4 million for 2012 and 9.2 million for 2011.

Note 22.**Transactions with Affiliated Funds**

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

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

| <i>in millions</i> | Year Ended December | | |
|-----------------------------------|---------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Fees earned from affiliated funds | \$2,897 | \$ 2,935 | \$ 2,789 |

| <i>in millions</i> | As of December | |
|--|----------------|--------|
| | 2013 | 2012 |
| Fees receivable from funds | \$ 817 | \$ 704 |
| Aggregate carrying value of interests in funds | 13,124 | 14,725 |

As of December 2013 and December 2012, the firm had outstanding guarantees to its funds of \$147 million and outstanding loans and guarantees to its funds of \$582 million, respectively. The amount as of December 2013 primarily relates to a guarantee that the firm has voluntarily provided in connection with a financing agreement with a third-party lender executed by one of the firm's real estate funds that is not covered by the Volcker Rule. The amount of the guarantee could be increased up to a maximum of \$300 million. The amount as of December 2012 was collateralized by certain fund assets and primarily related to certain real estate funds for which the firm voluntarily provided financial support to alleviate liquidity constraints during the financial crisis and to enable them to fund certain investment opportunities. As of December 2013 and December 2012, the firm had no outstanding commitments to extend credit or other guarantees to its funds.

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

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

Note 23.**Interest Income and Interest Expense**

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

| <i>in millions</i> | Year Ended December | | |
|--|---------------------|-----------------|-----------------|
| | 2013 | 2012 | 2011 |
| Interest income | | | |
| Deposits with banks | \$ 186 | \$ 156 | \$ 125 |
| Securities borrowed, securities purchased under agreements to resell and federal funds sold ¹ | 43 | (77) | 666 |
| Financial instruments owned, at fair value | 8,159 | 9,817 | 10,718 |
| Other interest ² | 1,672 | 1,485 | 1,665 |
| Total interest income | 10,060 | 11,381 | 13,174 |
| Interest expense | | | |
| Deposits | 387 | 399 | 280 |
| Securities loaned and securities sold under agreements to repurchase | 576 | 822 | 905 |
| Financial instruments sold, but not yet purchased, at fair value | 2,054 | 2,438 | 2,464 |
| Short-term borrowings ³ | 394 | 581 | 526 |
| Long-term borrowings ³ | 3,752 | 3,736 | 3,439 |
| Other interest ⁴ | (495) | (475) | 368 |
| Total interest expense | 6,668 | 7,501 | 7,982 |
| Net interest income | \$ 3,392 | \$ 3,880 | \$ 5,192 |

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

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

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

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

Note 24.**Income Taxes****Provision for Income Taxes**

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

The tables below present the components of the provision/ (benefit) for taxes and a reconciliation of the U.S. federal statutory income tax rate to the firm’s effective income tax rate.

| <i>in millions</i> | Year Ended December | | |
|---|---------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| Current taxes | | | |
| U.S. federal | \$2,589 | \$3,013 | \$ 405 |
| State and local | 466 | 628 | 392 |
| Non-U.S. | 613 | 447 | 204 |
| Total current tax expense | 3,668 | 4,088 | 1,001 |
| Deferred taxes | | | |
| U.S. federal | (188) | (643) | 683 |
| State and local | 67 | 38 | 24 |
| Non-U.S. | 150 | 249 | 19 |
| Total deferred tax (benefit)/expense | 29 | (356) | 726 |
| Provision for taxes | \$3,697 | \$3,732 | \$1,727 |

| | Year Ended December | | |
|---|---------------------|-------|-------|
| | 2013 | 2012 | 2011 |
| U.S. federal statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State and local taxes, net of U.S. federal income tax effects | 4.1 | 3.8 | 4.4 |
| Tax credits | (1.0) | (1.0) | (1.6) |
| Non-U.S. operations ¹ | (5.6) | (4.8) | (6.7) |
| Tax-exempt income, including dividends | (0.5) | (0.5) | (2.4) |
| Other | (0.5) | 0.8 | (0.7) |
| Effective income tax rate | 31.5% | 33.3% | 28.0% |

1. Includes the impact of permanently reinvested earnings.

Deferred Income Taxes

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

The table below presents the significant components of deferred tax assets and liabilities, excluding the impact of netting within tax jurisdictions.

| <i>in millions</i> | As of December | |
|--|----------------|---------|
| | 2013 | 2012 |
| Deferred tax assets | | |
| Compensation and benefits | \$2,740 | \$2,447 |
| Unrealized losses | 309 | 1,477 |
| ASC 740 asset related to unrecognized tax benefits | 475 | 685 |
| Non-U.S. operations | 1,318 | 965 |
| Net operating losses | 232 | 222 |
| Occupancy-related | 108 | 119 |
| Other comprehensive income-related | 69 | 114 |
| Other, net | 729 | 435 |
| | 5,980 | 6,464 |
| Valuation allowance | (183) | (168) |
| Total deferred tax assets | \$5,797 | \$6,296 |
| Deferred tax liabilities | | |
| Depreciation and amortization | 1,269 | 1,230 |
| Other comprehensive income-related | 68 | 85 |
| Total deferred tax liabilities | \$1,337 | \$1,315 |

Notes to Consolidated Financial Statements

The firm has recorded deferred tax assets of \$232 million and \$222 million as of December 2013 and December 2012, respectively, in connection with U.S. federal, state and local and foreign net operating loss carryforwards. The firm also recorded a valuation allowance of \$45 million and \$60 million as of December 2013 and December 2012, respectively, related to these net operating loss carryforwards.

As of December 2013, the U.S. federal and foreign net operating loss carryforwards were \$38 million and \$854 million, respectively. If not utilized, the U.S. federal net operating loss carryforward will begin to expire in 2014. The foreign net operating loss carryforwards can be carried forward indefinitely. State and local net operating loss carryforwards of \$781 million will begin to expire in 2014. If these carryforwards expire, they will not have a material impact on the firm's results of operations. The firm had no foreign tax credit carryforwards and no related net deferred income tax assets as of December 2013 or December 2012.

The firm had no capital loss carryforwards and no related net deferred income tax assets as of December 2013 or December 2012.

The valuation allowance increased by \$15 million and \$103 million during 2013 and 2012, respectively. The increase in 2013 was primarily due to an increase in deferred tax assets from which the firm does not expect to realize any benefit. The increase in 2012 was primarily due to the acquisition of deferred tax assets considered more likely than not to be unrealizable.

The firm permanently reinvests eligible earnings of certain foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated. As of December 2013 and December 2012, this policy resulted in an unrecognized net deferred tax liability of \$4.06 billion and \$3.75 billion, respectively, attributable to reinvested earnings of \$22.54 billion and \$21.69 billion, respectively.

Unrecognized Tax Benefits

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

As of December 2013 and December 2012, the accrued liability for interest expense related to income tax matters and income tax penalties was \$410 million and \$374 million, respectively. The firm recognized \$53 million for 2013, \$95 million for 2012 and \$21 million for 2011 of interest and income tax penalties. It is reasonably possible that unrecognized tax benefits could change significantly during the twelve months subsequent to December 2013 due to potential audit settlements, however, at this time it is not possible to estimate any potential change.

Notes to Consolidated Financial Statements

The table below presents the changes in the liability for unrecognized tax benefits. This liability is included in “Other liabilities and accrued expenses.” See Note 17 for further information.

| <i>in millions</i> | As of December | | |
|--|----------------|----------------|----------------|
| | 2013 | 2012 | 2011 |
| Balance, beginning of year | \$2,237 | \$1,887 | \$2,081 |
| Increases based on tax positions related to the current year | 144 | 190 | 171 |
| Increases based on tax positions related to prior years | 149 | 336 | 278 |
| Decreases related to tax positions of prior years | (471) | (109) | (41) |
| Decreases related to settlements | (299) | (35) | (638) |
| Acquisitions/(dispositions) | — | (47) | 47 |
| Exchange rate fluctuations | 5 | 15 | (11) |
| Balance, end of year | \$1,765 | \$2,237 | \$1,887 |
| Related deferred income tax asset ¹ | 475 | 685 | 569 |
| Net unrecognized tax benefit ² | \$1,290 | \$1,552 | \$1,318 |

1. Included in “Other assets.” See Note 12.

2. If recognized, the net tax benefit would reduce the firm’s effective income tax rate.

Regulatory Tax Examinations

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

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

| Jurisdiction | As of December 2013 |
|-------------------------|---------------------|
| U.S. Federal | 2008 |
| New York State and City | 2004 |
| United Kingdom | 2008 |
| Japan | 2010 |
| Hong Kong | 2006 |
| Korea | 2010 |

For U.S. Federal, IRS examinations of fiscal 2008 through calendar 2010 began in 2011. IRS examinations of fiscal 2005 through 2007 were finalized during the third quarter of 2013. The field work for the examinations of 2008 through 2010 has been completed but the examinations have not been administratively finalized. The examinations of 2011 and 2012 began in 2013.

New York State and City examinations of fiscal 2004 through 2006 began in 2008. The examinations of fiscal 2007 through 2010 began in 2013.

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

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

Note 25.

Business Segments

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

Basis of Presentation

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

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

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

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

- Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.
- Net revenues in the firm's segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. Net interest is included in segment net revenues as it is consistent with the way in which management assesses segment performance.
- Overhead expenses not directly allocable to specific segments are allocated ratably based on direct segment expenses.

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

Notes to Consolidated Financial Statements

| | | For the Year Ended or as of December | | |
|--------------------------------------|--|--------------------------------------|-----------|-----------|
| | | 2013 | 2012 | 2011 |
| <i>in millions</i> | | | | |
| Investment Banking | Financial Advisory | \$ 1,978 | \$ 1,975 | \$ 1,987 |
| | Equity underwriting | 1,659 | 987 | 1,085 |
| | Debt underwriting | 2,367 | 1,964 | 1,283 |
| | Total Underwriting | 4,026 | 2,951 | 2,368 |
| | Total net revenues | 6,004 | 4,926 | 4,355 |
| | Operating expenses | 3,475 | 3,330 | 2,995 |
| | Pre-tax earnings | \$ 2,529 | \$ 1,596 | \$ 1,360 |
| | Segment assets | \$ 1,901 | \$ 1,712 | \$ 1,983 |
| Institutional Client Services | Fixed Income, Currency and Commodities | | | |
| | Client Execution | \$ 8,651 | \$ 9,914 | \$ 9,018 |
| | Equities client execution | 2,594 | 3,171 | 3,031 |
| | Commissions and fees | 3,103 | 3,053 | 3,633 |
| | Securities services | 1,373 | 1,986 | 1,598 |
| | Total Equities | 7,070 | 8,210 | 8,262 |
| | Total net revenues ¹ | 15,721 | 18,124 | 17,280 |
| | Operating expenses | 11,782 | 12,480 | 12,837 |
| | Pre-tax earnings | \$ 3,939 | \$ 5,644 | \$ 4,443 |
| | Segment assets | \$788,238 | \$825,496 | \$813,660 |
| Investing & Lending | Equity securities | \$ 3,930 | \$ 2,800 | \$ 603 |
| | Debt securities and loans | 1,947 | 1,850 | 96 |
| | Other | 1,141 | 1,241 | 1,443 |
| | Total net revenues | 7,018 | 5,891 | 2,142 |
| | Operating expenses | 2,684 | 2,666 | 2,673 |
| | Pre-tax earnings/(loss) | \$ 4,334 | \$ 3,225 | \$ (531) |
| | Segment assets | \$109,285 | \$ 98,600 | \$ 94,330 |
| Investment Management | Management and other fees | \$ 4,386 | \$ 4,105 | \$ 4,188 |
| | Incentive fees | 662 | 701 | 323 |
| | Transaction revenues | 415 | 416 | 523 |
| | Total net revenues | 5,463 | 5,222 | 5,034 |
| | Operating expenses | 4,354 | 4,294 | 4,020 |
| | Pre-tax earnings | \$ 1,109 | \$ 928 | \$ 1,014 |
| | Segment assets | \$ 12,083 | \$ 12,747 | \$ 13,252 |
| Total | Net revenues | \$ 34,206 | \$ 34,163 | \$ 28,811 |
| | Operating expenses | 22,469 | 22,956 | 22,642 |
| | Pre-tax earnings | \$ 11,737 | \$ 11,207 | \$ 6,169 |
| | Total assets | \$911,507 | \$938,555 | \$923,225 |

1. Includes \$37 million for 2013, \$121 million for 2012 and \$115 million for 2011 of realized gains on available-for-sale securities held in the firm's Americas reinsurance business, in which a majority stake was sold in April 2013.

Notes to Consolidated Financial Statements

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

- charitable contributions of \$155 million for 2013, \$169 million for 2012 and \$103 million for 2011; and
- real estate-related exit costs of \$19 million for 2013, \$17 million for 2012 and \$14 million for 2011. Real estate-related exit costs are included in "Depreciation and amortization" and "Occupancy" in the consolidated statements of earnings.

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

| <i>in millions</i> | Year Ended December | | |
|----------------------------------|---------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| Investment Banking | \$ — | \$ (15) | \$ (6) |
| Institutional Client Services | 3,250 | 3,723 | 4,360 |
| Investing & Lending | 25 | 26 | 635 |
| Investment Management | 117 | 146 | 203 |
| Total net interest income | \$3,392 | \$3,880 | \$5,192 |

| <i>in millions</i> | Year Ended December | | |
|---|---------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| Investment Banking | \$ 143 | \$ 164 | \$ 174 |
| Institutional Client Services | 567 | 796 | 944 |
| Investing & Lending | 440 | 564 | 563 |
| Investment Management | 165 | 204 | 188 |
| Total depreciation and amortization ¹ | \$1,322 | \$1,738 | \$1,869 |

1. Includes real estate-related exit costs of \$7 million for 2013 and \$10 million for 2012 that have not been allocated to the firm's segments.

Geographic Information

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

Geographic results are generally allocated as follows:

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

Notes to Consolidated Financial Statements

The table below presents the total net revenues, pre-tax earnings and net earnings of the firm by geographic region allocated based on the methodology referred to above, as

well as the percentage of total net revenues, pre-tax earnings and net earnings (excluding Corporate) for each geographic region.

| \$ in millions | Year Ended December | | | | | |
|--|---------------------|-------------|-----------------|-------------|-----------------|-------------|
| | 2013 | | 2012 | | 2011 | |
| Net revenues | | | | | | |
| Americas | \$19,858 | 58% | \$20,159 | 59% | \$17,873 | 62% |
| Europe, Middle East and Africa | 8,828 | 26 | 8,612 | 25 | 7,074 | 25 |
| Asia ¹ (includes Australia and New Zealand) | 5,520 | 16 | 5,392 | 16 | 3,864 | 13 |
| Total net revenues | \$34,206 | 100% | \$34,163 | 100% | \$28,811 | 100% |
| Pre-tax earnings/(loss) | | | | | | |
| Americas | \$ 6,794 | 57% | \$ 6,960 | 61% | \$ 5,307 | 85% |
| Europe, Middle East and Africa | 3,237 | 27 | 2,943 | 26 | 1,210 | 19 |
| Asia (includes Australia and New Zealand) | 1,880 | 16 | 1,490 | 13 | (231) | (4) |
| Subtotal | 11,911 | 100% | 11,393 | 100% | 6,286 | 100% |
| Corporate ² | (174) | | (186) | | (117) | |
| Total pre-tax earnings | \$11,737 | | \$11,207 | | \$ 6,169 | |
| Net earnings/(loss) | | | | | | |
| Americas | \$ 4,425 | 54% | \$ 4,259 | 56% | \$ 3,522 | 78% |
| Europe, Middle East and Africa | 2,382 | 29 | 2,369 | 31 | 1,103 | 24 |
| Asia (includes Australia and New Zealand) | 1,353 | 17 | 972 | 13 | (103) | (2) |
| Subtotal | 8,160 | 100% | 7,600 | 100% | 4,522 | 100% |
| Corporate | (120) | | (125) | | (80) | |
| Total net earnings | \$ 8,040 | | \$ 7,475 | | \$ 4,442 | |

1. Net revenues in Asia in 2011 primarily reflect lower net revenues in Investing & Lending, principally due to losses from public equities, reflecting a significant decline in equity markets in Asia during 2011.

2. Consists of charitable contributions of \$155 million for 2013, \$169 million for 2012 and \$103 million for 2011; and real estate-related exit costs of \$19 million for 2013, \$17 million for 2012 and \$14 million for 2011.

Note 26.**Credit Concentrations**

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

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

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

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

| <i>\$ in millions</i> | As of December | |
|---|-----------------|-----------|
| | 2013 | 2012 |
| U.S. government and federal agency obligations ¹ | \$90,118 | \$114,418 |
| % of total assets | 9.9% | 12.2% |
| Non-U.S. government and agency obligations ¹ | \$40,944 | \$ 62,252 |
| % of total assets | 4.5% | 6.6% |

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

As of December 2013 and December 2012, 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 December | |
|---|------------------|----------|
| | 2013 | 2012 |
| U.S. government and federal agency obligations | \$100,672 | \$73,477 |
| Non-U.S. government and agency obligations ¹ | 79,021 | 64,724 |

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

Note 27.

Legal Proceedings

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

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

With respect to matters described below for which management has been able to estimate a range of reasonably possible loss where (i) actual or potential plaintiffs have claimed an amount of money damages, (ii) the firm is being, or threatened to be, sued by purchasers in an underwriting and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the amount of securities that the firm sold in the underwritings and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of December 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 the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such matters and for any other matters described below where management has been able to estimate a range of reasonably possible aggregate loss to be approximately \$3.6 billion in excess of the aggregate reserves for such matters.

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

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

On February 1, 2013, a putative shareholder derivative action was filed in the U.S. District Court for the Southern District of New York against Group Inc. and certain of its officers and directors in connection with mortgage-related activities during 2006 and 2007, including three CDO offerings. The derivative complaint, which is based on similar allegations to those at issue in the consolidated class action discussed above and purported shareholder derivative actions that were previously dismissed, includes allegations of breach of fiduciary duty, challenges the accuracy and adequacy of Group Inc.'s disclosure and seeks, among other things, declaratory relief, unspecified compensatory and punitive damages and restitution from the individual defendants and certain corporate governance reforms. On May 20, 2013, the defendants moved to dismiss the action.

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

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

Notes to Consolidated Financial Statements

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

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

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

Notes to Consolidated Financial Statements

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

As of the date hereof, the aggregate amount of mortgage-related securities sold to plaintiffs in active and threatened cases described in the preceding two paragraphs where those plaintiffs are seeking rescission of such securities was approximately \$17.9 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities, statutory interest or any other adjustments that may be claimed). This amount does not include the potential claims by these or other purchasers in the same or other mortgage-related offerings that have not been described above, or claims that have been dismissed.

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

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

On February 25, 2013, Group Inc. was added as a defendant through an amended complaint in a putative class action, originally filed on April 6, 2012 in the U.S. District Court for the Southern District of New York, against Litton, Ocwen and Ocwen Loan Servicing, LLC (Ocwen Servicing). The amended complaint generally alleges that Litton and Ocwen Servicing systematically breached agreements and violated various federal and state consumer protection laws by failing to modify the mortgage loans of homeowners participating in the federal Home Affordable Modification Program, and names Group Inc. based on its prior ownership of Litton. The plaintiffs seek unspecified compensatory, statutory and punitive damages as well as declaratory and injunctive relief. On April 29, 2013, Group Inc. moved to dismiss.

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

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

Private Equity-Sponsored Acquisitions Litigation.

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

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

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

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

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

Employment-Related Matters. On September 15, 2010, a putative class action was filed in the U.S. District for the Southern District of New York by three female former employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. On July 17, 2012, the district court issued a decision granting in part Group Inc.'s and GS&Co.'s motion to strike certain of

plaintiffs' class allegations on the ground that plaintiffs lacked standing to pursue certain equitable remedies and denying Group Inc.'s and GS&Co.'s motion to strike plaintiffs' class allegations in their entirety as premature. On March 21, 2013, the U.S. Court of Appeals for the Second Circuit held that arbitration should be compelled with one of the named plaintiffs, who as a managing director was a party to an arbitration agreement with the firm.

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

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

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

Credit Derivatives Antitrust Matters. The European Commission announced in April 2011 that it was initiating proceedings to investigate further numerous financial services companies, including Group Inc., in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anti-competitive practices. On July 1, 2013, the European Commission issued to those financial services companies a Statement of Objections alleging that they colluded to limit competition in the trading of exchange-traded unfunded credit derivatives and exchange trading of credit default

swaps more generally, and setting out its process for determining fines and other remedies. Group Inc.'s current understanding is that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely. The firm has received civil investigative demands from the U.S. Department of Justice (DOJ) for information on similar matters. Goldman Sachs is cooperating with the investigations and reviews.

GS&Co. and Group Inc. are among the numerous defendants in putative antitrust class actions relating to credit derivatives, filed beginning in May 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws by conspiring to forestall the development of alternatives to over-the-counter trading of credit derivatives and maintain inflated bid-ask spreads for credit derivatives trading. The complaints seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On January 31, 2014, the plaintiffs filed a consolidated amended complaint.

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

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

Municipal Securities Matters. GS&Co. (along with, in some cases, other financial services firms) is named as respondent in a number of FINRA arbitrations filed by municipalities, municipal-owned entities, state-owned agencies or instrumentalities and non-profit entities, based on GS&Co.'s role as underwriter of the claimants' issuances of an aggregate of over \$2.4 billion of auction rate securities from 2003 through 2007 and as a broker-dealer with respect to auctions for these securities. The claimants generally allege that GS&Co. failed to disclose that it had a practice of placing cover bids in auctions, and failed to inform the claimant of the deterioration of the auction rate

market beginning in the fall of 2007, and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market in February 2008. Certain claimants also allege that GS&Co. advised them to enter into interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses. The claims include breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD. One claimant has also filed a complaint against GS&Co. in federal court asserting the same claims as in the FINRA arbitration.

GS&Co. filed complaints and motions in federal court seeking to enjoin certain of the arbitrations pursuant to the exclusive forum selection clauses in the transaction documents, which have been denied in one case and granted in others, and in each case has been appealed.

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

Currencies-Related Litigation. GS&Co. and Group Inc. are among the defendants named in several putative antitrust class actions relating to trading in the foreign exchange markets, filed since December 2013 in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws in connection with an alleged conspiracy to manipulate the foreign currency exchange markets and seek declaratory and injunctive relief as well as treble damages in an unspecified amount.

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

- the 2008 financial crisis;
- the public offering process;
- the firm's investment management and financial advisory services;
- conflicts of interest;
- research practices, including research independence and interactions between research analysts and other firm personnel, including investment banking personnel, as well as third parties;
- transactions involving municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, underwriting of Build America Bonds, municipal advisory services and the possible impact of credit default swap transactions on municipal issuers;
- the sales, trading and clearance of corporate and government securities, currencies, commodities and other financial products and related activities, including compliance with the SEC's short sale rule, algorithmic and quantitative trading, futures trading, options trading, transaction reporting, technology systems and controls, securities lending practices, trading and clearance of credit derivative instruments, commodities activities and metals storage, private placement practices, allocations of and trading in fixed-income securities, trading activities and communications in connection with the establishment of benchmark rates and compliance with the U.S. Foreign Corrupt Practices Act; and
- insider trading, the potential misuse of material nonpublic information regarding private company and governmental developments and the effectiveness of the firm's insider trading controls and information barriers.

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

Note 28.

Employee Benefit Plans

The firm sponsors various pension plans and certain other postretirement benefit plans, primarily healthcare and life insurance. The firm also provides certain benefits to former or inactive employees prior to retirement.

Defined Benefit Pension Plans and Postretirement Plans

Employees of certain non-U.S. subsidiaries participate in various defined benefit pension plans. These plans generally provide benefits based on years of credited service and a percentage of the employee's eligible compensation. The firm maintains a defined benefit pension plan for certain U.K. employees. As of April 2008, the U.K. defined benefit plan was closed to new participants, but continues to accrue benefits for existing participants. These plans do not have a material impact on the firm's consolidated results of operations.

The firm also maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan was closed to new participants and frozen such that existing participants would not accrue any additional benefits. In addition, the firm maintains unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs. These plans do not have a material impact on the firm's consolidated results of operations.

The firm recognizes the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation, in the consolidated statements of financial condition. As of December 2013, "Other assets" and "Other liabilities and accrued expenses" included \$179 million (related to overfunded pension plans) and \$482 million, respectively, related to these plans. As of December 2012, "Other assets" and "Other liabilities and accrued expenses" included \$225 million (related to overfunded pension plans) and \$645 million, respectively, related to these plans.

Defined Contribution Plans

The firm contributes to employer-sponsored U.S. and non-U.S. defined contribution plans. The firm's contribution to these plans was \$219 million for 2013, \$221 million for 2012 and \$225 million for 2011.

Note 29.

Employee Incentive Plans

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

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

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

Stock Incentive Plan

The firm sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2013) (2013 SIP), which provides for grants of incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, RSUs, and other share-based awards, each of which may be subject to performance conditions. On May 23, 2013, shareholders approved the 2013 SIP. The 2013 SIP replaces The Goldman Sachs Amended and Restated Stock Incentive Plan (SIP) previously in effect, and applies to awards granted on or after the date of approval.

Notes to Consolidated Financial Statements

The total number of shares of common stock that may be delivered pursuant to awards granted under the 2013 SIP cannot exceed 60 million shares, subject to adjustment for certain changes in corporate structure as permitted under the 2013 SIP. The 2013 SIP will terminate on the date of the annual meeting of shareholders that occurs in 2016. As of December 2013, 59.3 million shares were available for grant under the 2013 SIP.

Restricted Stock Units

The firm grants RSUs to employees under the 2013 SIP, which are valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting transfer restrictions. RSUs generally vest and underlying shares of common stock deliver as outlined in the applicable RSU agreements. Employee RSU agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. The table below presents the activity related to RSUs.

| | Restricted Stock Units Outstanding | | Weighted Average Grant-Date Fair Value of Restricted Stock Units Outstanding | |
|-----------------------------------|------------------------------------|----------------------------|--|----------------------------|
| | Future Service Required | No Future Service Required | Future Service Required | No Future Service Required |
| Outstanding, December 2012 | 8,689,521 ⁴ | 15,390,351 | \$116.07 | \$121.99 |
| Granted ^{1,2} | 6,230,961 | 11,226,808 | 125.49 | 120.98 |
| Forfeited | (785,926) | (152,194) | 120.54 | 117.56 |
| Delivered ³ | — | (11,369,831) | — | 129.01 |
| Vested ^{2,4} | (5,907,687) | 5,907,687 | 121.45 | 121.45 |
| Outstanding, December 2013 | 8,226,869⁴ | 21,002,821 | 118.91 | 117.53 |

1. The weighted average grant-date fair value of RSUs granted during 2013, 2012 and 2011 was \$122.59, \$84.72 and \$141.21, respectively. The fair value of the RSUs granted during 2013, 2012 and 2011 includes a liquidity discount of 13.7%, 21.7% and 12.7%, respectively, to reflect post-vesting transfer restrictions of up to 4 years.

2. The aggregate fair value of awards that vested during 2013, 2012 and 2011 was \$2.26 billion, \$1.57 billion and \$2.40 billion, respectively.

3. Includes RSUs that were cash settled.

4. Includes restricted stock subject to future service requirements as of December 2013 and December 2012 of 4,768 and 276,317 shares, respectively. 271,549 shares of restricted stock vested during 2013.

In the first quarter of 2014, the firm granted to its employees 13.8 million year-end RSUs, of which 4.2 million RSUs require future service as a condition of delivery. These awards are subject to additional conditions as outlined in the award agreements. Generally, shares underlying these awards, net of required withholding tax, deliver over a three-year period but are subject to post-vesting transfer restrictions through January 2019. These grants are not included in the above table.

Stock Options

Stock options generally vest as outlined in the applicable stock option agreement. No options have been granted since 2010. In general, options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the applicable stock option agreement and the SIP in effect at the time of grant.

Notes to Consolidated Financial Statements

The table below presents the activity related to stock options.

| | Options Outstanding | Weighted Average Exercise Price | Aggregate Intrinsic Value (in millions) | Weighted Average Remaining Life (years) |
|-----------------------------------|---------------------|---------------------------------|--|--|
| Outstanding, December 2012 | 43,217,111 | \$ 99.51 | \$1,672 | 5.55 |
| Exercised | (579,066) | 112.43 | | |
| Forfeited | (71,865) | 78.78 | | |
| Expired | (939) | 96.08 | | |
| Outstanding, December 2013 | 42,565,241 | 99.37 | 3,465 | 4.60 |
| Exercisable, December 2013 | 42,565,241 | 99.37 | 3,465 | 4.60 |

The total intrinsic value of options exercised during 2013, 2012 and 2011 was \$26 million, \$151 million and \$143 million, respectively. The table below presents options outstanding.

| Exercise Price | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (years) |
|-----------------------------------|---------------------|---------------------------------|--|
| \$ 75.00 - \$ 89.99 | 34,002,081 | \$ 78.78 | 5.00 |
| 90.00 - 119.99 | — | — | — |
| 120.00 - 134.99 | 2,527,036 | 131.64 | 1.92 |
| 135.00 - 149.99 | — | — | — |
| 150.00 - 164.99 | 55,000 | 154.16 | 0.17 |
| 165.00 - 194.99 | — | — | — |
| 195.00 - 209.99 | 5,981,124 | 202.27 | 3.48 |
| Outstanding, December 2013 | 42,565,241 | 99.37 | 4.60 |

As of December 2013, there was \$475 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.54 years.

The table below presents the share-based compensation and the related excess tax benefit/(provision).

| | Year Ended December | | |
|---|---------------------|---------|---------|
| | 2013 | 2012 | 2011 |
| <i>in millions</i> | | | |
| Share-based compensation | \$2,039 | \$1,338 | \$2,843 |
| Excess net tax benefit related to options exercised | 3 | 53 | 55 |
| Excess net tax benefit/(provision) related to share-based awards ¹ | 94 | (11) | 138 |

1. Represents the net tax benefit/(provision) recognized in additional paid-in capital on stock options exercised and the delivery of common stock underlying share-based awards.

Notes to Consolidated Financial Statements

Note 30.

Parent Company

Group Inc. — Condensed Statements of Earnings

| in millions | Year Ended December | | |
|---|---------------------|-----------------|-----------------|
| | 2013 | 2012 | 2011 |
| Revenues | | | |
| Dividends from bank subsidiaries | \$2,000 | \$ — | \$ 1,000 |
| Dividends from nonbank subsidiaries | 4,176 | 3,622 | 4,967 |
| Undistributed earnings of subsidiaries | 1,086 | 3,682 | 481 |
| Other revenues | 2,209 | 1,567 | (3,381) |
| Total non-interest revenues | 9,471 | 8,871 | 3,067 |
| Interest income | 4,048 | 4,751 | 4,547 |
| Interest expense | 4,161 | 4,287 | 3,917 |
| Net interest income/(expense) | (113) | 464 | 630 |
| Net revenues, including net interest income/(expense) | 9,358 | 9,335 | 3,697 |
| Operating expenses | | | |
| Compensation and benefits | 403 | 452 | 300 |
| Other expenses | 424 | 448 | 252 |
| Total operating expenses | 827 | 900 | 552 |
| Pre-tax earnings | 8,531 | 8,435 | 3,145 |
| Provision/(benefit) for taxes | 491 | 960 | (1,297) |
| Net earnings | 8,040 | 7,475 | 4,442 |
| Preferred stock dividends | 314 | 183 | 1,932 |
| Net earnings applicable to common shareholders | \$7,726 | \$ 7,292 | \$ 2,510 |

Group Inc. — Condensed Statements of Financial Condition

| in millions | As of December | |
|--|------------------|------------------|
| | 2013 | 2012 |
| Assets | | |
| Cash and cash equivalents | \$ 17 | \$ 14 |
| Loans to and receivables from subsidiaries | | |
| Bank subsidiaries | 3,453 | 4,103 |
| Nonbank subsidiaries ¹ | 171,566 | 174,609 |
| Investments in subsidiaries and other affiliates | | |
| Bank subsidiaries | 20,041 | 20,671 |
| Nonbank subsidiaries and other affiliates | 53,353 | 52,646 |
| Financial instruments owned, at fair value | 16,065 | 19,132 |
| Other assets | 7,575 | 4,782 |
| Total assets | \$272,070 | \$275,957 |
| Liabilities and shareholders' equity | | |
| Payables to subsidiaries | \$ 489 | \$ 657 |
| Financial instruments sold, but not yet purchased, at fair value | 421 | 301 |
| Unsecured short-term borrowings | | |
| With third parties ² | 30,611 | 29,898 |
| With subsidiaries | 4,289 | 4,253 |
| Unsecured long-term borrowings | | |
| With third parties ³ | 153,576 | 158,761 |
| With subsidiaries ⁴ | 1,587 | 3,574 |
| Other liabilities and accrued expenses | 2,630 | 2,797 |
| Total liabilities | 193,603 | 200,241 |
| Commitments, contingencies and guarantees | | |
| Shareholders' equity | | |
| Preferred stock | 7,200 | 6,200 |
| Common stock | 8 | 8 |
| Restricted stock units and employee stock options | 3,839 | 3,298 |
| Additional paid-in capital | 48,998 | 48,030 |
| Retained earnings | 71,961 | 65,223 |
| Accumulated other comprehensive loss | (524) | (193) |
| Stock held in treasury, at cost | (53,015) | (46,850) |
| Total shareholders' equity | 78,467 | 75,716 |
| Total liabilities and shareholders' equity | \$272,070 | \$275,957 |

Group Inc. — Condensed Statements of Cash Flows

| in millions | Year Ended December | | |
|---|---------------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| Cash flows from operating activities | | | |
| Net earnings | \$ 8,040 | \$ 7,475 | \$ 4,442 |
| Adjustments to reconcile net earnings to net cash provided by operating activities | | | |
| Undistributed earnings of subsidiaries | (1,086) | (3,682) | (481) |
| Depreciation and amortization | 15 | 15 | 14 |
| Deferred income taxes | 1,398 | (1,258) | 809 |
| Share-based compensation | 194 | 81 | 244 |
| Changes in operating assets and liabilities | | | |
| Financial instruments owned, at fair value | (3,235) | 2,197 | 7,387 |
| Financial instruments sold, but not yet purchased, at fair value | 183 | (3) | (536) |
| Other, net | 586 | 1,888 | (2,408) |
| Net cash provided by operating activities | 6,095 | 6,713 | 9,471 |
| Cash flows from investing activities | | | |
| Purchase of property, leasehold improvements and equipment | (3) | (12) | (42) |
| Repayments/(issuances) of short-term loans by/(to) subsidiaries, net | (5,153) | 6,584 | 20,319 |
| Issuance of term loans to subsidiaries | (2,174) | (17,414) | (42,902) |
| Repayments of term loans by subsidiaries | 7,063 | 18,715 | 21,850 |
| Capital distributions from/(contributions to) subsidiaries, net | 655 | (298) | 4,642 |
| Net cash provided by/(used for) investing activities | 388 | 7,575 | 3,867 |
| Cash flows from financing activities | | | |
| Unsecured short-term borrowings, net | 1,296 | (2,647) | (727) |
| Proceeds from issuance of long-term borrowings | 28,458 | 26,160 | 27,251 |
| Repayment of long-term borrowings, including the current portion | (29,910) | (35,608) | (27,865) |
| Preferred stock repurchased | — | — | (3,857) |
| Common stock repurchased | (6,175) | (4,640) | (6,048) |
| Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units | (1,302) | (1,086) | (2,771) |
| Proceeds from issuance of preferred stock, net of issuance costs | 991 | 3,087 | — |
| Proceeds from issuance of common stock, including stock option exercises | 65 | 317 | 368 |
| Excess tax benefit related to share-based compensation | 98 | 130 | 358 |
| Cash settlement of share-based compensation | (1) | (1) | (40) |
| Net cash used for financing activities | (6,480) | (14,288) | (13,331) |
| Net increase/(decrease) in cash and cash equivalents | 3 | — | 7 |
| Cash and cash equivalents, beginning of year | 14 | 14 | 7 |
| Cash and cash equivalents, end of year | \$ 17 | \$ 14 | \$ 14 |

SUPPLEMENTAL DISCLOSURES:

Cash payments for third-party interest, net of capitalized interest, were \$2.78 billion, \$5.11 billion and \$3.83 billion for 2013, 2012 and 2011, respectively.

Cash payments for income taxes, net of refunds, were \$3.21 billion, \$1.59 billion and \$1.39 billion for 2013, 2012 and 2011, respectively.

Non-cash activity:

During 2011, \$103 million of common stock was issued in connection with the acquisition of GS Australia.

- Primarily includes overnight loans, the proceeds of which can be used to satisfy the short-term obligations of Group Inc.
- Includes \$5.83 billion and \$4.91 billion at fair value for 2013 and 2012, respectively.
- Includes \$8.67 billion and \$8.19 billion at fair value for 2013 and 2012, respectively.
- Unsecured long-term borrowings with subsidiaries by maturity date are \$213 million in 2015, \$136 million in 2016, \$150 million in 2017, \$71 million in 2018, and \$1.02 billion in 2019-thereafter.