

GOLDMAN SACHS GROUP INC

Form 10-Q

May 06, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended March 27, 2009

or

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

For the transition period from to

Commission File Number: 001-14965

**The Goldman Sachs Group, Inc.
(Exact name of registrant as specified in its charter)**

**Delaware
(State or other jurisdiction of
incorporation or organization)**

**13-4019460
(I.R.S. Employer
Identification No.)**

**85 Broad Street, New York, NY
(Address of principal executive offices)**

**10004
(Zip Code)**

**(212) 902-1000
(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: GOLDMAN SACHS GROUP INC - Form 10-Q

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of April 24, 2009, there were 503,420,969 shares of the registrant's common stock outstanding.

THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE FISCAL QUARTER ENDED MARCH 27, 2009

INDEX

Form 10-Q Item Number:	Page No.
<u>PART I:</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1:</u>	<u>Financial Statements (Unaudited)</u>
	<u>Condensed Consolidated Statements of Earnings for the three months ended March 27, 2009 and February 29, 2008 and one month ended December 26, 2008</u>
	2
	<u>Condensed Consolidated Statements of Financial Condition as of March 27, 2009, November 28, 2008 and December 26, 2008</u>
	3
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 27, 2009, year ended November 28, 2008 and one month ended December 26, 2008</u>
	4
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 27, 2009 and February 29, 2008 and one month ended December 26, 2008</u>
	5
	<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 27, 2009 and February 29, 2008 and one month ended December 26, 2008</u>
	6
	<u>Notes to Condensed Consolidated Financial Statements</u>
	7
	<u>Report of Independent Registered Public Accounting Firm</u>
	77
	<u>Statistical Disclosures</u>
	78
<u>Item 2:</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	81
<u>Item 3:</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	143
<u>Item 4:</u>	<u>Controls and Procedures</u>
	143
<u>PART II:</u>	<u>OTHER INFORMATION</u>
<u>Item 1:</u>	<u>Legal Proceedings</u>
	144
<u>Item 2:</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	146
<u>Item 6:</u>	<u>Exhibits</u>
	147
<u>SIGNATURES</u>	148
	<u>EX-12.1: STATEMENT RE: COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</u>
	<u>EX-15.1: LETTER RE: UNAUDITED INTERIM FINANCIAL INFORMATION</u>
	<u>EX-31.1: RULE 13A-14(A) CERTIFICATIONS</u>
	<u>EX-32.1: SECTION 1350 CERTIFICATIONS</u>

Table of Contents**PART I: FINANCIAL INFORMATION****Item 1: Financial Statements (Unaudited)**

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	Three Months Ended March 2009	Three Months Ended February 2008	One Month Ended December 2008
	(in millions, except per share amounts)		
Revenues			
Investment banking	\$ 823	\$ 1,166	\$ 135
Trading and principal investments	5,706	4,877	(964)
Asset management and securities services	989	1,341	327
Total non-interest revenues	7,518	7,384	(502)
Interest income	4,362	11,245	1,687
Interest expense	2,455	10,294	1,002
Net interest income	1,907	951	685
Net revenues, including net interest income	9,425	8,335	183
Operating expenses			
Compensation and benefits	4,712	4,001	744
Brokerage, clearing, exchange and distribution fees	536	790	165
Market development	68	144	16
Communications and technology	173	187	62
Depreciation and amortization	511	170	72
Amortization of identifiable intangible assets	38	84	39
Occupancy	241	236	82
Professional fees	135	178	58
Other expenses	382	402	203
Total non-compensation expenses	2,084	2,191	697
Total operating expenses	6,796	6,192	1,441

Pre-tax earnings/(loss)	2,629	2,143	(1,258)
Provision/(benefit) for taxes	815	632	(478)
Net earnings/(loss)	1,814	1,511	(780)
Preferred stock dividends	155	44	248
Net earnings/(loss) applicable to common shareholders	\$ 1,659	\$ 1,467	\$ (1,028)
Earnings/(loss) per common share			
Basic	\$ 3.48	\$ 3.39	\$ (2.15)
Diluted	3.39	3.23	(2.15)
Dividends declared per common share	\$	\$ 0.35	\$ 0.47 ⁽¹⁾
Average common shares outstanding			
Basic	477.4	432.8	485.5
Diluted	489.2	453.5	485.5

⁽¹⁾ Rounded to the nearest penny. Exact dividend amount was \$0.4666666 per common share and was reflective of a four-month period (December 2008 through March 2009), due to the change in the firm's fiscal year-end.

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

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)**

	March 2009	As of November 2008	December 2008
	(in millions, except share and per share amounts)		
Assets			
Cash and cash equivalents	\$ 35,417	\$ 15,740	\$ 13,805
Cash and securities segregated for regulatory and other purposes (includes \$45,539, \$78,830 and \$69,549 at fair value as of March 2009, November 2008 and December 2008, respectively)	69,586	106,664	112,499
Collateralized agreements:			
Securities purchased under agreements to resell, at fair value, and federal funds sold (includes \$142,655, \$116,671 and \$127,032 at fair value as of March 2009, November 2008 and December 2008, respectively)	143,155	122,021	129,532
Securities borrowed (includes \$88,818, \$59,810 and \$86,057 at fair value as of March 2009, November 2008 and December 2008, respectively)	228,245	180,795	203,341
Receivables from brokers, dealers and clearing organizations	20,421	25,899	28,038
Receivables from customers and counterparties (includes \$2,036, \$1,598 and \$2,474 at fair value as of March 2009, November 2008 and December 2008, respectively)	50,065	64,665	58,339
Trading assets, at fair value (includes \$26,599, \$26,313 and \$42,004 pledged as collateral as of March 2009, November 2008 and December 2008, respectively)	349,591	338,325	534,964
Other assets	28,810	30,438	31,707
Total assets	\$ 925,290	\$ 884,547	\$ 1,112,225
Liabilities and shareholders equity			
Deposits (includes \$6,781, \$4,224 and \$5,792 at fair value as of March 2009, November 2008 and December 2008, respectively)	\$ 44,504	\$ 27,643	\$ 32,130
Collateralized financings:			
Securities sold under agreements to repurchase, at fair value	133,395	62,883	260,421
Securities loaned (includes \$9,932, \$7,872 and \$11,276 at fair value as of March 2009, November 2008 and December 2008, respectively)	18,928	17,060	21,576
Other secured financings (includes \$19,812, \$20,249 and \$20,172 at fair value as of March 2009, November 2008 and December 2008, respectively)	39,793	38,683	39,045
Payables to brokers, dealers and clearing organizations	14,940	8,585	14,417
Payables to customers and counterparties	205,077	245,258	231,308

Edgar Filing: GOLDMAN SACHS GROUP INC - Form 10-Q

Trading liabilities, at fair value	147,221	175,972	186,031
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$19,923, \$23,075 and \$25,600 at fair value as of March 2009, November 2008 and December 2008, respectively)	44,596	52,658	54,093
Unsecured long-term borrowings (includes \$17,689, \$17,446 and \$18,146 at fair value as of March 2009, November 2008 and December 2008, respectively)	188,534	168,220	185,564
Other liabilities and accrued expenses (includes \$1,922, \$978 and \$1,400 at fair value as of March 2009, November 2008 and December 2008, respectively)	24,749	23,216	24,586
Total liabilities	861,737	820,178	1,049,171

Commitments, contingencies and guarantees

Shareholders equity

Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$18,100 as of March 2009, November 2008 and December 2008	16,507	16,471	16,483
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 700,596,595, 680,953,836 and 680,986,058 shares issued as of March 2009, November 2008 and December 2008, respectively, and 462,273,124, 442,537,317 and 442,553,372 shares outstanding as of March 2009, November 2008 and December 2008, respectively	7	7	7
Restricted stock units and employee stock options	4,761	9,284	9,463
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding			
Additional paid-in capital	34,429	31,071	31,070
Retained earnings	40,366	39,913	38,579
Accumulated other comprehensive income/(loss)	(357)	(202)	(372)
Common stock held in treasury, at cost, par value \$0.01 per share; 238,323,471, 238,416,519 and 238,432,686 shares as of March 2009, November 2008 and December 2008, respectively	(32,160)	(32,175)	(32,176)
Total shareholders equity	63,553	64,369	63,054
Total liabilities and shareholders equity	\$ 925,290	\$ 884,547	\$ 1,112,225

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

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
(UNAUDITED)**

	Three Months	Year Ended	One Month
	Ended March	November	Ended
	2009	2008	December
		(in millions)	2008
Preferred stock			
Balance, beginning of period	\$ 16,483	\$ 3,100	\$ 16,471
Issued		13,367	
Preferred stock accretion	24	4	12
Balance, end of period	16,507	16,471	16,483
Common stock			
Balance, beginning of period	7	6	7
Issued		1	
Balance, end of period	7	7	7
Restricted stock units and employee stock options			
Balance, beginning of period	9,463	9,302	9,284
Issuance and amortization of restricted stock units and employee stock options	498	2,254	192
Delivery of common stock underlying restricted stock units	(5,164)	(1,995)	
Forfeiture of restricted stock units and employee stock options	(36)	(274)	(13)
Exercise of employee stock options		(3)	
Balance, end of period	4,761	9,284	9,463
Additional paid-in capital			
Balance, beginning of period	31,070	22,027	31,071
Issuance of common stock warrants		1,633	
Issuance of common stock, including the delivery of common stock underlying restricted stock units and proceeds from the exercise of employee stock options	5,174	8,081	(1)
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(847)	(1,314)	
Preferred and common stock issuance costs		(1)	
Excess net tax benefit/(provision) related to share-based compensation	(968)	645	
Balance, end of period	34,429	31,071	31,070
Retained earnings			
Balance, beginning of period	38,579	38,642	39,913
Cumulative effect of adjustment from adoption of FIN 48		(201)	

Edgar Filing: GOLDMAN SACHS GROUP INC - Form 10-Q

Balance, beginning of period, after cumulative effect of adjustments	38,579	38,441	39,913
Net earnings/(loss)	1,814	2,322	(780)
Dividends and dividend equivalents declared on common stock and restricted stock units	(3)	(642)	(233)
Dividends declared on preferred stock		(204)	(309)
Preferred stock accretion	(24)	(4)	(12)
Balance, end of period	40,366	39,913	38,579
Accumulated other comprehensive income/(loss)			
Balance, beginning of period	(372)	(118)	(202)
Currency translation adjustment, net of tax	25	(98)	(32)
Pension and postretirement liability adjustment, net of tax	9	69	(175)
Net unrealized gains/(losses) on available-for-sale securities, net of tax	(19)	(55)	37
Balance, end of period	(357)	(202)	(372)
Common stock held in treasury, at cost			
Balance, beginning of period	(32,176)	(30,159)	(32,175)
Repurchased	(2) ⁽¹⁾	(2,037)	(1) ⁽¹⁾
Reissued	18	21	
Balance, end of period	(32,160)	(32,175)	(32,176)
Total shareholders equity	\$ 63,553	\$ 64,369	\$ 63,054

⁽¹⁾ Relates to repurchases of common stock by a broker-dealer subsidiary to facilitate customer transactions in the ordinary course of business and shares withheld to satisfy withholding tax requirements.

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

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	Three Months Ended March 2009	Three Months Ended February 2008 (in millions)	One Month Ended December 2008
Cash flows from operating activities			
Net earnings/(loss)	\$ 1,814	\$ 1,511	\$ (780)
Non-cash items included in net earnings			
Depreciation and amortization	611	259	104
Amortization of identifiable intangible assets	38	84	39
Share-based compensation	468	480	180
Changes in operating assets and liabilities			
Cash and securities segregated for regulatory and other purposes	43,126	15,650	(5,835)
Net receivables from brokers, dealers and clearing organizations	8,140	(7,234)	3,693
Net payables to customers and counterparties	(17,879)	42,226	(7,635)
Securities borrowed, net of securities loaned	(27,552)	(19,127)	(18,030)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	(140,648)	(20,263)	190,027
Trading assets, at fair value	180,563	(46,347)	(192,883)
Trading liabilities, at fair value	(38,810)	15,037	10,059
Other, net	(6,674)	(5,425)	7,156
Net cash provided by/(used for) operating activities	3,197	(23,149)	(13,905)
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	(278)	(403)	(61)
Proceeds from sales of property, leasehold improvements and equipment	28	42	4
Business acquisitions, net of cash acquired	(190)	(2,156)	(59)
Proceeds from sales of investments	75	26	141
Purchase of available-for-sale securities	(1,440)	(1,109)	(95)
Proceeds from sales of available-for-sale securities	892	647	26
Net cash used for investing activities	(913)	(2,953)	(44)
Cash flows from financing activities			
Unsecured short-term borrowings, net	(4,680)	879	2,816
Other secured financings (short-term), net	5,222	2,384	(1,068)
Proceeds from issuance of other secured financings (long-term)	2,322	4,107	437
Repayment of other secured financings (long-term), including the current portion	(2,435)	(2,373)	(349)
Proceeds from issuance of unsecured long-term borrowings	14,689	19,874	9,310
	(8,325)	(8,461)	(3,686)

Repayment of unsecured long-term borrowings, including the current portion			
Derivative contracts with a financing element, net	670	(420)	66
Deposits, net	12,374	11,591	4,487
Common stock repurchased	(2)	(1,561)	(1)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(545)	(201)	
Proceeds from issuance of common stock	27	64	2
Excess tax benefit related to share-based compensation	11	552	
Net cash provided by financing activities	19,328	26,435	12,014
Net increase/(decrease) in cash and cash equivalents	21,612	333	(1,935)
Cash and cash equivalents, beginning of period	13,805	10,282	15,740
Cash and cash equivalents, end of period	\$ 35,417	\$ 10,615	\$ 13,805

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were \$3.42 billion, \$10.64 billion and \$459 million during the three months ended March 2009 and February 2008 and one month ended December 2008, respectively.

Cash payments for income taxes, net of refunds, were \$256 million, \$670 million and \$171 million during the three months ended March 2009 and February 2008 and one month ended December 2008, respectively.

Non-cash activities:

The firm assumed \$16 million, \$534 million and \$0 of debt in connection with business acquisitions during the three months ended March 2009 and February 2008 and one month ended December 2008, respectively. The firm did not issue any common stock in connection with business acquisitions for the three months ended March 2009 and February 2008 and one month ended December 2008.

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

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)**

	Three Months Ended March 2009	Three Months Ended February 2008	One Month Ended December 2008
		(in millions)	
Net earnings/(loss)	\$ 1,814	\$ 1,511	\$ (780)
Currency translation adjustment, net of tax	25	9	(32)
Pension and postretirement liability adjustment, net of tax	9		(175)
Net unrealized gains/(losses) on available-for-sale securities, net of tax	(19)	(35)	37
Comprehensive income/(loss)	\$ 1,829	\$ 1,485	\$ (950)

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

Note 1. Description of Business

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a leading global financial services firm providing investment banking, securities and investment management 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 London, Frankfurt, Tokyo, Hong Kong and other major financial centers around the world.

The firm's activities are divided into three segments:

Investment Banking. The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.

Trading and Principal Investments. The firm facilitates client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, the firm engages in market-making and specialist activities on equities and options exchanges, and the firm clears client transactions on major stock, options and futures exchanges worldwide. In connection with the firm's merchant banking and other investing activities, the firm makes principal investments directly and through funds that the firm raises and manages.

Asset Management and Securities Services. The firm provides investment advisory and financial planning 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 group of institutions and individuals worldwide and provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

Note 2. Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements include the accounts of Group Inc. and all other entities in which the firm has a controlling financial interest. All material intercompany transactions and balances have been eliminated.

The firm determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity, a variable interest entity (VIE) or a qualifying special-purpose entity (QSPE) under generally accepted accounting principles.

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 obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. Voting interest entities are consolidated in accordance with Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, as amended. The usual condition for a controlling

financial interest in an entity is ownership of a majority voting interest. Accordingly, the firm consolidates voting interest entities in which it has a majority voting interest.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Variable Interest Entities. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) 46-R, Consolidation of Variable Interest Entities, the firm consolidates VIEs for which it is the primary beneficiary. The firm determines whether it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE's expected losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, the firm performs a quantitative analysis. For purposes of allocating a VIE's expected losses and expected residual returns to its variable interest holders, the firm utilizes the top down method. Under this method, the firm calculates its share of the VIE's expected losses and expected residual returns using the specific cash flows that would be allocated to it, based on contractual arrangements and/or the firm's position in the capital structure of the VIE, under various probability-weighted scenarios. The firm reassesses its initial evaluation of an entity as a VIE and its initial determination of whether the firm is the primary beneficiary of a VIE upon the occurrence of certain reconsideration events as defined in FIN 46-R.

QSPEs. QSPEs are passive entities that are commonly used in mortgage and other securitization transactions. Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, sets forth the criteria an entity must satisfy to be a QSPE. These criteria include the types of assets a QSPE may hold, limits on asset sales, the use of derivatives and financial guarantees, and the level of discretion a servicer may exercise in attempting to collect receivables. These criteria may require management to make judgments about complex matters, such as whether a derivative is considered passive and the level of discretion a servicer may exercise, including, for example, determining when default is reasonably foreseeable. In accordance with SFAS No. 140 and FIN 46-R, the firm does not consolidate QSPEs.

Equity-Method Investments. When the firm does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting interest of 20% to 50%) and has an investment in common stock or in-substance common stock, the firm accounts for its investment either in accordance with Accounting Principles Board Opinion (APB) No. 18, The Equity Method of Accounting for Investments in Common Stock or at fair value in accordance with SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. In general, the firm accounts for investments acquired subsequent to the adoption of SFAS No. 159 at fair value. In certain cases, the firm may apply the equity method of accounting to new investments that are strategic in nature or closely related to the firm's principal business activities, where the firm has a significant degree of involvement in the cash flows or operations of the investee, or where cost-benefit considerations are less significant. See Revenue Recognition Other Financial Assets and Financial Liabilities at Fair Value below for a discussion of the firm's application of SFAS No. 159.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Other. If the firm does not consolidate an entity or apply the equity method of accounting, the firm accounts for its investment at fair value. The firm also has formed numerous nonconsolidated investment funds with third-party investors that are typically organized as limited partnerships. The firm acts as general partner for these funds and generally does not hold a majority of the economic interests in these funds. The firm has generally provided the third-party investors with rights to terminate the funds or to remove the firm as the general partner. As a result, the firm does not consolidate these funds. These fund investments are included in Trading assets, at fair value in the condensed consolidated statements of financial condition.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm's Annual Report on Form 10-K for the fiscal year ended November 28, 2008. The condensed consolidated financial information as of November 28, 2008 has been derived from audited consolidated financial statements not included herein.

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

In connection with becoming a bank holding company, the firm was required to change its fiscal year-end from November to December. This change in the firm's fiscal year-end resulted in a one-month transition period that began on November 29, 2008 and ended on December 26, 2008. Financial information for this fiscal transition period is included in these condensed consolidated financial statements. On April 13, 2009, the Board of Directors of Group Inc. (the Board) approved a change in the firm's fiscal year-end from the last Friday of December to December 31, beginning with fiscal 2009. Fiscal 2009 began on December 27, 2008 and will end on December 31, 2009. The firm's second and third fiscal quarters in 2009 will end on the last Friday of June and September, respectively. Beginning in the fourth quarter of 2009, the firm's fiscal year will end on December 31.

In the condensed consolidated statements of earnings, cash flows and comprehensive income, the firm compares the three-month period ended March 27, 2009 with the previously reported three-month period ended February 29, 2008. Financial information for the three months ended March 28, 2008 has not been included in this Form 10-Q for the following reasons: (i) the three months ended February 29, 2008 provide a meaningful comparison for the three months ended March 27, 2009; (ii) there are no significant factors, seasonal or other, that would impact the comparability of information if the results for the three months ended March 28, 2008 were presented in lieu of results for the three months ended February 29, 2008; and (iii) it was not practicable or cost justified to prepare this information.

All references to March 2009 and February 2008, unless specifically stated otherwise, refer to the firm's three-month fiscal periods ended, or the dates, as the context requires, March 27, 2009 and February 29, 2008, respectively. All references to December 2008, unless specifically stated otherwise, refer to the firm's fiscal one-month transition period ended, or the date, as the context requires, December 26, 2008. All references to November 2008, unless specifically stated otherwise, refer to the firm's fiscal year ended, or the date, as the context requires, November 28, 2008. All references to 2009, unless specifically stated otherwise, refer to the firm's fiscal year ending, or the date, as the context requires, December 31, 2009. Certain reclassifications have been made to previously reported amounts to conform to

the current presentation.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Use of Estimates

These condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make certain estimates and assumptions. The most important of these estimates and assumptions relate to fair value measurements, the accounting for goodwill and identifiable intangible assets and the provision for potential losses that may arise from litigation and regulatory proceedings and tax audits. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Revenue Recognition

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

Trading Assets and Trading Liabilities. Substantially all trading assets and trading liabilities are reflected in the condensed consolidated statements of financial condition at fair value, pursuant principally to:

SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities;

specialized industry accounting for broker-dealers and investment companies;

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities; or

the fair value option under either SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140, or SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, (i.e., the fair value option).

Related unrealized gains or losses are generally recognized in Trading and principal investments in the condensed consolidated statements of earnings.

Other Financial Assets and Financial Liabilities at Fair Value. In addition to Trading assets, at fair value and Trading liabilities, at fair value, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value under the fair value option. The primary reasons for electing the fair value option are to reflect economic events in earnings on a timely basis, to mitigate volatility in earnings from using different measurement attributes and to address simplification and cost-benefit considerations.

Such financial assets and financial liabilities accounted for at fair value include:

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

certain other secured financings, primarily transfers accounted for as financings rather than sales under SFAS No. 140, debt raised through the firm's William Street program and certain other nonrecourse financings;

certain unsecured long-term borrowings, including prepaid physical commodity transactions;

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

resale and repurchase agreements;

securities borrowed and loaned within Trading and Principal Investments, consisting of the firm's matched book and certain firm financing activities;

certain certificates of deposit issued by Goldman Sachs Bank USA (GS Bank USA), as well as securities held by GS Bank USA;

certain receivables from customers and counterparties, including transfers accounted for as secured loans rather than purchases under SFAS No. 140;

certain insurance and reinsurance contracts; and

in general, investments acquired after the adoption of SFAS No. 159 where the firm has significant influence over the investee and would otherwise apply the equity method of accounting.

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 (i.e., the exit price). Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

SFAS No. 157, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Basis of Fair Value Measurement

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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.

During the fourth quarter of 2008, both the FASB and the staff of the SEC re-emphasized the importance of sound fair value measurement in financial reporting. In October 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. This statement clarifies that determining fair value in an inactive or dislocated market depends on facts and circumstances and requires significant management judgment. This statement specifies that it is acceptable to use inputs based on management estimates or assumptions, or for management to make adjustments to observable inputs to determine

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

fair value when markets are not active and relevant observable inputs are not available. The firm's fair value measurement policies are consistent with the guidance in FSP No. FAS 157-3.

Credit risk is an essential component of fair value. Cash products (e.g., bonds and loans) and derivative instruments (particularly those with significant future projected cash flows) trade in the market at levels which reflect credit considerations. The firm calculates the fair value of derivative assets by discounting future cash flows at a rate which incorporates counterparty credit spreads and the fair value of derivative liabilities by discounting future cash flows at a rate which incorporates the firm's own credit spreads. In doing so, credit exposures are adjusted to reflect mitigants, namely collateral agreements which reduce exposures based on triggers and contractual posting requirements. The firm manages its exposure to credit risk as it does other market risks and will price, economically hedge, facilitate and intermediate trades which involve credit risk. The firm records liquidity valuation adjustments to reflect the cost of exiting concentrated risk positions, including exposure to the firm's own credit spreads.

In determining fair value, the firm separates its Trading assets, at fair value and its Trading liabilities, at fair value into two categories: cash instruments and derivative contracts.

Cash Instruments. The firm's cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most U.S. government and sovereign obligations, active listed equities and certain money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy. In accordance with SFAS No. 157, the firm does not adjust the quoted price for such instruments, even in situations where the firm holds a large position and a sale could reasonably impact the quoted price.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal and provincial obligations and certain money market securities and loan commitments. Such instruments are generally classified within level 2 of the fair value hierarchy.

Certain cash instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity and real estate fund investments, certain bank loans and bridge loans (including certain mezzanine financing, leveraged loans arising from capital market transactions and other corporate bank debt), less liquid corporate debt securities and other debt obligations (including less liquid high-yield corporate bonds, distressed debt instruments and collateralized debt obligations (CDOs) backed by corporate obligations), less liquid mortgage whole loans and securities (backed by either commercial or residential real estate), and acquired portfolios of distressed loans. The transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on market evidence where available. In the absence of such evidence, management's best estimate is used.

Recent market conditions, characterized by dislocations between asset classes, elevated levels of volatility, and reduced price transparency, have increased the level of management judgment required to value cash trading instruments classified within level 3 of the fair value hierarchy. In particular, management's judgment is required to determine the appropriate risk-adjusted discount rate for cash trading instruments with little or no price transparency as a result of decreased volumes and lower levels of trading activity. In such situations, the firm's valuation is adjusted to approximate rates which market participants would likely consider appropriate for relevant credit and liquidity risks.

Derivative Contracts. Derivative contracts can be exchange-traded or over-the-counter (OTC).

Exchange-traded derivatives typically fall within level 1 or level 2 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. The firm generally values exchange-traded derivatives using models which calibrate to market-clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying instruments. In such cases, exchange-traded derivatives are classified within level 2 of the fair value hierarchy.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market-clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The firm generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment. OTC derivatives are classified within level 2 of the fair value hierarchy when all of the significant inputs can be corroborated to market evidence.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within level 3 of the fair value hierarchy. Where the firm does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. The valuations of these less liquid OTC derivatives are typically based on level 1 and/or level 2 inputs that can be observed in the market, as well as unobservable level 3 inputs. Subsequent to initial recognition, the firm updates the level 1 and level 2 inputs to reflect observable market changes, with resulting gains and losses reflected within level 3. Level 3 inputs are only changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

dealer quotations, or other empirical market data. In circumstances where the firm cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on market evidence where available. In the absence of such evidence, management's best estimate is used.

Collateralized Agreements and Financings. Collateralized agreements consist of resale agreements and securities borrowed. Collateralized financings consist of repurchase agreements, securities loaned and other secured financings. Interest on collateralized agreements and collateralized financings is recognized in Interest income and Interest expense, respectively, over the life of the transaction.

Resale and Repurchase Agreements. Securities purchased under agreements to resell and securities sold under agreements to repurchase, principally U.S. government, federal agency and investment-grade sovereign obligations, represent collateralized financing transactions. The firm receives securities purchased under agreements to resell, makes delivery of securities sold under agreements to repurchase, monitors the market value of these securities on a daily basis and delivers or obtains additional collateral as appropriate. As noted above, resale and repurchase agreements are carried in the condensed consolidated statements of financial condition at fair value under SFAS No. 159. Resale and repurchase agreements are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy. Resale and repurchase agreements are presented on a net-by-counterparty basis when the requirements of FIN 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements, or FIN 39, Offsetting of Amounts Related to Certain Contracts, are satisfied.

Securities Borrowed and Loaned. Securities borrowed and loaned are generally collateralized by cash, securities or letters of credit. The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate. Securities borrowed and loaned within Securities Services, relating to both customer activities and, to a lesser extent, certain firm financing activities, 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. As noted above, securities borrowed and loaned within Trading and Principal Investments, which are related to the firm's matched book and certain firm financing activities, are recorded at fair value under SFAS No. 159. These securities borrowed and loaned transactions are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy.

Other Secured Financings. In addition to repurchase agreements and securities loaned, the firm funds assets through the use of other secured financing arrangements and pledges financial instruments and other assets as collateral in these transactions. As noted above, the firm has elected to apply SFAS No. 159 to transfers accounted for as financings rather than sales under SFAS No. 140, debt raised through the firm's William Street program and certain other nonrecourse financings, for which the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. These other

secured financing transactions are generally valued based on inputs with reasonable levels of price transparency and are generally classified within level 2 of the fair value hierarchy. Other

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest. See Note 3 for further information regarding other secured financings.

Hybrid Financial Instruments. Hybrid financial instruments are instruments that contain bifurcated embedded derivatives under SFAS No. 133 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, it 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 hedge accounting relationships. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under SFAS No. 155. See Notes 3 and 6 for further information regarding hybrid financial instruments.

Transfers of Financial Assets. In general, transfers of financial assets are accounted for as sales under SFAS No. 140 when the firm has relinquished control over the transferred assets. For transfers accounted for as sales, any related gains or losses are recognized in net revenues. Transfers that are not accounted for as sales are accounted for as collateralized financings, with the related interest expense recognized in net revenues over the life of the transaction.

Commissions. Commission revenues from executing and clearing client transactions on stock, options and futures markets are recognized in Trading and principal investments in the condensed consolidated statements of earnings on a trade-date basis.

Insurance Activities. Certain of the firm's insurance and reinsurance contracts are accounted for at fair value under SFAS No. 159, with changes in fair value included in Trading and principal investments in the condensed consolidated statements of earnings.

Revenues from variable annuity and life insurance and reinsurance contracts not accounted for at fair value under SFAS No. 159 generally consist of fees assessed on contract holder account balances for mortality charges, policy administration fees and surrender charges, and are recognized within Trading and principal investments in the condensed consolidated statements of earnings in the period that services are provided.

Interest credited to variable annuity and life insurance and reinsurance contract account balances and changes in reserves are recognized in Other expenses in the condensed consolidated statements of earnings.

Premiums earned for underwriting property catastrophe reinsurance are recognized within Trading and principal investments in the condensed consolidated statements of earnings over the coverage period, net of premiums ceded for the cost of reinsurance. Expenses for liabilities related to property catastrophe reinsurance claims, including estimates of losses that have been incurred but not reported, are recognized within Other expenses in the condensed consolidated statements of earnings.

Merchant Banking Overrides. The firm is entitled to receive merchant banking overrides (i.e., an increased share of a fund's income and gains) when the return on the fund's investments exceeds certain threshold returns. Overrides are based on investment performance over the life of each merchant banking fund, and future investment underperformance may require amounts of override previously distributed to the firm to be returned to the fund. Accordingly, overrides are recognized in the condensed consolidated statements of earnings only when all material

contingencies have been resolved. Overrides are included in Trading and principal investments in the condensed consolidated statements of earnings.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Asset Management. Management fees are recognized over the period that the related service is provided based upon average net asset values. In certain circumstances, the firm is also entitled to receive incentive fees based on a percentage of a fund's return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are generally based on investment performance over a 12-month period and are subject to adjustment prior to the end of the measurement period. Accordingly, incentive fees are recognized in the condensed consolidated statements of earnings when the measurement period ends. Asset management fees and incentive fees are included in "Asset management and securities services" in the condensed consolidated statements of earnings.

Share-Based Compensation

The firm accounts for share-based compensation in accordance with SFAS No. 123-R, "Share-Based Payment." 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 employee awards that require future service are amortized over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense. In the first quarter of 2006, the firm adopted SFAS No. 123-R under the modified prospective adoption method. Under this method of adoption, the provisions of SFAS No. 123-R are generally applied only to share-based awards granted subsequent to adoption. Share-based awards held by employees that were retirement-eligible on the date of adoption of SFAS No. 123-R continue to be amortized over the stated service period of the award.

The firm pays cash dividend equivalents on outstanding restricted stock units. Dividend equivalents paid on restricted stock units are generally charged to retained earnings. Dividend equivalents paid on restricted stock units expected to be forfeited are included in compensation expense. The firm adopted Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" in the first quarter of fiscal 2009. Accordingly, the tax benefit related to dividend equivalents paid on restricted stock units is accounted for as an increase to additional paid-in capital. Prior to the adoption of EITF Issue No. 06-11, the firm accounted for this tax benefit as a reduction to income tax expense. See "Recent Accounting Developments" for further information on EITF Issue No. 06-11.

In certain cases, primarily related to the death of an employee or conflicted employment (as outlined in the applicable award agreements), the firm may cash settle share-based compensation awards. For awards accounted for as equity instruments, "Additional paid-in capital" is adjusted to the extent of the difference between the current value of the award and the grant-date value of the award.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is tested at least annually for impairment. An impairment loss is recognized if the estimated fair value of an operating segment, which is a component one level below the firm's three business segments, is less than its estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Identifiable Intangible Assets

Identifiable intangible assets, which consist primarily of customer lists, Designated Market Maker (DMM) rights and the value of business acquired (VOBA) and deferred acquisition costs (DAC) in the firm's insurance subsidiaries, are amortized over their estimated lives in accordance with SFAS No. 142 or, in the case of insurance contracts, in accordance with SFAS No. 60, Accounting and Reporting by Insurance Enterprises, and SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, or SFAS No. 60 and SFAS No. 97. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment, net of accumulated depreciation and amortization, are recorded at cost and included in Other assets in the condensed consolidated statements of financial condition.

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

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

The firm's operating leases include office space held in excess of current requirements. Rent expense relating to space held for growth is included in Occupancy in the condensed consolidated statements of earnings. In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, 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 upon termination.

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statements of financial condition, and revenues and expenses are translated at average rates of exchange for the period. Gains or losses on translation of the financial statements of a non-U.S. operation,

when the functional currency is other than the U.S. dollar, are included, net of hedges and taxes, in the condensed consolidated statements

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

of comprehensive income. The firm seeks to reduce its net investment exposure to fluctuations in foreign exchange rates through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts, hedge effectiveness is assessed based on changes in forward exchange rates; accordingly, forward points are reflected as a component of the currency translation adjustment in the condensed consolidated statements of comprehensive income. For foreign currency-denominated debt, hedge effectiveness is assessed based on changes in spot rates. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are included in the condensed consolidated statements of earnings.

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the firm's assets and liabilities. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. The firm's tax assets and liabilities are presented as a component of Other assets and Other liabilities and accrued expenses, respectively, in the condensed consolidated statements of financial condition. Tax provisions are computed in accordance with SFAS No. 109, Accounting for Income Taxes. The firm adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109, as of December 1, 2007, and recorded a transition adjustment resulting in a reduction of \$201 million to beginning retained earnings in the first fiscal quarter of 2008. Under FIN 48, a tax position can be recognized in the financial statements only when it is more likely than not that the position will be sustained upon 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 upon settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the financial statements. The firm reports interest expense related to income tax matters in Provision/(benefit) for taxes in the condensed consolidated statements of earnings and income tax penalties in Other expenses in the condensed consolidated statements of earnings.

Earnings Per Common Share (EPS)

Basic 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 restricted stock units 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 pursuant to stock warrants and options and to restricted stock units for which future service is required as a condition to the delivery of the underlying common stock. The firm adopted FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, in the first quarter of fiscal 2009. Accordingly, the firm treats unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. See Recent Accounting Developments for further information on FSP No. EITF 03-6-1.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of March 2009, November 2008 and December 2008, Cash and cash equivalents on the condensed consolidated

statements of financial condition included \$4.03 billion, \$5.60 billion and \$1.39 billion, respectively, of cash and due from banks and \$31.39 billion, \$10.14 billion and \$12.41 billion, respectively, of interest-bearing deposits with banks.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Recent Accounting Developments

EITF Issue No. 06-11. In June 2007, the EITF reached consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF Issue No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. The firm previously accounted for this tax benefit as a reduction to income tax expense. EITF Issue No. 06-11 was applied prospectively for tax benefits on dividends declared beginning in the first quarter of fiscal 2009. The adoption of EITF Issue No. 06-11 did not have a material effect on the firm's financial condition, results of operations or cash flows.

FASB Staff Position No. FAS 140-3. In February 2008, the FASB issued FASB Staff Position No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. FSP No. FAS 140-3 requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously or in contemplation of the initial transfer to be evaluated as a linked transaction under SFAS No. 140 unless certain criteria are met, including that the transferred asset must be readily obtainable in the marketplace. The firm adopted FSP No. FAS 140-3 for new transactions entered into after November 2008. The adoption of FSP No. FAS 140-3 did not have a material effect on the firm's financial condition, results of operations or cash flows.

SFAS No. 161. In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities, and was effective for the firm beginning in the one-month transition period ended December 2008. Since SFAS No. 161 requires only additional disclosures concerning derivatives and hedging activities, adoption of SFAS No. 161 did not affect the firm's financial condition, results of operations or cash flows.

FASB Staff Position No. EITF 03-6-1. In June 2008, the FASB issued FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 128, Earnings per Share. The FSP requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. The firm adopted the FSP in the first quarter of fiscal 2009. There was no impact from the adoption of FSP No. EITF 03-6-1 to earnings per common share for the three months ended March 2009. The loss per common share for the one month ended December 2008 was computed in accordance with the FSP and the impact was a loss per common share of \$0.03. Prior periods have not been restated due to immateriality.

SFAS No. 141(R). In December 2007, the FASB issued a revision to SFAS No. 141, Business Combinations. SFAS No. 141(R) requires changes to the accounting for transaction costs, certain contingent assets and liabilities, and other balances in a business combination. In addition, in partial acquisitions, when control is obtained, the acquiring company must measure and record all of the target's assets and liabilities, including goodwill, at fair value as if the entire target company had been acquired. The provisions of SFAS No. 141(R) apply to business combinations beginning in the first quarter of fiscal 2009. Adoption of SFAS No. 141(R) did not affect the firm's financial condition, results of operations or cash flows, but may have an effect on accounting for future business combinations.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

SFAS No. 160. In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51. SFAS No. 160 requires that ownership interests in consolidated subsidiaries held by parties other than the parent (i.e., noncontrolling interests) be accounted for and presented as equity, rather than as a liability or mezzanine equity. SFAS No. 160 was effective for the firm beginning in the first quarter of fiscal 2009. SFAS No. 160 did not have a material effect on the firm’s financial condition, results of operations or cash flows.

FASB Staff Position No. FAS 140-4 and FIN 46(R)-8. In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. FSP No. FAS 140-4 and FIN 46(R)-8 requires enhanced disclosures about transfers of financial assets and interests in variable interest entities, and was effective for the firm beginning in the one-month transition period ended December 2008. Since the FSP requires only additional disclosures concerning transfers of financial assets and interests in variable interest entities, adoption of the FSP did not affect the firm’s financial condition, results of operations or cash flows.

EITF Issue No. 07-5. In June 2008, the EITF reached consensus on Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock. EITF Issue No. 07-5 provides guidance about whether an instrument (such as the firm’s outstanding common stock warrants) should be classified as equity and not marked-to-market for accounting purposes. The firm adopted EITF Issue No. 07-5 in the first quarter of fiscal 2009. Adoption of EITF Issue No. 07-5 did not affect the firm’s financial condition, results of operations or cash flows.

FASB Staff Position No. FAS 157-4. In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. The FSP provides guidance for estimating fair value when the volume and level of activity for an asset or liability have decreased significantly. Specifically, the FSP lists factors which should be evaluated to determine whether a transaction is orderly, clarifies that adjustments to transactions or quoted prices may be necessary when the volume and level of activity for an asset or liability have decreased significantly, and provides guidance for determining the concurrent weighting of the transaction price relative to fair value indications from other valuation techniques when estimating fair value. The FSP is effective for periods ending after June 15, 2009. Because the firm’s current fair value methodology is consistent with FSP No. FAS 157-4, adoption of the FSP will not affect the firm’s financial condition, results of operations or cash flows. The firm will adopt the FSP in the second quarter of fiscal 2009 to comply with the FSP’s disclosure requirements.

FASB Staff Position No. FAS 115-2 and FAS 124-2. In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. Under the FSP, only the portion of an other-than-temporary impairment on a debt security related to credit loss is recognized in current period earnings, with the remainder recognized in other comprehensive income, if the holder does not intend to sell the security and it is more likely than not that the holder will not be required to sell the security prior to recovery. Currently, the entire other-than-temporary impairment is recognized in current period earnings. The FSP is effective for periods ending after June 15, 2009. The firm will adopt the FSP in the second quarter of fiscal 2009. Adoption of the FSP will not have a material effect on the firm’s financial condition, results of operations or cash flows.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

FASB Staff Position No. FAS 107-1 and APB 28-1. In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. The FSP requires that the fair value disclosures prescribed by FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments be included in financial statements prepared for interim periods. The FSP is effective for periods ending after June 15, 2009. The firm will adopt the FSP in the second quarter of fiscal 2009. Since the FSP involves only additional disclosures regarding the fair value of financial instruments, adoption of the FSP will not affect the firm's financial condition, results of operations or cash flows.

Note 3. Financial Instruments*Fair Value of Financial Instruments*

The following table sets forth the firm's trading assets, at fair value, including those pledged as collateral, and trading liabilities, at fair value. At any point in time, the firm may use cash instruments as well as derivatives to manage a long or short risk position.

	March 2009		As of November 2008		December 2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 13,983 ⁽¹⁾	\$	\$ 8,662 ⁽¹⁾	\$	\$ 18,605 ⁽¹⁾	\$
U.S. government, federal agency and sovereign obligations	125,481	33,215	69,653	37,000	263,631	46,185
Mortgage and other asset-backed loans and securities	15,446	141	22,393	340	20,094	176
Bank loans and bridge loans	21,211	2,638 ⁽⁴⁾	21,839	3,108 ⁽⁴⁾	20,516	3,129 ⁽⁴⁾
Corporate debt securities and other debt obligations	24,829	6,360	27,879	5,711	25,829	6,958
Equities and convertible debentures	43,134	14,247	57,049	12,116	57,887	7,961
Physical commodities	1,182		513	2	916	
Derivative contracts	104,325 ⁽²⁾	90,620 ⁽⁵⁾	130,337 ⁽²⁾	117,695 ⁽⁵⁾	127,486 ⁽²⁾	121,622 ⁽⁵⁾
Total	\$ 349,591 ⁽³⁾	\$ 147,221	\$ 338,325 ⁽³⁾	\$ 175,972	\$ 534,964 ⁽³⁾	\$ 186,031

- (1) Includes \$4.44 billion, \$4.40 billion and \$4.46 billion as of March 2009, November 2008 and December 2008, respectively, of money market instruments held by William Street Funding Corporation (Funding Corp.) to support the William Street credit extension program. See Note 8 for further information regarding the William Street program.
- (2) Net of cash received pursuant to credit support agreements of \$149.08 billion, \$137.16 billion and \$154.69 billion as of March 2009, November 2008 and December 2008, respectively.
- (3) Includes \$2.34 billion, \$1.68 billion and \$1.71 billion as of March 2009, November 2008 and December 2008, respectively, of securities held within the firm's insurance subsidiaries which are accounted for as available-for-sale under SFAS No. 115.
- (4) Consists of the fair value of unfunded commitments to extend credit. The fair value of partially funded commitments is included in trading assets.
- (5) Net of cash paid pursuant to credit support agreements of \$27.07 billion, \$34.01 billion and \$32.91 billion as of March 2009, November 2008 and December 2008, respectively.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)*****Fair Value Hierarchy***

The firm's financial assets at fair value classified within level 3 of the fair value hierarchy are summarized below:

	March 2009	As of November 2008	December 2008
		(\$ in millions)	
Total level 3 assets	\$ 59,062	\$ 66,190	\$ 64,167
Level 3 assets for which the firm bears economic exposure ⁽¹⁾	54,660	59,574	58,000
Total assets	925,290	884,547	1,112,225
Total financial assets at fair value	628,639	595,234	820,076
Total level 3 assets as a percentage of Total assets	6.4%	7.5%	5.8%
Level 3 assets for which the firm bears economic exposure as a percentage of Total assets	5.9	6.7	5.2
Total level 3 assets as a percentage of Total financial assets at fair value	9.4	11.1	7.8
Level 3 assets for which the firm bears economic exposure as a percentage of Total financial assets at fair value	8.7	10.0	7.1

⁽¹⁾ Excludes assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.

The following tables set forth by level within the fair value hierarchy Trading assets, at fair value, Trading liabilities, at fair value, and other financial assets and financial liabilities accounted for at fair value under SFAS No. 155 and SFAS No. 159 as of March 2009, November 2008 and December 2008. See Note 2 for further information on the fair value hierarchy. As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

	Financial Assets at Fair Value as of March 2009				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 7,680	\$ 6,303	\$	\$	\$ 13,983
U.S. government, federal agency and sovereign obligations	67,839	57,642			125,481
Mortgage and other asset-backed loans and securities		3,802	11,644		15,446
Bank loans and bridge loans		11,345	9,866		21,211
Corporate debt securities and other debt obligations	223	17,052	7,554		24,829
Equities and convertible debentures	15,340	14,174	13,620 ⁽⁶⁾		43,134
Physical commodities		1,182			1,182
Cash instruments	91,082	111,500	42,684		245,266
Derivative contracts	211	240,837	16,378	(153,101) ⁽⁷⁾	104,325
Trading assets, at fair value	91,293	352,337	59,062	(153,101)	349,591
Securities segregated for regulatory and other purposes	22,077 ⁽⁴⁾	23,462 ⁽⁵⁾			45,539
Receivables from customers and counterparties ⁽¹⁾	316	1,720			2,036
Securities borrowed ⁽²⁾		88,818			88,818
Securities purchased under agreements to resell, at fair value		142,655			142,655
Total financial assets at fair value	\$ 113,686	\$ 608,992	\$ 59,062	\$ (153,101)	\$ 628,639
Level 3 assets for which the firm does not bear economic exposure ⁽³⁾			(4,402)		
Level 3 assets for which the firm bears economic exposure			\$ 54,660		

⁽¹⁾ Principally consists of certain margin loans, transfers accounted for as secured loans rather than purchases under SFAS No. 140 and prepaid variable share forwards.

- (2) Consists of securities borrowed within Trading and Principal Investments. Excludes securities borrowed within Securities Services, which are accounted for based on the amount of cash collateral advanced plus accrued interest.
- (3) Consists of level 3 assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.
- (4) Consists of U.S. Treasury securities and money market instruments as well as insurance separate account assets measured at fair value under American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts.
- (5) Principally consists of securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.
- (6) Consists of private equity and real estate fund investments.
- (7) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

	Financial Liabilities at Fair Value as of March 2009				
	Level 1	Level 2	Level 3 (in millions)	Netting and Collateral	Total
U.S. government, federal agency and sovereign obligations	\$ 32,292	\$ 923	\$	\$	\$ 33,215
Mortgage and other asset-backed loans and securities		137	4		141
Bank loans and bridge loans		1,826	812		2,638
Corporate debt securities and other debt obligations		5,886	474		6,360
Equities and convertible debentures	14,233		14		14,247
Cash instruments	46,525	8,772	1,304		56,601
Derivative contracts	731	108,710	12,262	(31,083) ⁽⁸⁾	90,620
Trading liabilities, at fair value	47,256	117,482	13,566	(31,083)	147,221
Unsecured short-term borrowings ⁽¹⁾		16,780	3,143		19,923
Deposits ⁽²⁾		6,781			6,781
Securities loaned ⁽³⁾		9,932			9,932
Securities sold under agreements to repurchase, at fair value		133,395			133,395
Other secured financings ⁽⁴⁾	167	12,368	7,277		19,812
Other liabilities ⁽⁵⁾		412	1,510		1,922
Unsecured long-term borrowings ⁽⁶⁾		15,773	1,916		17,689
Total financial liabilities at fair value	\$ 47,423	\$ 312,923	\$ 27,412 ⁽⁷⁾	\$ (31,083)	\$ 356,675

(1) Consists of promissory notes, commercial paper and hybrid financial instruments.

(2) Primarily includes certain certificates of deposit issued by GS Bank USA.

(3) Consists of securities loaned within Trading and Principal Investments. Excludes securities loaned within Securities Services, which are accounted for based on the amount of cash collateral received plus accrued interest.

(4) Primarily includes transfers accounted for as financings rather than sales under SFAS No. 140, debt raised through the firm's William Street program and certain other nonrecourse financings.

(5) Consists of liabilities related to insurance contracts.

- (6) Primarily includes hybrid financial instruments and prepaid physical commodity transactions.
- (7) Level 3 liabilities were 7.7% of Total liabilities at fair value.
- (8) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)****Financial Assets at Fair Value as of November 2008**

	Level 1	Level 2	Level 3 (in millions)	Netting and Collateral	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 5,205	\$ 3,457	\$	\$	\$ 8,662
U.S. government, federal agency and sovereign obligations	35,069	34,584			69,653
Mortgage and other asset-backed loans and securities		6,886	15,507		22,393
Bank loans and bridge loans		9,882	11,957		21,839
Corporate debt securities and other debt obligations	14	20,269	7,596		27,879
Equities and convertible debentures	25,068	15,975	16,006 ⁽⁶⁾		57,049
Physical commodities		513			513
Cash instruments	65,356	91,566	51,066		207,988
Derivative contracts	24	256,412	15,124	(141,223) ⁽⁷⁾	130,337
Trading assets, at fair value	65,380	347,978	66,190	(141,223)	338,325
Securities segregated for regulatory and other purposes	20,030 ⁽⁴⁾	58,800 ⁽⁵⁾			78,830
Receivables from customers and counterparties ⁽¹⁾		1,598			1,598
Securities borrowed ⁽²⁾		59,810			59,810
Securities purchased under agreements to resell, at fair value		116,671			116,671
Total financial assets at fair value	\$ 85,410	\$ 584,857	\$ 66,190	\$ (141,223)	\$ 595,234
Level 3 assets for which the firm does not bear economic exposure ⁽³⁾			(6,616)		
Level 3 assets for which the firm bears economic exposure			\$ 59,574		

⁽¹⁾ Principally consists of transfers accounted for as secured loans rather than purchases under SFAS No. 140 and prepaid variable share forwards.

- (2) Consists of securities borrowed within Trading and Principal Investments. Excludes securities borrowed within Securities Services, which are accounted for based on the amount of cash collateral advanced plus accrued interest.
- (3) Consists of level 3 assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.
- (4) Consists of U.S. Treasury securities and money market instruments as well as insurance separate account assets measured at fair value under AICPA SOP 03-1.
- (5) Principally consists of securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.
- (6) Consists of private equity and real estate fund investments.
- (7) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

	Financial Liabilities at Fair Value as of November 2008				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
	(in millions)				
U.S. government, federal agency and sovereign obligations	\$ 36,385	\$ 615	\$	\$	\$ 37,000
Mortgage and other asset-backed loans and securities		320	20		340
Bank loans and bridge loans		2,278	830		3,108
Corporate debt securities and other debt obligations	11	5,185	515		5,711
Equities and convertible debentures	11,928	174	14		12,116
Physical commodities	2				2
Cash instruments	48,326	8,572	1,379		58,277
Derivative contracts	21	145,777	9,968	(38,071) ⁽⁸⁾	117,695
Trading liabilities, at fair value	48,347	154,349	11,347	(38,071)	175,972
Unsecured short-term borrowings ⁽¹⁾		17,916	5,159		23,075
Deposits ⁽²⁾		4,224			4,224
Securities loaned ⁽³⁾		7,872			7,872
Securities sold under agreements to repurchase, at fair value		62,883			62,883
Other secured financings ⁽⁴⁾		16,429	3,820		20,249
Other liabilities ⁽⁵⁾		978			978
Unsecured long-term borrowings ⁽⁶⁾		15,886	1,560		17,446
Total financial liabilities at fair value	\$ 48,347	\$ 280,537	\$ 21,886 ⁽⁷⁾	\$ (38,071)	\$ 312,699

(1) Consists of promissory notes, commercial paper and hybrid financial instruments.

(2) Consists of certain certificates of deposit issued by GS Bank USA.

(3) Consists of securities loaned within Trading and Principal Investments. Excludes securities loaned within Securities Services, which are accounted for based on the amount of cash collateral received plus accrued interest.

(4) Primarily includes transfers accounted for as financings rather than sales under SFAS No. 140, debt raised through the firm's William Street program and certain other nonrecourse financings.

(5) Consists of liabilities related to insurance contracts.

- (6) Primarily includes hybrid financial instruments and prepaid physical commodity transactions.
- (7) Level 3 liabilities were 7.0% of Total liabilities at fair value.
- (8) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

	Financial Assets at Fair Value as of December 2008				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 7,170	\$ 11,435	\$	\$	\$ 18,605
U.S. government, federal agency and sovereign obligations	48,904	214,727			263,631
Mortgage and other asset-backed loans and securities		4,731	15,363		20,094
Bank loans and bridge loans		9,347	11,169		20,516
Corporate debt securities and other debt obligations	105	17,731	7,993		25,829
Equities and convertible debentures	27,094	15,666	15,127 ⁽⁶⁾		57,887
Physical commodities		916			916
Cash instruments	83,273	274,553	49,652		407,478
Derivative contracts	13	271,031	14,515	(158,073) ⁽⁷⁾	127,486
Trading assets, at fair value	83,286	545,584	64,167	(158,073)	534,964
Securities segregated for regulatory and other purposes	16,924 ⁽⁴⁾	52,625 ⁽⁵⁾			69,549
Receivables from customers and counterparties ⁽¹⁾		2,474			2,474
Securities borrowed ⁽²⁾		86,057			86,057
Securities purchased under agreements to resell, at fair value		127,032			127,032
Total financial assets at fair value	\$ 100,210	\$ 813,772	\$ 64,167	\$ (158,073)	\$ 820,076
Level 3 assets for which the firm does not bear economic exposure ⁽³⁾			(6,167)		
Level 3 assets for which the firm bears economic exposure			\$ 58,000		

⁽¹⁾ Principally consists of certain margin loans, transfers accounted for as secured loans rather than purchases under SFAS No. 140 and prepaid variable share forwards.

- (2) Consists of securities borrowed within Trading and Principal Investments. Excludes securities borrowed within Securities Services, which are accounted for based on the amount of cash collateral advanced plus accrued interest.
- (3) Consists of level 3 assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.
- (4) Consists of U.S. Treasury securities and money market instruments as well as insurance separate account assets measured at fair value under AICPA SOP 03-1.
- (5) Principally consists of securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.
- (6) Consists of private equity and real estate fund investments.
- (7) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)****Financial Liabilities at Fair Value as of December 2008**

	Level 1	Level 2	Level 3	Netting and Collateral	Total
	(in millions)				
U.S. government, federal agency and sovereign obligations	\$ 44,728	\$ 1,457	\$	\$	\$ 46,185
Mortgage and other asset-backed loans and securities		97	79		176
Bank loans and bridge loans		2,167	962		3,129
Corporate debt securities and other debt obligations		6,307	651		6,958
Equities and convertible debentures	7,926		35		7,961
Cash instruments	52,654	10,028	1,727		64,409
Derivative contracts	15	146,706	11,200	(36,299) ⁽⁸⁾	121,622
Trading liabilities, at fair value	52,669	156,734	12,927	(36,299)	186,031
Unsecured short-term borrowings ⁽¹⁾		20,888	4,712		25,600
Deposits ⁽²⁾		5,792			5,792
Securities loaned ⁽³⁾		11,276			11,276
Securities sold under agreements to repurchase, at fair value		260,421			260,421
Other secured financings ⁽⁴⁾		16,133	4,039		20,172
Other liabilities ⁽⁵⁾		1,400			1,400
Unsecured long-term borrowings ⁽⁶⁾		16,457	1,689		18,146
Total financial liabilities at fair value	\$ 52,669	\$ 489,101	\$ 23,367 ⁽⁷⁾	\$ (36,299)	\$ 528,838

(1) Consists of promissory notes, commercial paper and hybrid financial instruments.

(2) Consists of certain certificates of deposit issued by GS Bank USA.

(3) Consists of securities loaned within Trading and Principal Investments. Excludes securities loaned within Securities Services, which are accounted for based on the amount of cash collateral received plus accrued interest.

(4) Primarily includes transfers accounted for as financings rather than sales under SFAS No. 140, debt raised through the firm's William Street program and certain other nonrecourse financings.

(5) Consists of liabilities related to insurance contracts.

- (6) Primarily includes hybrid financial instruments and prepaid physical commodity transactions.
- (7) Level 3 liabilities were 4.4% of Total liabilities at fair value.
- (8) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)*****Level 3 Unrealized Gains/(Losses)***

The table below sets forth a summary of unrealized gains/(losses) on the firm's level 3 financial assets and financial liabilities still held at the reporting date for the three months ended March 2009 and February 2008 and one month ended December 2008:

	Level 3 Unrealized Gains/(Losses)		
	Three Months Ended March 2009	Three Months Ended February 2008	One Month Ended December 2008
	(in millions)		
Cash Instruments Assets	\$ (4,072)	\$ (2,912)	\$ (3,116)
Cash Instruments Liabilities	15	(318)	(78)
Net unrealized gains/(losses) on level 3 cash instruments	(4,057)	(3,230)	(3,194)
Derivative Contracts Net	975	5,087	(210)
Unsecured Short-Term Borrowings	124	95	(70)
Other Secured Financings	17		(1)
Other Liabilities and Accrued Expenses	64		
Unsecured Long-Term Borrowings	82	113	(127)
Total level 3 unrealized gains/(losses)	\$ (2,795)	\$ 2,065	\$ (3,602)

Cash Instruments

The net unrealized loss on level 3 cash instruments of \$4.06 billion for the three months ended March 2009 primarily consisted of unrealized losses on private equity and real estate fund investments, loans and securities backed by commercial real estate, and bank loans and bridge loans. Losses during the period reflected the weakness in the global credit and equity markets. The net unrealized loss on level 3 cash instruments of \$3.23 billion for the three months ended February 2008 primarily consisted of unrealized losses on loans and securities backed by commercial and residential real estate and certain bank loans. The net unrealized loss on level 3 cash instruments of \$3.19 billion for the one month ended December 2008 primarily consisted of unrealized losses on certain bank loans and bridge loans, private equity and real estate fund investments, and loans and securities backed by commercial real estate. Losses during December 2008 reflected the weakness in the global credit and equity markets.

Level 3 cash instruments are frequently economically hedged with instruments classified within level 1 and level 2, and accordingly, gains or losses that have been reported in level 3 can be partially offset by gains or losses attributable to instruments classified within level 1 or level 2 or by gains or losses on derivative contracts classified within level 3 of the fair value hierarchy.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)*****Derivative Contracts***

The net unrealized gain on level 3 derivative contracts of \$975 million for the three months ended March 2009 was primarily attributable to increases in commodities prices (which are level 2 inputs) and changes in credit spreads corroborated by trading activity during the quarter. The net unrealized gain on level 3 derivative contracts of \$5.09 billion for the three months ended February 2008 was primarily attributable to changes in observable credit spreads (which are level 2 inputs) on the underlying instruments. The net unrealized loss on level 3 derivative contracts of \$210 million for the one month ended December 2008 was primarily attributable to changes in observable prices on the underlying instruments (which are level 2 inputs). Level 3 gains and losses on derivative contracts should be considered in the context of the following:

A derivative contract with level 1 and/or level 2 inputs is classified as a level 3 financial instrument 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) is still 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 instruments classified within level 1 or level 2 or by cash instruments reported within level 3 of the fair value hierarchy.

The tables below set forth a summary of changes in the fair value of the firm's level 3 financial assets and financial liabilities for the three months ended March 2009 and February 2008 and one month ended December 2008. The tables reflect gains and losses, including gains and losses on financial assets and financial liabilities that were transferred to level 3 during the period, for all financial assets and financial liabilities categorized as level 3 as of March 2009, February 2008 and December 2008, respectively.

**Level 3 Financial Assets and Financial Liabilities
Three Months Ended March 2009**

	Cash Instruments - Assets	Cash Instruments - Liabilities	Derivative Contracts - Net	Unsecured Short-Term Borrowings (in millions)	Other Secured Financings	Other Liabilities and Accrued Expenses	Unsecured Long-Term Borrowings
Balance, beginning of period	\$ 49,652	\$ (1,727)	\$ 3,315	\$ (4,712)	\$ (4,039)	\$	\$ (1,689)
Realized gains/(losses)	623 ⁽¹⁾	14 ⁽³⁾	238 ⁽³⁾	32 ⁽³⁾	(6) ⁽³⁾	(10) ⁽³⁾	(13) ⁽³⁾
Unrealized gains/(losses) relating to instruments still held at the reporting date	(4,072) ⁽¹⁾ (2,462)	15 ⁽³⁾ 285	975 ⁽³⁾⁽⁴⁾ 342	124 ⁽³⁾ (868)	17 ⁽³⁾ (1,144)	64 ⁽³⁾ (600)	82 ⁽³⁾ 177

Purchases, issuances and settlements							
Transfers in and/or out of level 3	(1,057) ⁽²⁾	109	(754) ⁽⁵⁾	2,281 ⁽⁶⁾	(2,105) ⁽⁶⁾	(964) ⁽⁷⁾	(473) ⁽⁶⁾
Balance, end of period	\$ 42,684	\$ (1,304)	\$ 4,116	\$ (3,143)	\$ (7,277)	\$ (1,510)	\$ (1,916)

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)****Level 3 Financial Assets and Financial Liabilities
Three Months Ended February 2008**

	Cash Instruments - Assets	Cash Instruments - Liabilities	Derivative Contracts - Net	Unsecured Short-Term Borrowings	Other Secured Financings	Unsecured Long-Term Borrowings
	(in millions)					
Balance, beginning of period	\$ 53,451	\$ (554)	\$ 2,056	\$ (4,271)	\$	\$ (767)
Realized gains/(losses)	675 ⁽¹⁾	5 ⁽³⁾	214 ⁽³⁾	(80) ⁽³⁾		(1) ⁽³⁾
Unrealized gains/(losses) relating to instruments still held at the reporting date	(2,912) ⁽¹⁾	(318) ⁽³⁾	5,087 ⁽³⁾⁽⁴⁾	95 ⁽³⁾		113 ⁽³⁾
Purchases, issuances and settlements	5,586	(6)	(360)	535		(396)
Transfers in and/or out of level 3	14,573 ⁽⁸⁾	(104)	2,397 ⁽⁹⁾	(118)		(196)
Balance, end of period	\$ 71,373	\$ (977)	\$ 9,394	\$ (3,839)	\$	\$ (1,247)

**Level 3 Financial Assets and Financial Liabilities
One Month Ended December 2008**

	Cash Instruments - Assets	Cash Instruments - Liabilities	Derivative Contracts - Net	Unsecured Short-Term Borrowings	Other Secured Financings	Unsecured Long-Term Borrowings
	(in millions)					
Balance, beginning of period	\$ 51,066	\$ (1,379)	\$ 5,156	\$ (5,159)	\$ (3,820)	\$ (1,560)
Realized gains/(losses)	157 ⁽¹⁾	3 ⁽³⁾	15 ⁽³⁾	27 ⁽³⁾	(2) ⁽³⁾	(1) ⁽³⁾
Unrealized gains/(losses) relating to instruments still held at the reporting date	(3,116) ⁽¹⁾	(78) ⁽³⁾	(210) ⁽³⁾⁽⁴⁾	(70) ⁽³⁾	(1) ⁽³⁾	(127) ⁽³⁾
Purchases, issuances and settlements	921	(159)	(699)	482	(51)	42
Transfers in and/or out of level 3	624 ⁽¹⁰⁾	(114)	(947) ⁽¹¹⁾	8	(165)	(43)
Balance, end of period	\$ 49,652	\$ (1,727)	\$ 3,315	\$ (4,712)	\$ (4,039)	\$ (1,689)

- (1) The aggregate amounts include approximately \$(4.07) billion and \$620 million, \$(3.09) billion and \$853 million, and \$(3.18) billion and \$221 million reported in Trading and principal investments and Interest income, respectively, in the condensed consolidated statements of earnings for the three months ended March 2009 and February 2008 and the one month ended December 2008, respectively.
- (2) Principally reflects a decrease in loan portfolios for which the firm did not bear economic exposure.
- (3) Substantially all is reported in Trading and principal investments in the condensed consolidated statements of earnings.
- (4) Principally resulted from changes in level 2 inputs and for the three months ended March 2009, changes in credit spreads corroborated by trading activity during the period.
- (5) Principally reflects transfers from level 2 within the fair value hierarchy of certain credit derivative liabilities, due to reduced trading activity, and therefore price transparency, on the underlying instruments.
- (6) Principally reflects transfers from level 3 unsecured short-term borrowings to level 3 other secured financings and level 3 unsecured long-term borrowings related to changes in the terms of certain notes.
- (7) Principally reflects transfers from level 2 within the fair value hierarchy of certain insurance contracts, reflecting reduced price transparency for these financial instruments.
- (8) Principally reflects transfers from level 2 within the fair value hierarchy of loans and securities backed by commercial and residential real estate, reflecting reduced price transparency for these financial instruments.
- (9) Principally reflects transfers from level 2 within the fair value hierarchy of mortgage-related derivative assets, due to reduced transparency of correlation inputs used to value mortgage instruments.
- (10) Principally reflects transfers from level 2 within the fair value hierarchy of certain corporate debt securities and other debt obligations and loans and securities backed by commercial real estate, reflecting reduced price transparency for these financial instruments.
- (11) Principally reflects transfers to level 2 within the fair value hierarchy of credit-related derivative assets, due to improved transparency of correlation inputs used to value these financial instruments.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)***Impact of Credit Spreads*

On an ongoing basis, the firm realizes gains or losses relating to changes in credit risk on derivative contracts through changes in credit mitigants or the sale or unwind of the contracts. The net gain/(loss) attributable to the impact of changes in credit exposure and credit spreads on derivative contracts was \$48 million, \$16 million and \$(188) million for the three months ended March 2009 and February 2008 and one month ended December 2008, respectively.

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

	Three Months Ended March 2009	Three Months Ended February 2008	One Month Ended December 2008
		(in millions)	
Net gains/(losses) including hedges	\$ (197)	\$ 333	\$ (113)
Net gains/(losses) excluding hedges	(192)	518	(114)

The impact of changes in instrument-specific credit spreads on loans and loan commitments for which the fair value option was elected was a loss of \$1.21 billion for the three months ended March 2009, not material for the three months ended February 2008 and a loss of \$2.06 billion for the one month ended December 2008. The firm attributes changes in the fair value of floating rate loans and loan commitments to changes in instrument-specific credit spreads. For fixed rate loans and loan commitments, the firm allocates changes in fair value between interest rate-related changes and credit spread-related changes based on changes in interest rates. See below for additional details regarding the fair value option.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)*****The Fair Value Option******Gains/(Losses)***

The following table sets forth the gains/(losses) included in earnings for the three months ended March 2009 and February 2008 and one month ended December 2008 as a result of the firm electing to apply the fair value option to certain financial assets and financial liabilities, as described in Note 2. The table excludes gains and losses related to trading assets and trading liabilities, as well as gains and losses that would have been recognized under other generally accepted accounting principles if the firm had not elected the fair value option or that are economically hedged with instruments accounted for at fair value under other generally accepted accounting principles.

	Three Months Ended March 2009	Three Months Ended February 2008	One Month Ended December 2008
		(in millions)	
Unsecured long-term borrowings ⁽¹⁾	\$ (135)	\$ 506	\$ (104)
Other secured financings ⁽²⁾	25	(1)	(2)
Unsecured short-term borrowings ⁽³⁾	(67)	(50)	(9)
Other ⁽⁴⁾	54	6	(94)
Total ⁽⁵⁾	\$ (123)	\$ 461	\$ (209)

⁽¹⁾ Excludes gains/(losses) of \$1.24 billion, \$(724) million and \$(623) million for the three months ended March 2009 and February 2008 and one month ended December 2008, respectively, related to the derivative component of hybrid financial instruments. Such gains and losses would have been recognized pursuant to SFAS No. 133 if the firm had not elected to account for the entire hybrid instrument at fair value under the fair value option.

⁽²⁾ Excludes gains of \$1.03 billion for the three months ended February 2008, related to financings recorded as a result of securitization-related transactions that were accounted for as secured financings rather than sales under SFAS No. 140. Changes in the fair value of these secured financings are offset by changes in the fair value of the related financial instruments included within the firm's Trading assets, at fair value in the condensed consolidated statements of financial condition. Such gains/(losses) were not material for the three months ended March 2009 and one month ended December 2008.

⁽³⁾ Excludes gains/(losses) of \$(305) million, \$312 million and \$92 million for the three months ended March 2009 and February 2008 and one month ended December 2008, respectively, related to the derivative component of hybrid financial instruments. Such gains and losses would have been recognized pursuant to SFAS No. 133 if the firm had not elected to account for the entire hybrid instrument at fair value under the

fair value option.

- (4) Primarily consists of certain insurance and reinsurance contracts, resale and repurchase agreements and securities borrowed and loaned within Trading and Principal Investments.
- (5) Reported within Trading and principal investments within the condensed consolidated statements of earnings. The amounts exclude contractual interest, which is included in Interest income and Interest expense, for all instruments other than hybrid financial instruments.

All trading assets and trading liabilities are accounted for at fair value either under the fair value option or as required by other accounting pronouncements. Excluding equities commissions of \$974 million, \$1.24 billion and \$251 million for the three months ended March 2009 and February 2008 and one month ended December 2008, respectively, and the gains and losses on the instruments accounted for under the fair value option described above, the firm's Trading and principal investments revenues in the condensed consolidated statements of earnings primarily represent gains and losses on Trading assets, at fair value and Trading liabilities, at fair value in the condensed consolidated statements of financial condition.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Loans and Loan Commitments

As of March 2009, the aggregate contractual principal amount of loans and long-term receivables for which the fair value option was elected exceeded the related fair value by \$49.41 billion, including a difference of \$37.21 billion related to loans with an aggregate fair value of \$2.78 billion that were on nonaccrual status (including loans more than 90 days past due). As of November 2008, the aggregate contractual principal amount of loans and long-term receivables for which the fair value option was elected exceeded the related fair value by \$50.21 billion, including a difference of \$37.46 billion related to loans with an aggregate fair value of \$3.77 billion that were on nonaccrual status (including loans more than 90 days past due). As of December 2008, the aggregate contractual principal amount of loans and long-term receivables for which the fair value option was elected exceeded the related fair value by \$55.22 billion, including a difference of \$41.75 billion related to loans with an aggregate fair value of \$4.34 billion that were on nonaccrual status (including loans more than 90 days past due). The aggregate contractual principal exceeds the related fair value primarily because the firm regularly purchases loans, such as distressed loans, at values significantly below contractual principal amounts.

As of March 2009, November 2008 and December 2008, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$2.51 billion, \$3.52 billion and \$3.49 billion, respectively, and the related total contractual amount of these lending commitments was \$36.58 billion, \$39.49 billion and \$40.59 billion, respectively.

Long-term Debt Instruments

The aggregate contractual principal amount of long-term debt instruments (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by \$2.03 billion, \$2.42 billion and \$2.07 billion as of March 2009, November 2008 and December 2008, respectively.

Derivative Activities

Derivative contracts are instruments, such as futures, forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange. Derivatives may involve future commitments to purchase or sell financial instruments or commodities, or to exchange currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, securities, commodities, currencies or indices.

Certain cash instruments, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments, are not considered derivatives even though their values or contractually required cash flows are derived from the price of some other security or index. However, certain commodity-related contracts are included in the firm's derivatives disclosure, as these contracts may be settled in cash or the assets to be delivered under the contract are readily convertible into cash.

The firm enters into derivative transactions to facilitate client transactions, to take proprietary positions and as a means of risk management. Risk exposures are managed through diversification, by controlling position sizes and by

entering into offsetting positions. For example, the firm may manage the risk related to a portfolio of common stock by entering into an offsetting position in a related equity-index futures contract.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The firm applies hedge accounting under SFAS No. 133 to certain derivative contracts. The firm uses these derivatives to manage certain interest rate and currency exposures, including the firm's net investment in non-U.S. operations. The firm designates certain interest rate swap contracts as fair value hedges. These interest rate swap contracts hedge changes in the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting a substantial portion of the firm's unsecured long-term borrowings, certain unsecured short-term borrowings and certificates of deposit into floating rate obligations. See Note 2 for information regarding the firm's accounting policy for foreign currency forward contracts used to hedge its net investment in non-U.S. operations.

The firm applies a long-haul method to all of its hedge accounting relationships to perform an ongoing assessment of the effectiveness of these relationships in achieving offsetting changes in fair value or offsetting cash flows attributable to the risk being hedged. The firm utilizes a dollar-offset method, which compares the change in the fair value of the hedging instrument to the change in the fair value of the hedged item, excluding the effect of the passage of time, to prospectively and retrospectively assess hedge effectiveness. The firm's prospective dollar-offset assessment utilizes scenario analyses to test hedge effectiveness via simulations of numerous parallel and slope shifts of the relevant yield curve. Parallel shifts change the interest rate of all maturities by identical amounts. Slope shifts change the curvature of the yield curve. For both the prospective assessment, in response to each of the simulated yield curve shifts, and the retrospective assessment, a hedging relationship is deemed to be effective if the fair value of the hedging instrument and the hedged item change inversely within a range of 80% to 125%.

For fair value hedges, gains or losses on derivative transactions are recognized in Interest expense in the condensed consolidated statements of earnings. 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 related to hedge ineffectiveness for all hedges are generally included in Interest expense. These gains or losses and the component of gains or losses on derivative transactions excluded from the assessment of hedge effectiveness (e.g., the effect of the passage of time on fair value hedges of the firm's borrowings) were not material for the three months ended March 2009 and February 2008 and one month ended December 2008. Gains and losses on derivatives used for trading purposes are included in Trading and principal investments in the condensed consolidated statements of earnings.

The fair value of the firm's derivative contracts is reflected net of cash paid or received pursuant to credit support agreements and is reported on a net-by-counterparty basis in the firm's condensed consolidated statements of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. The following table sets forth the fair value and the number of contracts of the firm's derivative contracts by major risk type on a gross basis as of March 2009 and December 2008. Gross fair values in the table below exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted pursuant to credit support agreements, and therefore are not representative of the firm's exposure:

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

			As of			
	March 2009		December 2008			
	Derivative Assets	Derivative Liabilities	Number of Contracts	Derivative Assets	Derivative Liabilities	Number of Contracts
	(in millions, except number of contracts)					
Derivative contracts for trading activities						
Interest rates	\$ 1,171,827	\$ 1,120,430	278,266	\$ 1,293,763	\$ 1,243,443	274,022
Credit	469,118	427,020	532,898	507,935	469,182	558,179
Currencies	92,846	85,612	222,928	130,636	124,993	169,756
Commodities	80,275	77,327	210,157	99,653	93,083	230,916
Equities	100,291	92,612	263,126	103,105	101,910	241,589
Subtotal	\$ 1,914,357	\$ 1,803,001	1,507,375	\$ 2,135,092	\$ 2,032,611	1,474,462
Derivative contracts accounted for as hedges under SFAS No. 133 ⁽¹⁾						
Interest rates	\$ 24,347 ⁽⁴⁾	\$ 1 ⁽⁴⁾	786	\$ 25,064 ⁽⁴⁾	\$ 14 ⁽⁴⁾	677
Currencies	50 ⁽⁵⁾	31 ⁽⁵⁾	24	128 ⁽⁵⁾	21 ⁽⁵⁾	16
Subtotal	\$ 24,397	\$ 32	810	\$ 25,192	\$ 35	693
Gross fair value of derivative contracts						
	\$ 1,938,754	\$ 1,803,033	1,508,185	\$ 2,160,284	\$ 2,032,646	1,475,155
Counterparty netting ⁽²⁾	(1,685,348)	(1,685,348)		(1,878,112)	(1,878,112)	
Cash collateral netting ⁽³⁾	(149,081)	(27,065)		(154,686)	(32,912)	
Fair value included in Trading assets, at fair value						
	\$ 104,325			\$ 127,486		
Fair value included in Trading liabilities, at fair value						
		\$ 90,620			\$ 121,622	

- (1) As of November 2008, the gross fair value of derivative contracts accounted for as hedges under SFAS No. 133 consisted of \$20.40 billion in assets and \$128 million in liabilities.
- (2) Represents the netting of receivable balances with payable balances for the same counterparty pursuant to credit support agreements in accordance with FIN 39.
- (3) Represents the netting of cash collateral received and posted on a counterparty basis pursuant to credit support agreements.
- (4) For the three months ended March 2009 and the one month ended December 2008, the gain/(loss) recognized on these derivative contracts was \$(2.47) billion and \$3.59 billion, respectively, and the related gain/(loss) recognized on the hedged borrowings and bank deposits was \$2.43 billion and \$(3.53) billion, respectively. These gains/(losses) are included in Interest expense in the condensed consolidated statements of earnings.
- (5) For the three months ended March 2009 and one month ended December 2008, the gain/(loss) on these derivative contracts was \$153 million and \$(212) million, respectively. Such amounts are included in Currency translation adjustment, net of tax in the condensed consolidated statements of comprehensive income. The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income were not material for the three months ended March 2009 and one month ended December 2008.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The firm also has embedded derivatives that have been bifurcated from related borrowings under SFAS No. 133. Such derivatives, which are classified in unsecured short-term and unsecured long-term borrowings in the firm's condensed consolidated statements of financial condition, had a net asset carrying value of \$348 million, \$774 million and \$358 million as of March 2009, November 2008 and December 2008, respectively. The net asset as of March 2009, which represented 348 contracts, included gross assets of \$632 million (primarily comprised of equity and interest rate derivatives) and gross liabilities of \$284 million (primarily comprised of equity and interest rate derivatives). The net asset as of December 2008, which represented 364 contracts, included gross assets of \$739 million (primarily comprised of equity and interest rate derivatives) and gross liabilities of \$381 million (primarily comprised of equity and interest rate derivatives). See Notes 6 and 7 for further information regarding the firm's unsecured borrowings.

As of March 2009, November 2008 and December 2008, respectively, the firm has designated \$3.27 billion, \$3.36 billion and \$3.54 billion of foreign currency-denominated debt, included in unsecured long-term borrowings in the firm's condensed consolidated statements of financial condition, as hedges of net investments in non-U.S. subsidiaries under SFAS No. 133. For the three months ended March 2009 and one month ended December 2008, the gain/(loss) on these debt instruments was \$269 million and \$(186) million, respectively. Such amounts are included in "Currency translation adjustment, net of tax" in the condensed consolidated statements of comprehensive income. The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income were not material for the three months ended March 2009 and one month ended December 2008.

The following table sets forth by major risk type the firm's gains/(losses) related to trading activities, including both derivative and nonderivative financial instruments, for the three months ended March 2009 and one month ended December 2008 in accordance with SFAS No. 161. These gains/(losses) are not representative of the firm's individual business unit results because many of the firm's trading strategies utilize financial instruments across various risk types. Accordingly, gains or losses in one risk type frequently offset gains or losses in other risk types. For example, most of the firm's longer-term derivative contracts are sensitive to changes in interest rates and may be hedged with interest rate swaps. Similarly, a significant portion of the firm's cash and derivatives trading inventory has exposure to foreign currencies and may be hedged with foreign currency contracts. The gains/(losses) set forth below are included in "Trading and principal investments" in the condensed consolidated statements of earnings and exclude related interest income and interest expense.

	Three Months Ended March 2009	One Month Ended December 2008
	(in millions)	
Interest rates	\$ 572	\$ 2,226
Credit	1,322	(1,437)
Currencies	977	(2,256)
Commodities	1,769	887

Equities	1,366	130
Total	\$ 6,006	\$ (450)

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Certain of the firm's derivative instruments have been transacted pursuant to bilateral agreements with certain counterparties that may require the firm to post collateral or terminate the transactions based on the firm's long-term credit ratings. As of March 2009, the aggregate fair value of such derivative contracts that were in a net liability position was \$42.17 billion, and the aggregate fair value of assets posted by the firm as collateral for these derivative contracts was \$27.36 billion. As of March 2009, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately \$941 million and \$2.14 billion could have been called by counterparties in the event of a one-notch reduction and a two-notch reduction in the firm's long-term credit ratings, respectively. As of December 2008, the aggregate fair value of such derivative contracts that were in a net liability position was \$54.87 billion, and the aggregate fair value of assets posted by the firm as collateral for these derivative contracts was \$37.17 billion. As of December 2008, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately \$972 million and \$2.15 billion could have been called by counterparties in the event of a one-notch reduction and a two-notch reduction in the firm's long-term credit ratings, respectively.

The firm enters into various derivative transactions that are considered credit derivatives under FSP No. FAS 133-1 and FIN 45-4. The firm's written and purchased credit derivatives include credit default swaps, credit spread options, credit index products and total return swaps. Substantially all of the firm's purchased credit derivative transactions are with financial institutions and are subject to stringent collateral thresholds. As of March 2009, the firm's written and purchased credit derivatives had total gross notional amounts of \$3.17 trillion and \$3.43 trillion, respectively, for total net purchased protection of \$258.52 billion in notional value. As of November 2008, the firm's written and purchased credit derivatives had total gross notional amounts of \$3.78 trillion and \$4.03 trillion, respectively, for total net purchased protection of \$255.24 billion in notional value. As of December 2008, the firm's written and purchased credit derivatives had total gross notional amounts of \$3.57 trillion and \$3.80 trillion, respectively, for total net purchased protection of \$232.29 billion in notional value. The decrease in notional amounts from November 2008 to March 2009 reflects compression efforts across the industry.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The following tables set forth certain information related to the firm's credit derivatives. Fair values in the table below exclude the effects of both netting under enforceable netting agreements and netting of cash paid pursuant to credit support agreements, and therefore are not representative of the firm's exposure.

	Maximum Payout/Notional Amount by Period of Expiration			Maximum Payout/Notional Amount			Written Credit Derivatives at Fair Value
	0 - 5 Years	5 - 10 Years	10 Years or Greater	Offsetting	Other		
				Written Credit Derivatives (\$ in millions)	Purchased Credit Derivatives ⁽³⁾	Purchased Credit Derivatives ⁽⁴⁾	
<u>As of</u>							
<u>March 2009</u>							
Credit spread on underlying (basis points) ⁽¹⁾							
0-250	\$ 1,081,191	\$ 391,197	\$ 15,859	\$ 1,488,247	\$ 1,353,679	\$ 255,606	\$ 50,214
251-500	491,307	108,291	9,783	609,381	561,404	90,575	44,086
501-1,000	367,235	115,921	3,781	486,937	417,163	90,333	67,505
Greater than 1,000	460,201	91,203	35,587	586,991	544,383	116,930	230,499
Total	\$ 2,399,934 ⁽²⁾	\$ 706,612	\$ 65,010	\$ 3,171,556	\$ 2,876,629	\$ 553,444	\$ 392,304 ⁽⁵⁾
<u>As of November 2008</u>							
Credit spread on underlying (basis points) ⁽¹⁾							
0-250	\$ 1,194,228	\$ 609,056	\$ 22,866	\$ 1,826,150	\$ 1,632,681	\$ 347,573	\$ 77,836
251-500	591,813	184,763	12,494	789,070	784,149	26,316	94,278
501-1,000	430,801	140,782	15,886	587,469	538,251	67,958	75,079
Greater than 1,000	383,626	120,866	71,690	576,182	533,816	103,362	222,346
Total	\$ 2,600,468 ⁽²⁾	\$ 1,055,467	\$ 122,936	\$ 3,778,871	\$ 3,488,897	\$ 545,209	\$ 469,539 ⁽⁵⁾

As of December 2008

Credit spread on underlying (basis points) ⁽¹⁾							
0-250	\$ 1,282,899	\$ 467,914	\$ 17,698	\$ 1,768,511	\$ 1,506,414	\$ 384,475	\$ 90,980
251-500	493,424	116,450	8,923	618,797	609,745	39,507	46,384
501-1,000	446,836	94,451	5,425	546,712	491,688	97,055	73,826
Greater than 1,000	496,904	95,807	43,629	636,340	604,508	69,259	233,086
Total	\$ 2,720,063 ⁽²⁾	\$ 774,622	\$ 75,675	\$ 3,570,360	\$ 3,212,355	\$ 590,296	\$ 444,276 ⁽⁵⁾

- (1) Credit spread on the underlying, together with the period of expiration, are indicators of payment/performance risk. For example, the firm is least likely to pay or otherwise be required to perform where the credit spread on the underlying is 0-250 basis points and the period of expiration is 0-5 Years. The likelihood of payment or performance is generally greater as the credit spread on the underlying and period of expiration increase.
- (2) Includes a maximum payout/notional amount for written credit derivatives of \$243.02 billion, \$208.44 billion and \$237.43 billion expiring within one year as of March 2009, November 2008 and December 2008, respectively.
- (3) Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they hedge written credit derivatives with identical underlyings.
- (4) Comprised of purchased protection in excess of the amount of written protection on identical underlyings and purchased protection on other underlyings on which the firm has not written protection.
- (5) This liability excludes the effects of both netting under enforceable netting agreements and netting of cash collateral paid pursuant to credit support agreements. Including the effects of netting receivable balances with payable balances for the same counterparty pursuant to enforceable netting agreements, the firm's net liability related to credit derivatives in the firm's statement of financial condition as of March 2009, November 2008 and December 2008 was \$26.57 billion, \$33.76 billion and \$31.10 billion, respectively. This net amount excludes the netting of cash collateral paid pursuant to credit support agreements. The decrease in this net liability from November 2008 to March 2009 reflected tightening credit spreads.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Collateralized Transactions

The firm receives financial instruments as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. Such financial instruments may include obligations of the U.S. government, federal agencies, sovereigns and corporations, as well as equities and convertibles.

In many cases, the firm is permitted to deliver or repledge these financial instruments in connection with entering into repurchase agreements, securities lending agreements and other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements. As of March 2009, November 2008 and December 2008, the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or repledge was \$609.87 billion, \$578.72 billion and \$642.98 billion, respectively, of which the firm delivered or repledged \$446.53 billion, \$445.11 billion and \$492.82 billion, respectively.

The firm also pledges assets that it owns to counterparties who may or may not have the right to deliver or repledge them. Trading assets pledged to counterparties that have the right to deliver or repledge are included in Trading assets, at fair value in the condensed consolidated statements of financial condition and were \$26.60 billion, \$26.31 billion and \$42.00 billion as of March 2009, November 2008 and December 2008, respectively. Trading assets, pledged in connection with repurchase agreements, securities lending agreements and other secured financings to counterparties that did not have the right to sell or repledge are included in Trading assets, at fair value in the condensed consolidated statements of financial condition and were \$117.42 billion, \$80.85 billion and \$274.94 billion as of March 2009, November 2008 and December 2008, respectively. Other assets (primarily real estate and cash) owned and pledged in connection with other secured financings to counterparties that did not have the right to sell or repledge were \$7.78 billion, \$9.24 billion and \$7.12 billion as of March 2009, November 2008 and December 2008, respectively.

In addition to repurchase agreements and securities lending agreements, the firm obtains secured funding through the use of other arrangements. Other secured financings include arrangements that are nonrecourse, that is, only the subsidiary that executed the arrangement or a subsidiary guaranteeing the arrangement is obligated to repay the financing. Other secured financings consist of liabilities related to the firm's William Street program; consolidated VIEs; collateralized central bank financings and other transfers of financial assets that are accounted for as financings rather than sales under SFAS No. 140 (primarily pledged bank loans and mortgage whole loans); and other structured financing arrangements.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Other secured financings by maturity are set forth in the table below:

	March 2009	As of November 2008	December 2008
		(in millions)	
Other secured financings (short-term) ⁽¹⁾⁽²⁾	\$ 24,945	\$ 21,225	\$ 20,632
Other secured financings (long-term):			
2010	3,712	2,157	3,721
2011	3,181	4,578	3,741
2012	3,025	3,040	3,035
2013	1,875	1,377	1,784
2014	953	1,512	1,163
2015-thereafter	2,102	4,794	4,969
Total other secured financings (long-term) ⁽³⁾⁽⁴⁾	14,848	17,458	18,413
Total other secured financings ⁽⁵⁾⁽⁶⁾	\$ 39,793	\$ 38,683	\$ 39,045

(1) As of March 2009, November 2008 and December 2008, consists of U.S. dollar-denominated financings of \$10.12 billion, \$12.53 billion and \$11.66 billion, respectively, with a weighted average interest rate of 1.10%, 2.98% and 2.65%, respectively, and non-U.S. dollar-denominated financings of \$14.83 billion, \$8.70 billion and \$8.97 billion, respectively, with a weighted average interest rate of 0.35%, 0.95% and 0.76%, respectively, after giving effect to hedging activities. The weighted average interest rates as of March 2009, November 2008 and December 2008 excluded financial instruments accounted for at fair value under SFAS No. 159.

(2) Includes other secured financings maturing within one year of the financial statement date and other secured financings that are redeemable within one year of the financial statement date at the option of the holder.

(3) As of March 2009, November 2008 and December 2008, consists of U.S. dollar-denominated financings of \$8.32 billion, \$9.55 billion and \$9.39 billion, respectively, with a weighted average interest rate of 2.79%, 4.62% and 4.14%, respectively, and non-U.S. dollar-denominated financings of \$6.53 billion, \$7.91 billion and \$9.02 billion, respectively, with a weighted average interest rate of 2.85%, 4.39% and 4.16%, respectively, after giving effect to hedging activities. The weighted average interest rates as of March 2009, November 2008 and December 2008 excluded financial instruments accounted for at fair value under SFAS No. 159.

(4) Secured long-term financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates. Secured long-term financings that are redeemable prior to maturity at the

option of the holder are reflected at the dates such options become exercisable.

- (5) As of March 2009, November 2008 and December 2008, \$33.92 billion, \$31.54 billion and \$33.04 billion, respectively, of these financings were collateralized by financial instruments and \$5.87 billion, \$7.14 billion and \$6.00 billion, respectively, by other assets (primarily real estate and cash). Other secured financings include \$10.74 billion, \$13.74 billion and \$14.22 billion of nonrecourse obligations as of March 2009, November 2008 and December 2008, respectively.
- (6) As of March 2009 and December 2008, other secured financings includes \$26.84 billion and \$23.08 billion, respectively, related to transfers of financial assets accounted for as financings rather than sales under SFAS No. 140. Such financings were collateralized by financial assets included in Trading assets, at fair value in the condensed consolidated statements of financial condition of \$27.76 billion and \$25.46 billion as of March 2009 and December 2008, respectively.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)****Note 4. Securitization Activities and Variable Interest Entities***Securitization Activities*

The firm securitizes commercial and residential mortgages, government and corporate bonds and other types of financial assets. The firm acts as underwriter of the beneficial interests that are sold to investors. The firm derecognizes financial assets transferred in securitizations, provided it has relinquished control over such assets. Transferred assets are accounted for at fair value prior to securitization. Net revenues related to these underwriting activities are recognized in connection with the sales of the underlying beneficial interests to investors.

The firm may have continuing involvement with transferred assets, including: retaining interests in securitized financial assets, primarily in the form of senior or subordinated securities; retaining servicing rights; and purchasing senior or subordinated securities in connection with secondary market-making activities. Retained interests and other interests related to the firm's continuing involvement are accounted for at fair value and are included in Trading assets, at fair value in the condensed consolidated statements of financial condition. See Note 2 for additional information regarding fair value measurement.

The following table sets forth the amount of financial assets the firm securitized, as well as cash flows received on retained interests:

	Three Months Ended March 2009	Three Months Ended February 2008	One Month Ended December 2008
		(in millions)	
Residential mortgages	\$ 3,470	\$ 1,520	\$ 557
Commercial mortgages			
Other financial assets	95	1,048 ⁽¹⁾	47
Total	\$ 3,565	\$ 2,568	\$ 604
Cash flows received on retained interests	\$ 94	\$ 116	\$ 26

⁽¹⁾ Primarily in connection with collateralized loan obligations (CLOs).

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The following tables set forth certain information related to the firm's continuing involvement in 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, as of March 2009 and December 2008 in accordance with FSP No. FAS 140-4 and FIN 46(R)-8. The outstanding principal amount set forth in the tables below is presented for the purpose of providing information about the size of the transferred assets 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.

	As of March 2009 ⁽¹⁾		
	Outstanding principal amount	Fair value of retained interests (in millions)	Fair value of purchased interests ⁽²⁾
Residential mortgage-backed	\$ 33,161	\$ 1,176 ⁽⁴⁾	\$ 41
Commercial mortgage-backed	10,337	244	45
Other asset-backed ⁽³⁾	9,301	64	1
Total	\$ 52,799	\$ 1,484	\$ 87

	As of December 2008 ⁽¹⁾		
	Outstanding principal amount	Fair value of retained interests (in millions)	Fair value of purchased interests ⁽²⁾
Residential mortgage-backed	\$ 34,189	\$ 927 ⁽⁴⁾	\$ 53
Commercial mortgage-backed	11,353	408	63
Other asset-backed ⁽³⁾	11,599	209	10
Total	\$ 57,141	\$ 1,544	\$ 126

(1) As of March 2009 and December 2008, fair value of other continuing involvement excludes \$494 million and \$526 million, respectively, of purchased interests in securitization entities where the firm's involvement was related to secondary market-making activities. Continuing involvement also excludes derivative contracts that are used by securitization entities to manage credit, interest rate or foreign exchange risk.

(2)

Comprised of senior and subordinated interests purchased in connection with secondary market-making activities in VIEs and QSPEs in which the firm also holds retained interests. In addition to these interests, the firm had other continuing involvement in the form of derivative transactions and guarantees with certain VIEs for which the carrying value was a net liability of \$71 million and \$72 million as of March 2009 and December 2008, respectively. The notional amounts of these transactions are included in maximum exposure to loss in the nonconsolidated VIE table below.

- (3) Primarily consists of CDOs backed by corporate and mortgage obligations and CLOs. Outstanding principal amount and fair value of retained interests include \$8.08 billion and \$28 million, respectively, as of March 2009 and \$10.21 billion and \$57 million, respectively, as of December 2008 related to VIEs which are also included in the nonconsolidated VIE table below.
- (4) Primarily consists of retained interests in government agency QSPEs.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The following table sets forth the weighted average key economic assumptions used in measuring the fair value of the firm's retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions:

	As of March 2009		As of November 2008		As of December 2008	
	Type of Retained Interests ⁽¹⁾		Type of Retained Interests ⁽¹⁾		Type of Retained Interests ⁽¹⁾	
	Mortgage-Backed	Other Asset-Backed ⁽²⁾	Mortgage-Backed	Other Asset-Backed	Mortgage-Backed	Other Asset-Backed
Fair value of retained interests	\$ 1,420	\$ 64	\$ 1,415	\$ 367 ⁽⁵⁾	\$ 1,335	\$ 209
Weighted average life (years)	4.6	3.6	6.0	5.1	5.2	4.5
Constant prepayment rate ⁽³⁾	18.0%	N.M.	15.5%	4.5%	14.1%	3.9%
Impact of 10% adverse change ⁽³⁾	\$ (8)	N.M.	\$ (14)	\$ (6)	\$ (12)	\$
Impact of 20% adverse change ⁽³⁾	(18)	N.M.	(27)	(12)	(24)	(1)
Discount rate ⁽⁴⁾	17.0%	N.M.	21.1%	29.2%	21.2%	24.3%
Impact of 10% adverse change	\$ (43)	N.M.	\$ (46)	\$ (25)	\$ (46)	\$ (18)
Impact of 20% adverse change	(82)	N.M.	(89)	(45)	(87)	(33)

(1) Includes \$1.46 billion, \$1.53 billion and \$1.49 billion as of March 2009, November 2008 and December 2008, respectively, held in QSPEs.

(2) Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of March 2009. The firm's maximum exposure to adverse changes in the value of these interests is the firm's carrying value of \$64 million.

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

(4) The majority of the firm's mortgage-backed retained interests are U.S. government agency-issued collateralized mortgage obligations, for which there is no anticipated credit loss. For the remainder of the firm's retained interests, the expected credit loss assumptions are reflected within the discount rate.

(5)

Includes \$192 million of retained interests related to transfers of securitized assets that were accounted for as secured financings rather than as sales under SFAS No. 140.

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

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

As of March 2009, November 2008 and December 2008, the firm held mortgage servicing rights with a fair value of \$139 million, \$147 million and \$153 million, respectively. These servicing assets represent the firm's right to receive a future stream of cash flows, such as servicing fees, in excess of the firm's obligation to service residential mortgages. The fair value of mortgage servicing rights will fluctuate in response to changes in certain economic variables, such as discount rates and loan prepayment rates. The firm estimates the fair value of mortgage servicing rights by using valuation models that incorporate these variables in quantifying anticipated cash flows related to servicing activities. Mortgage servicing rights are included in Trading assets, at fair value in the condensed consolidated statements of financial condition and are classified within level 3 of the fair value hierarchy. The following table sets forth changes in the firm's mortgage servicing rights, as well as servicing fees earned:

	Three Months Ended March 2009	Three Months Ended February 2008	One Month Ended December 2008
		(in millions)	
Balance, beginning of period	\$ 153	\$ 93	\$ 147
Purchases		212 ⁽¹⁾	
Servicing assets that resulted from transfers of financial assets		3	
Changes in fair value due to changes in valuation inputs and assumptions	(14)	(25)	6
Balance, end of period ⁽²⁾	\$ 139	\$ 283	\$ 153
Contractually specified servicing fees	\$ 93	\$ 65	\$ 25

(1) Primarily related to the acquisition of Litton Loan Servicing LP.

(2) As of March 2009, the fair value was estimated using a weighted average discount rate of approximately 16% and a weighted average prepayment rate of approximately 28%. As of February 2008, the fair value was estimated using a weighted average discount rate of approximately 16% and a weighted average prepayment rate of approximately 27%. As of December 2008, the fair value was estimated using a weighted average discount rate of approximately 16% and a weighted average prepayment rate of approximately 21%.

Variable Interest Entities (VIEs)

The firm, in the ordinary course of business, retains interests in VIEs in connection with its securitization activities. The firm also purchases and sells variable interests in VIEs, which primarily issue mortgage-backed and other asset-backed securities, CDOs and CLOs, in connection with its market-making activities and makes investments in and loans to VIEs that hold performing and nonperforming debt, equity, real estate, power-related and other assets. In

addition, the firm utilizes VIEs to provide investors with principal-protected notes, credit-linked notes and asset-repackaged notes designed to meet their objectives. VIEs generally purchase assets by issuing debt and equity instruments.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The firm's significant variable interests in VIEs include senior and subordinated debt interests in mortgage-backed and asset-backed securitization vehicles, CDOs and CLOs; loan commitments; limited and general partnership interests; preferred and common stock; interest rate, foreign currency, equity, commodity and credit derivatives; and guarantees. Subsequent to the adoption of FSP No. FAS 140-4 and FIN 46(R)-8 in December 2008, any variable interests in VIEs for which the firm acted as sponsor are included in the disclosures below, regardless of significance. As a result of this change, Assets in VIE in the below tables include approximately \$30 billion as of both March 2009 and December 2008, related to retained and purchased interests which were previously considered insignificant because the firm's exposure to these interests is de minimis. The increase in Assets in VIE from November 2008 due to this change in disclosure requirements had no impact on the firm's risk of loss or exposure related to these instruments. The firm's exposure to these VIEs is limited to the carrying values of these retained and purchased interests, which totaled approximately \$68 million and \$90 million as of March 2009 and December 2008, respectively.

The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities. In the tables set forth below, the maximum exposure to loss for purchased and retained interests and loans and investments is the carrying value of these interests. In certain instances, the firm provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs. For these contracts, maximum exposure to loss set forth in the tables below is the notional amount of such guarantees, which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded by the firm in connection with these guarantees. As a result, the maximum exposure to loss exceeds the firm's liabilities related to VIEs.

The following tables set forth total assets in firm-sponsored nonconsolidated VIEs in which the firm holds variable interests and other nonconsolidated VIEs in which the firm holds significant variable interests, and the firm's maximum exposure to loss excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests. For March 2009 and December 2008, in accordance with FSP No. FAS 140-4 and FIN 46(R)-8, the following tables also set forth the total assets and total liabilities included in the condensed consolidated statements of financial condition related to the firm's significant interests in nonconsolidated VIEs. The firm has aggregated nonconsolidated VIEs based on principal business activity, as reflected in the first column. The nature of the firm's variable interests can take different forms, as described in the columns under maximum exposure to loss.

	Assets in VIE	As of March 2009						Total
		Carrying Value of the Firm's		Maximum Exposure to Loss in Nonconsolidated VIEs ⁽¹⁾				
		Variable Interests		Purchased		Commitments		
		Assets	Liabilities	Retained Interests	and Guarantees	Derivatives	Loans and Investments	
Mortgage CDOs ⁽²⁾	\$ 35,003	\$ 95	\$ 35	\$ 95	\$	\$ 4,655 ⁽⁷⁾	\$	\$ 4,750
	21,842	196	769	196		3,140 ⁽⁸⁾		3,336

Corporate CDOs and CLOs ⁽²⁾								
Real estate, credit-related and other investing ⁽³⁾	26,679	3,104	153		367		2,970	3,337
Other asset-backed ⁽²⁾	307	4	45			307		307
Power-related ⁽⁴⁾	647	224	3		37		224	261
Principal-protected notes ⁽⁵⁾	2,532	33	1,413			2,749		2,749
Total	\$ 87,010	\$ 3,656	\$ 2,418	\$ 291	\$ 404 ⁽⁶⁾	\$ 10,851 ⁽⁶⁾	\$ 3,194	\$ 14,740

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

	As of November 2008					
	Maximum Exposure to Loss in Nonconsolidated VIEs ⁽¹⁾					
	Assets in VIE	Purchases and Retained Interests		Guarantees and Derivatives	Loans and Investments	Total
(in millions)						
Mortgage CDOs	\$ 13,061	\$ 242	\$	\$ 5,616 ⁽⁷⁾	\$	\$ 5,858
Corporate CDOs and CLOs	8,584	161		918 ⁽⁸⁾		1,079
Real estate, credit-related and other investing ⁽³⁾	26,898		143		3,223	3,366
Municipal bond securitizations	111		111			111
Other asset-backed	4,355			1,084		1,084
Power-related	844		37		213	250
Principal-protected notes ⁽⁵⁾	4,516			4,353		4,353
Total	\$ 58,369	\$ 403	\$ 291	\$ 11,971	\$ 3,436	\$ 16,101

	As of December 2008							
	Carrying Value of the Firm's		Maximum Exposure to Loss in Nonconsolidated VIEs ⁽¹⁾					
	Assets in VIE	Variable Interests		Purchases and Retained Interests		Guarantees and Derivatives	Loans and Investments	Total
Assets		Liabilities	(in millions)					
Mortgage CDOs ⁽²⁾	\$ 37,266	\$ 98	\$ 78	\$ 98	\$	\$ 5,022 ⁽⁷⁾	\$	\$ 5,120
Corporate CDOs and CLOs ⁽²⁾	20,987	270	928	270		2,365 ⁽⁸⁾		2,635
Real estate, credit-related and other investing ⁽³⁾	27,946	3,139	186		300		3,075	3,375
Municipal bond securitizations	69				69			69
Other asset-backed ⁽²⁾	325	4	58			325		325
Power-related ⁽⁴⁾	663	211	3		37		211	248
Principal-protected notes ⁽⁵⁾	3,993	95	1,047			4,689		4,689
Total	\$ 91,249	\$ 3,817	\$ 2,300	\$ 368	\$ 406 ⁽⁶⁾	\$ 12,401 ⁽⁶⁾	\$ 3,286	\$ 16,461

- (1) Such amounts do not represent the anticipated losses in connection with these transactions as they exclude the effect of offsetting financial instruments that are held to mitigate these risks.
- (2) These VIEs are generally financed through the issuance of debt instruments collateralized by assets held by the VIE. Substantially all assets and liabilities held by the firm related to these VIEs are included in Trading assets, at fair value and Trading liabilities, at fair value, respectively, in the condensed consolidated statements of financial condition.
- (3) The firm obtains interests in these VIEs in connection with making investments in real estate, distressed loans and other types of debt, mezzanine instruments and equities. These VIEs are generally financed through the issuance of debt and equity instruments which are either collateralized by or indexed to assets held by the VIE. Substantially all assets and liabilities held by the firm related to these VIEs are included in Trading assets, at fair value and Other liabilities and accrued expenses, respectively, in the condensed consolidated statements of financial condition.
- (4) Assets and liabilities held by the firm related to these VIEs are included in Other assets and Trading liabilities, at fair value in the condensed consolidated statements of financial condition.
- (5) Consists of out-of-the-money written put options that provide principal protection to clients invested in various fund products, with risk to the firm mitigated through portfolio rebalancing. Assets related to these VIEs are included in Trading assets, at fair value and liabilities related to these VIEs are included in Other secured financings, Unsecured short-term borrowings or Unsecured long-term borrowings in the condensed consolidated statements of financial condition. Assets in VIE, carrying value of liabilities and maximum exposure to loss exclude \$3.55 billion and \$3.17 billion as of March 2009 and December 2008, respectively, associated with guarantees related to the firm's performance under borrowings from the VIE, which are recorded as liabilities in the condensed consolidated statements of financial condition. Substantially all of the liabilities included in the table above relate to additional borrowings from the VIE associated with principal protected notes guaranteed by the firm.
- (6) The aggregate amounts include \$4.84 billion and \$5.13 billion as of March 2009 and December 2008, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.
- (7) Primarily consists of written protection on investment-grade, short-term collateral held by VIEs that have issued CDOs.
- (8) Primarily consists of total return swaps on CDOs and CLOs. The firm has generally transferred the risks related to the underlying securities through derivatives with non-VIEs.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The following table sets forth the firm's total assets excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with its variable interests in consolidated VIEs. The following table excludes VIEs in which the firm holds a majority voting interest unless the activities of the VIE are primarily related to securitization, asset-backed financings or single-lessee leasing arrangements. For March 2009 and December 2008, in accordance with FSP No. FAS 140-4 and FIN 46(R)-8, the following table also sets forth the total liabilities included in the condensed consolidated statements of financial condition related to the firm's consolidated VIEs. The firm has aggregated consolidated VIEs based on principal business activity, as reflected in the first column.

	March 2009		As of November	December 2008	
	VIE Assets ⁽¹⁾	VIE Liabilities ⁽¹⁾	2008 VIE Assets ⁽¹⁾	VIE Assets ⁽¹⁾	VIE Liabilities ⁽¹⁾
			(in millions)		
Real estate, credit-related and other investing	\$ 1,362	\$ 1,141 ⁽²⁾	\$ 1,560	\$ 1,531	\$ 1,261 ⁽²⁾
Municipal bond securitizations	847	1,127 ⁽³⁾	985	928	1,285 ⁽³⁾
CDOs, mortgage-backed and other asset-backed	120	41 ⁽⁴⁾	32	121	59 ⁽⁴⁾
Foreign exchange and commodities	435	440 ⁽⁵⁾	652	559	514 ⁽⁵⁾
Principal-protected notes	203	203 ⁽⁶⁾	215	235	235 ⁽⁶⁾
Total	\$ 2,967	\$ 2,952	\$ 3,444	\$ 3,374	\$ 3,354

- (1) Consolidated VIE assets and liabilities are presented after intercompany eliminations and include assets financed on a nonrecourse basis. Substantially all VIE assets are included in Trading assets, at fair value and Cash and cash equivalents in the condensed consolidated statements of financial condition.
- (2) These VIE liabilities, which are collateralized by the related VIE assets, are included in Other secured financings in the condensed consolidated statements of financial condition and generally do not provide for recourse to the general credit of the firm.
- (3) These VIE liabilities, which are collateralized by the related VIE assets, are included in Other secured financings in the condensed consolidated statements of financial condition.
- (4) These VIE liabilities are included in Other liabilities and accrued expenses in the condensed consolidated statements of financial condition and generally do not provide for recourse to the general credit of the firm.
- (5) These VIE liabilities are primarily included in Trading liabilities, at fair value on the condensed consolidated statements of financial condition.

- (6) These VIE liabilities are included in Unsecured short-term borrowings on the condensed consolidated statements of financial condition.

The firm did not have off-balance-sheet commitments to purchase or finance any CDOs held by structured investment vehicles as of March 2009, November 2008 or December 2008.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)****Note 5. Deposits**

The following table sets forth deposits as of March 2009, November 2008 and December 2008:

	March 2009	As of November 2008	December 2008
		(in millions)	
U.S. offices ⁽¹⁾	\$ 38,892	\$ 23,018	\$ 27,430
Non-U.S. offices ⁽²⁾	5,612	4,625	4,700
Total	\$ 44,504	\$ 27,643	\$ 32,130

⁽¹⁾ Substantially all U.S. deposits were interest-bearing and were held at GS Bank USA.

⁽²⁾ Substantially all non-U.S. deposits were interest-bearing and held at Goldman Sachs Bank (Europe) PLC (GS Bank Europe).

Included in the above table are time deposits of \$14.50 billion, \$8.49 billion and \$11.41 billion as of March 2009, November 2008 and December 2008, respectively. The following table sets forth the maturities of time deposits as of March 2009:

	As of March 2009		
	U.S.	Non-U.S.	Total
		(in millions)	
2009	\$ 5,567	\$ 591	\$ 6,158
2010	1,490	3	1,493
2011	1,523		1,523
2012	818		818
2013	1,827	37	1,864
2014-thereafter	2,640		2,640
Total	\$ 13,865	\$ 631	\$ 14,496

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)****Note 6. Short-Term Borrowings**

As of March 2009, November 2008 and December 2008, short-term borrowings were \$69.55 billion, \$73.89 billion and \$74.72 billion, respectively, comprised of \$24.95 billion, \$21.23 billion and \$20.63 billion, respectively, included in Other secured financings in the condensed consolidated statements of financial condition and \$44.60 billion, \$52.66 billion and \$54.09 billion, respectively, of unsecured short-term borrowings. See Note 3 for information on 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 SFAS No. 155 or SFAS No. 159. Short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations.

Unsecured short-term borrowings are set forth below:

	March 2009	As of November 2008	December 2008
		(in millions)	
Current portion of unsecured long-term borrowings	\$ 20,479	\$ 26,281	\$ 24,274
Hybrid financial instruments	9,329	12,086	11,133
Promissory notes ⁽¹⁾	8,006	6,944	10,290
Commercial paper ⁽²⁾	320	1,125	1,069
Other short-term borrowings ⁽³⁾	6,462	6,222	7,327
Total ⁽⁴⁾	\$ 44,596	\$ 52,658	\$ 54,093

⁽¹⁾ Includes \$7.99 billion, \$3.42 billion and \$8.41 billion as of March 2009, November 2008 and December 2008, respectively, guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP).

⁽²⁾ Includes \$0, \$751 million and \$540 million as of March 2009, November 2008 and December 2008, respectively, guaranteed by the FDIC under the TLGP.

⁽³⁾ Includes \$1.11 billion as of both March 2009 and December 2008 and \$0 as of November 2008 guaranteed by the FDIC under the TLGP.

⁽⁴⁾

The weighted average interest rates for these borrowings, after giving effect to hedging activities, were 2.14%, 3.37% and 2.75% as of March 2009, November 2008 and December 2008, respectively, and excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)****Note 7. Long-Term Borrowings**

As of March 2009, November 2008 and December 2008, long-term borrowings were \$203.38 billion, \$185.68 billion and \$203.97 billion, respectively, comprised of \$14.85 billion, \$17.46 billion and \$18.41 billion, respectively, included in Other secured financings in the condensed consolidated statements of financial condition and \$188.53 billion, \$168.22 billion and \$185.56 billion, respectively, of unsecured long-term borrowings. See Note 3 for information regarding other secured financings.

The firm's unsecured long-term borrowings extend through 2043 and consist principally of senior borrowings.

Unsecured long-term borrowings are set forth below:

	March 2009	As of November 2008	December 2008
		(in millions)	
Fixed rate obligations ⁽¹⁾	\$ 118,664	\$ 103,825	\$ 117,335
Floating rate obligations ⁽²⁾	69,870	64,395	68,229
Total ⁽³⁾	\$ 188,534	\$ 168,220	\$ 185,564

⁽¹⁾ As of March 2009, November 2008 and December 2008, \$82.25 billion, \$70.08 billion and \$78.45 billion, respectively, of the firm's fixed rate debt obligations were denominated in U.S. dollars and interest rates ranged from 1.63% to 10.04%, from 3.87% to 10.04% and from 3.25% to 10.04%, respectively. As of March 2009, November 2008 and December 2008, \$36.41 billion, \$33.75 billion and \$38.89 billion, respectively, of the firm's fixed rate debt obligations were denominated in non-U.S. dollars and interest rates ranged from 0.67% to 7.45%, from 0.67% to 8.88% and from 0.67% to 8.88%, respectively.

⁽²⁾ As of March 2009, November 2008 and December 2008, \$37.10 billion, \$32.41 billion and \$33.11 billion, respectively, of the firm's floating rate debt obligations were denominated in U.S. dollars. As of March 2009, November 2008 and December 2008, \$32.77 billion, \$31.99 billion and \$35.12 billion, respectively, of the firm's floating rate debt obligations were denominated in non-U.S. dollars. Floating interest rates generally are based on LIBOR or the federal funds target rate. Equity-linked and indexed instruments are included in floating rate obligations.

⁽³⁾ Includes \$20.74 billion, \$0 and \$9.19 billion as of March 2009, November 2008 and December 2008, respectively, guaranteed by the FDIC under the TLGP.

Table of Contents**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Unsecured long-term borrowings by maturity date are set forth below (in millions):

	As of March 2009
2010	\$ 11,776
2011	22,427
2012	25,071
2013	22,481
2014	15,480
2015-thereafter	91,299
Total ⁽¹⁾⁽²⁾	\$ 188,534

- (1) Unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder are included as unsecured short-term borrowings in the condensed consolidated statements of financial condition.
- (2) Unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates. Unsecured long-term borrowings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

The firm enters into derivative contracts to effectively convert a substantial portion of its unsecured long-term borrowings which are not accounted for at fair value into floating rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of March 2009, November 2008 and December 2008. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to the widening of the firm's own credit spreads was a reduction in the fair value of total unsecured long-term borrowings of approximately 6%, 9% and 8% as of March 2009, November 2008 and December 2008, respectively.

The effective weighted average interest rates for unsecured long-term borrowings are set forth below:

	March 2009		As of November 2008		December 2008	
	Amount	Rate	Amount	Rate	Amount	Rate
			(\$ in millions)			
Fixed rate obligations	\$ 3,866	5.17%	\$ 4,015	4.97%	\$ 4,044	4.97%
Floating rate obligations ⁽¹⁾	184,668	1.41	164,205	2.66	181,520	2.64

Total ⁽²⁾	\$ 188,534	1.50	\$ 168,220	2.73	\$ 185,564	2.70
----------------------	------------	------	------------	------	------------	------

(1) Includes fixed rate obligations that have been converted into floating rate obligations through derivative contracts.

(2) The weighted average interest rates as of March 2009, November 2008 and December 2008 excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Subordinated Borrowings

Unsecured long-term borrowings included subordinated borrowings with outstanding principal amounts of \$18.77 billion, \$19.26 billion and \$19.21 billion as of March 2009, November 2008 and December 2008, respectively, as set forth below.

Junior Subordinated Debt Issued to Trusts in Connection with Fixed-to-Floating and Floating Rate Normal Automatic Preferred Enhanced Capital Securities. In 2007, Group Inc. issued a total of \$2.25 billion of remarketable junior subordinated debt to Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts), Delaware statutory trusts that, in turn, issued \$2.25 billion of guaranteed perpetual Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to Group Inc. Group Inc. also entered into contracts with the APEX Trusts to sell \$2.25 billion of perpetual non-cumulative preferred stock to be issued by Group Inc. (the stock purchase contracts). The APEX Trusts are wholly owned finance subsidiaries of the firm for regulatory and legal purposes but are not consolidated for accounting purposes.

The firm pays interest semi-annually on \$1.75 billion of junior subordinated debt issued to Goldman Sachs Capital II at a fixed annual rate of 5.59% and the debt matures on June 1, 2043. The firm pays interest quarterly on \$500 million of junior subordinated debt issued to Goldman Sachs Capital III at a rate per annum equal to three-month LIBOR plus 0.57% and the debt matures on September 1, 2043. In addition, the firm makes contract payments at a rate of 0.20% per annum on the stock purchase contracts held by the APEX Trusts. The firm has the right to defer payments on the junior subordinated debt and the stock purchase contracts, subject to limitations, and therefore cause payment on the APEX to be deferred. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. The junior subordinated debt is junior in right of payment to all of Group Inc.'s senior indebtedness and all of Group Inc.'s other subordinated borrowings.

In connection with the APEX issuance, the firm covenanted in favor of certain of its debtholders, who are initially the holders of Group Inc.'s 6.345% Junior Subordinated Debentures due February 15, 2034, that, subject to certain exceptions, the firm would not redeem or purchase (i) Group Inc.'s junior subordinated debt issued to the APEX Trusts prior to the applicable stock purchase date or (ii) APEX or shares of Group Inc.'s Series E or Series F Preferred Stock prior to the date that is ten years after the applicable stock purchase date, unless the applicable redemption or purchase price does not exceed a maximum amount determined by reference to the aggregate amount of net cash proceeds that the firm has received from the sale of qualifying equity securities during the 180-day period preceding the redemption or purchase.

The firm has accounted for the stock purchase contracts as equity instruments under EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, and, accordingly, recorded the cost of the stock purchase contracts as a reduction to additional paid-in capital. See Note 9 for information on the preferred stock that Group Inc. will issue in connection with the stock purchase contracts.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Junior Subordinated Debt Issued to a Trust 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 that, in turn, issued \$2.75 billion of guaranteed preferred beneficial interests to third parties and \$85 million of common beneficial interests to Group Inc. and invested the proceeds from the sale in junior subordinated debentures issued by 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 these 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 applicable to the debentures. The firm has the right, from time to time, to defer payment of interest on the debentures, and, therefore, cause payment on the Trust's preferred beneficial interests to be deferred, in each case up to ten consecutive semi-annual periods. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common stock. The Trust is not permitted to pay any distributions on the common beneficial interests held by Group Inc. unless all dividends payable on the preferred beneficial interests have been paid in full. These debentures are junior in right of payment to all of Group Inc.'s senior indebtedness and all of Group Inc.'s subordinated borrowings, other than the junior subordinated debt issued in connection with the Normal Automatic Preferred Enhanced Capital Securities.

Subordinated Debt. As of March 2009, the firm had \$13.68 billion of other subordinated debt outstanding with maturities ranging from fiscal 2010 to 2038. The effective weighted average interest rate on this debt was 0.88%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. As of November 2008, the firm had \$14.17 billion of other subordinated debt outstanding with maturities ranging from fiscal 2009 to 2038. The effective weighted average interest rate on this debt was 1.99%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. As of December 2008, the firm had \$14.12 billion of other subordinated debt outstanding with maturities ranging from fiscal 2010 to 2038. The effective weighted average interest rate on this debt was 1.72%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. This debt is junior in right of payment to all of the firm's senior indebtedness.