

GOLDMAN SACHS & CO. LLC AND SUBSIDIARIES

Consolidated Statement of Financial Condition
and Supplemental Financial Information
pursuant to Regulation 1.10 of the
Commodity Futures Trading Commission
as of December 31, 2018

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Report of Independent Registered Public Accounting Firm

To the Board of Managers and the Members of Goldman Sachs & Co. LLC:

Opinion on the Financial Statement - Consolidated Statement of Financial Condition

We have audited the accompanying consolidated statement of financial condition of Goldman Sachs & Co. LLC and its subsidiaries (the "Company") as of December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statement"). In our opinion, the consolidated financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of this consolidated financial statement in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the consolidated financial statement. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The Supplemental Financial Information Pursuant to Regulation 1.10 has been subjected to audit procedures performed in conjunction with the audit of the Company's consolidated financial statement. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the consolidated financial statement or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Regulation 1.10 under the Commodity Exchange Act. In our opinion, the Supplemental Financial Information Pursuant to Regulation 1.10 is fairly stated, in all material respects, in relation to the consolidated financial statement as a whole.

February 27, 2019

We have served as the Company's auditor since 1922.

Consolidated Statement of Financial Condition

<i>\$ in millions</i>	As of December 2018
Assets	
Cash	\$ 14,228
Collateralized agreements:	
Securities purchased under agreements to resell (at fair value)	109,772
Securities borrowed (includes \$24,101 at fair value)	147,644
Receivables:	
Brokers, dealers and clearing organizations	6,769
Customers and counterparties (includes \$178 at fair value)	18,704
Financial instruments owned (at fair value and includes \$46,892 pledged as collateral)	117,280
Other assets	2,268
Total assets	\$ 416,665
Liabilities and member's equity	
Collateralized financings:	
Securities sold under agreements to repurchase (at fair value)	\$ 105,709
Securities loaned (includes \$20,827 at fair value)	65,556
Other secured financings (includes \$7,598 at fair value)	27,625
Payables:	
Brokers, dealers and clearing organizations	3,892
Customers and counterparties	128,471
Financial instruments sold, but not yet purchased (at fair value)	27,419
Unsecured short-term borrowings	21,796
Unsecured long-term borrowings	25
Other liabilities	7,155
Subordinated borrowings	18,500
Total liabilities	406,148
Commitments, contingencies and guarantees	
Member's equity	
Member's equity	10,517
Total liabilities and member's equity	\$ 416,665

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

Notes to Consolidated Statement of Financial Condition

Note 1.

Description of Business

Goldman Sachs & Co. LLC (GS&Co.), a limited liability company registered as a U.S. broker-dealer and futures commission merchant, together with its consolidated subsidiaries (collectively, the firm), is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, except for de minimis non-voting, non-participating interests held by unaffiliated broker-dealers.

In December 2018, GS&Co. distributed its shares of GS Paris Inc. ET CIE (GS Paris), previously a consolidated subsidiary, to Group Inc. and deconsolidated GS Paris. This transaction did not have a material impact on the firm's financial condition.

The firm conducts its activities in the following four business lines:

Investment Banking

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

Institutional Client Services

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

Investing & Lending

The firm's investing and lending activities, which are typically longer-term in nature, include investing directly in various asset classes, primarily debt securities and loans, and public and private equity securities.

Investment Management

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

Note 2.

Basis of Presentation

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

All references to 2018 refer to the date December 31, 2018. Any reference to a future year refers to a year ending on December 31 of that year.

Notes to Consolidated Statement of Financial Condition

Note 3.

Significant Accounting Policies

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

Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased	Note 4
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Consolidation

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

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

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

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

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

Notes to Consolidated Statement of Financial Condition

Use of Estimates

Preparation of this consolidated statement of financial condition requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, provisions for losses that may arise from litigation and regulatory proceedings (including governmental investigations), and provisions for losses that may arise from tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

Financial Assets and Financial Liabilities at Fair Value

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

Transfers of Financial Assets

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

Cash

Cash included cash and due from banks of \$3.56 billion as of December 2018. Cash also included interest-bearing deposits with banks of \$10.67 billion as of December 2018.

The firm segregates cash for regulatory and other purposes related to client activity. Cash segregated for regulatory and other purposes was \$8.07 billion as of December 2018. In addition, the firm segregates securities for regulatory and other purposes related to client activity. See Note 9 for further information about segregated securities.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. As these receivables and payables are not accounted for at fair value, they are not included in the firm's fair value hierarchy in Notes 5 through 8. Had these receivables and payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2018.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables primarily consist of customer margin loans and collateral posted in connection with certain derivative transactions.

Substantially all of these receivables are accounted for at amortized cost net of estimated uncollectible amounts. Certain of the firm's receivables from customers and counterparties are accounted for at fair value under the fair value option. See Note 8 for further information about receivables from customers and counterparties accounted for at fair value under the fair value option. As of December 2018, the carrying value of receivables not accounted for at fair value generally approximated fair value. As these receivables are not accounted for at fair value, they are not included in the firm's fair value hierarchy in Notes 5 through 8. Had these receivables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2018. Interest on receivables from customers and counterparties is recognized over the life of the transaction.

Notes to Consolidated Statement of Financial Condition

Receivables from customers and counterparties includes receivables from contracts with clients and, beginning in January 2018, also includes contract assets. Contract assets represent the firm's right to receive consideration for services provided in connection with its contracts with clients for which collection is conditional and not merely subject to the passage of time. As of December 2018, the firm's receivables from contracts with clients were \$500 million and there were no contract assets.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm's prime brokerage activities. These payables are accounted for at cost plus accrued interest, which generally approximates fair value. As these payables are not accounted for at fair value, they are not included in the firm's fair value hierarchy in Notes 5 through 8. Had these payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2018. Interest on payables to customers and counterparties is recognized over the life of the transaction.

Offsetting Assets and Liabilities

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

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

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

Foreign Currency Translation

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

Notes to Consolidated Statement of Financial Condition

Recent Accounting Developments

Revenue from Contracts with Customers (ASC 606).

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU, as amended, provides comprehensive guidance on the recognition of revenue earned from contracts with customers arising from the transfer of goods and services, guidance on accounting for certain contract costs and new disclosures.

The firm adopted this ASU in January 2018 under a modified retrospective approach. As a result of adopting this ASU, the firm, among other things, delays recognition of non-refundable and milestone payments on financial advisory assignments until the assignments are completed, and recognizes certain investment management fees earlier than under the firm's previous revenue recognition policies. The cumulative effect of adopting this ASU as of January 1, 2018 was a decrease to member's equity of \$47 million (net of tax).

Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 825).

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments (Topic 825) — Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. It includes a requirement to present separately in other comprehensive income changes in fair value attributable to a firm's own credit spreads (debt valuation adjustment or DVA), net of tax, on financial liabilities for which the fair value option was elected.

In January 2016, the firm early adopted this ASU for the requirements related to DVA. Adoption did not affect the firm's financial condition. The adoption of the remaining provisions of the ASU in January 2018 had no impact on the firm's financial condition.

Leases (ASC 842). In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This ASU requires that, for leases longer than one year, a lessee recognize in the statement of financial condition a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments. It also requires that for finance leases, a lessee recognize interest expense on the lease liability, separately from the amortization of the right-of-use asset in the statement of earnings, while for operating leases, such amounts should be recognized as a combined expense. In addition, this ASU requires expanded disclosures about the nature and terms of lease agreements.

The firm adopted this ASU in January 2019 under a modified retrospective approach. Adoption of this ASU did not have a material impact on the firm's financial condition.

Clarifying the Definition of a Business (ASC 805).

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805) — Clarifying the Definition of a Business." The ASU amends the definition of a business and provides a threshold which must be considered to determine whether a transaction is an acquisition (or disposal) of an asset or a business.

The firm adopted this ASU in January 2018 under a prospective approach. Adoption of the ASU did not have a material impact on the firm's financial condition. The firm expects that fewer transactions will be treated as acquisitions (or disposals) of businesses as a result of adopting this ASU.

Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (ASC 610-20).

In February 2017, the FASB issued ASU No. 2017-05, "Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) — Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The ASU clarifies the scope of guidance applicable to sales of nonfinancial assets and also provides guidance on accounting for partial sales of such assets.

The firm adopted this ASU in January 2018 under a modified retrospective approach. Adoption of the ASU did not have an impact on the firm's financial condition.

Notes to Consolidated Statement of Financial Condition

Targeted Improvements to Accounting for Hedging Activities (ASC 815). In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815) — Targeted Improvements to Accounting for Hedging Activities.” The ASU amends certain rules for hedging relationships, expands the types of strategies that are eligible for hedge accounting treatment to more closely align the results of hedge accounting with risk management activities and amends disclosure requirements related to fair value and net investment hedges.

The firm early adopted this ASU in January 2018 under a modified retrospective approach for hedge accounting treatment, and under a prospective approach for the amended disclosure requirements. Adoption of this ASU did not have a material impact on the firm’s financial condition.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASC 220). In February 2018, the FASB issued ASU No. 2018-02, “Income Statement — Reporting Comprehensive Income (Topic 220) — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This ASU permits a reporting entity to reclassify the income tax effects of the Tax Cuts and Jobs Act (Tax Legislation) on items within accumulated other comprehensive income to member’s equity.

The firm adopted this ASU in January 2019 and did not elect to reclassify the income tax effects of Tax Legislation from accumulated other comprehensive income to member’s equity. Therefore, the adoption of the ASU did not have an impact on the firm’s financial condition.

Changes to the Disclosure Requirements for Fair Value Measurement (ASC 820). In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820) — Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU, among other amendments, eliminates the requirement to disclose the amounts and reasons for transfers between level 1 and level 2 of the fair value hierarchy. The firm early adopted this ASU in 2018 and disclosures were modified in accordance with the ASU. See Notes 5 through 8 for further information.

Note 4.

Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased

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

The table below presents financial instruments owned and financial instruments sold, but not yet purchased.

<i>\$ in millions</i>	As of December 2018	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Money market instruments	\$ 241	\$ —
Government and agency obligations:		
U.S.	78,054	5,099
Non-U.S.	2,207	177
Loans and securities backed by:		
Commercial real estate	847	—
Residential real estate	826	—
Corporate debt instruments	8,574	6,918
State and municipal obligations	1,210	—
Other debt obligations	730	—
Equity securities	22,184	10,234
Subtotal	114,873	22,428
Derivatives	2,407	4,991
Total	\$ 117,280	\$ 27,419

In the table above:

- Money market instruments includes commercial paper and certificates of deposit, substantially all of which have a maturity of less than one year.
- Corporate debt instruments includes corporate loans and debt securities.
- Equity securities includes public and private equities, exchange-traded funds and convertible debentures. Such amounts include investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of \$153 million as of December 2018.

Notes to Consolidated Statement of Financial Condition

Note 5.

Fair Value Measurements

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

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

U.S. GAAP has a three-level hierarchy for disclosure of fair value measurements. This hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in this hierarchy is based on the lowest level of input that is significant to its fair value measurement. In evaluating the significance of a valuation input, the firm considers, among other factors, a portfolio's net risk exposure to that input. The fair value hierarchy is as follows:

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

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

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

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

See Notes 6 through 8 for further information about fair value measurements of cash instruments, derivatives and other financial assets and financial liabilities at fair value.

The table below presents financial assets and financial liabilities accounted for at fair value under the fair value option or in accordance with other U.S. GAAP.

<i>\$ in millions</i>	As of December 2018
Total level 1 financial assets	\$ 79,871
Total level 2 financial assets	169,816
Total level 3 financial assets	2,205
Counterparty and cash collateral netting	(561)
Total financial assets at fair value	\$ 251,331
Total assets	\$ 416,665
Total level 3 financial assets divided by:	
Total assets	0.5%
Total financial assets at fair value	0.9%
Total level 1 financial liabilities	\$ 15,366
Total level 2 financial liabilities	152,452
Total level 3 financial liabilities	1,403
Counterparty and cash collateral netting	(7,668)
Total financial liabilities at fair value	\$ 161,553
Total level 3 financial liabilities divided by	
total financial liabilities at fair value	0.9%

In the table above:

- Counterparty netting among positions classified in the same level is included in that level.
- Counterparty and cash collateral netting represents the impact on derivatives of netting across levels of the fair value hierarchy.

Notes to Consolidated Statement of Financial Condition

The table below presents a summary of level 3 financial assets.

<i>\$ in millions</i>	As of December 2018
Cash instruments	\$1,895
Derivatives	310
Total	\$2,205

See Notes 6 through 8 for further information about level 3 financial assets (including information about transfers in and out of level 3).

Note 6.

Cash Instruments

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

Level 1 Cash Instruments

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

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

Level 2 Cash Instruments

Level 2 cash instruments include most money market instruments, most government agency obligations, certain non-U.S. government obligations, most mortgage-backed loans and securities, most corporate debt instruments, state and municipal obligations, most other debt obligations and certain restricted or less liquid listed equities.

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

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

Level 3 Cash Instruments

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

Valuation Techniques and Significant Inputs of Level 3 Cash Instruments

Valuation techniques of level 3 cash instruments vary by instrument, but are generally based on discounted cash flow techniques. The valuation techniques and the nature of significant inputs used to determine the fair values of each type of level 3 cash instrument are described below:

Loans and Securities Backed by Commercial Real Estate.

Loans and securities backed by commercial real estate are directly or indirectly collateralized by a single commercial real estate property or a portfolio of properties, and may include tranches of varying levels of subordination. Significant inputs are generally determined based on relative value analyses and include:

- Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds);
- Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral;

Notes to Consolidated Statement of Financial Condition

- A measure of expected future cash flows in a default scenario (recovery rates) implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples. Recovery rates are expressed as a percentage of notional or face value of the instrument and reflect the benefit of credit enhancements on certain instruments; and
- Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

Loans and Securities Backed by Residential Real Estate. Loans and securities backed by residential real estate are directly or indirectly collateralized by portfolios of residential real estate and may include tranches of varying levels of subordination. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Significant inputs include:

- Market yields implied by transactions of similar or related assets;
- Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral;
- Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines, related costs and subsequent recoveries; and
- Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines.

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

- Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices, such as the CDX (an index that tracks the performance of corporate credit);
- Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation; and
- Duration.

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

- Industry multiples (primarily EBITDA multiples) and public comparables;
- Transactions in similar instruments;
- Discounted cash flow techniques; and
- Third-party appraisals.

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

- Market and transaction multiples;
- Discount rates; and
- For equity securities with debt-like features, market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration.

Other Cash Instruments. Other cash instruments includes U.S. government and agency obligations, non-U.S. government and agency obligations and other debt obligations. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available.

Notes to Consolidated Statement of Financial Condition

Fair Value of Cash Instruments by Level

The table below presents cash instrument assets and liabilities at fair value by level within the fair value hierarchy.

\$ in millions	As of December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Money market instruments	\$ 34	\$ 207	\$ -	\$ 241
Government and agency obligations:				
U.S.	57,220	20,809	25	78,054
Non-U.S.	1,792	414	1	2,207
Loans and securities backed by:				
Commercial real estate	-	602	245	847
Residential real estate	-	583	243	826
Corporate debt instruments	333	7,369	872	8,574
State and municipal obligations	-	1,210	-	1,210
Other debt obligations	-	697	33	730
Equity securities	20,478	1,230	476	22,184
Total cash instrument assets	\$ 79,857	\$ 33,121	\$ 1,895	\$ 114,873
Liabilities				
Government and agency obligations:				
U.S.	\$ (5,089)	\$ (10)	\$ -	\$ (5,099)
Non-U.S.	(67)	(110)	-	(177)
Corporate debt instruments	(1)	(6,917)	-	(6,918)
Equity securities	(10,191)	(42)	(1)	(10,234)
Total cash instrument liabilities	\$ (15,348)	\$ (7,079)	\$ (1)	\$ (22,428)

In the table above:

- Cash instrument assets are included in financial instruments owned and cash instrument liabilities are included in financial instruments sold, but not yet purchased.
- Cash instrument assets are shown as positive amounts and cash instrument liabilities are shown as negative amounts.
- Money market instruments includes commercial paper and certificates of deposit, substantially all of which have a maturity of less than one year.
- Corporate debt instruments includes corporate loans and debt securities.
- Equity securities includes public and private equities, exchange-traded funds and convertible debentures.
- Level 3 equity securities primarily consisted of private equity securities.

Significant Unobservable Inputs

The table below presents the amount of level 3 assets, and ranges and weighted averages of significant unobservable inputs used to value substantially all level 3 cash instruments.

\$ in millions	Level 3 Assets and Range of Significant Unobservable Inputs (Weighted Average) as of December 2018	
	Level 3 Assets	Range of Significant Unobservable Inputs (Weighted Average)
Loans and securities backed by commercial real estate		
Level 3 assets	\$245	
Yield		8.6% to 22.5% (16.0%)
Recovery rate		20.1% to 78.4% (54.8%)
Duration (years)		1.2 to 7.1 (3.7)
Loans and securities backed by residential real estate		
Level 3 assets	\$243	
Yield		4.6% to 11.8% (6.5%)
Cumulative loss rate		8.3% to 37.7% (15.3%)
Duration (years)		1.5 to 14.0 (9.5)
Corporate debt instruments		
Level 3 assets	\$872	
Yield		5.3% to 17.3% (11.0%)
Recovery rate		0.0% to 69.9% (66.3%)
Duration (years)		1.6 to 6.3 (3.7)
Equity securities		
Level 3 assets	\$476	
Multiples		2.1x to 10.1x (6.4x)
Discount rate/yield		6.5% to 14.0% (11.0%)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument.
- Weighted averages are calculated by weighting each input by the relative fair value of the cash instruments.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest multiple for private equity securities is appropriate for valuing a specific private equity security but may not be appropriate for valuing any other private equity security. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of level 3 cash instruments.
- Increases in yield, discount rate, duration or cumulative loss rate used in the valuation of level 3 cash instruments would have resulted in a lower fair value measurement, while increases in recovery rate or multiples would have resulted in a higher fair value measurement as of December 2018. Due to the distinctive nature of each level 3 cash instrument, the interrelationship of inputs is not necessarily uniform within each product type.

Notes to Consolidated Statement of Financial Condition

- Loans and securities backed by commercial and residential real estate, corporate debt instruments and other cash instruments are valued using discounted cash flows, and equity securities are valued using market comparables and discounted cash flows.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Level 3 Transfers

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur.

Transfers into level 3 during 2018 were \$495 million of assets, primarily reflecting transfers of certain corporate debt instruments, certain private equity securities, and certain loans and securities backed by residential real estate from level 2, principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during 2018 were \$173 million of assets, primarily reflecting transfers of certain corporate debt instruments to level 2, principally due to increased price transparency as a result of market evidence, including market transactions in these instruments, and transfers of certain loans and securities backed by residential real estate to level 2, principally due to certain unobservable yield and duration inputs no longer being significant to the valuation of these instruments.

Note 7.

Derivatives and Hedging Activities

Derivative Activities

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

Market-Making. As a market maker, the firm enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. In this role, the firm typically acts as principal and is required to commit capital to provide execution, and maintains inventory in response to, or in anticipation of, client demand.

Risk Management. The firm also enters into derivatives to actively manage risk exposures that arise from its market-making and investing and lending activities in derivative and cash instruments. The firm's holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. In addition, the firm may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage foreign currency exposure on the net investment in certain non-U.S. operations.

The firm enters into various types of derivatives, including:

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

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

Notes to Consolidated Statement of Financial Condition

The tables below present the gross fair value and the notional amounts of derivative contracts by major product type, the amounts of counterparty and cash collateral netting in the consolidated statement of financial condition, as well as cash and securities collateral posted and received under enforceable credit support agreements that do not meet the criteria for netting under U.S. GAAP.

<i>\$ in millions</i>	As of December 2018	
	Derivative Assets	Derivative Liabilities
Not accounted for as hedges		
Exchange-traded	\$ 23	\$ 63
OTC-cleared	1,309	1,251
Bilateral OTC	10,101	10,891
Total interest rates	11,433	12,205
Bilateral OTC	3,856	4,250
Total credit	3,856	4,250
Bilateral OTC	4,955	5,644
Total currencies	4,955	5,644
Exchange-traded	-	7
Bilateral OTC	51	49
Total commodities	51	56
Exchange-traded	5,281	4,875
Bilateral OTC	29,145	37,382
Total equities	34,426	42,257
Total gross fair value	\$ 54,721	\$ 64,412
Offset in consolidated statement of financial condition		
Exchange-traded	\$ (4,855)	\$ (4,855)
OTC-cleared	(1,251)	(1,251)
Bilateral OTC	(45,778)	(45,778)
Counterparty netting	(51,884)	(51,884)
Bilateral OTC	(430)	(7,537)
Cash collateral	(430)	(7,537)
Total amounts offset	\$ (52,314)	\$ (59,421)
Included in consolidated statement of financial condition		
Exchange-traded	\$ 449	\$ 90
OTC-cleared	58	-
Bilateral OTC	1,900	4,901
Total	\$ 2,407	\$ 4,991
Not offset in consolidated statement of financial condition		
Cash collateral	\$ (120)	\$ (120)
Securities collateral	(32)	(194)
Total	\$ 2,255	\$ 4,677

<i>\$ in millions</i>	Notional Amounts as of December 2018
Not accounted for as hedges	
Exchange-traded	\$ 103,363
OTC-cleared	315,246
Bilateral OTC	1,451,528
Total interest rates	1,870,137
Bilateral OTC	195,650
Total credit	195,650
Exchange-traded	257
Bilateral OTC	654,255
Total currencies	654,512
Exchange-traded	714
Bilateral OTC	696
Total commodities	1,410
Exchange-traded	269,323
Bilateral OTC	927,204
Total equities	1,196,527
Total notional amounts	\$ 3,918,236

In the tables above:

- Gross fair values exclude the effects of both counterparty netting and collateral, and therefore are not representative of the firm's exposure.
- Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.
- Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the firm's derivative activity and do not represent anticipated losses.
- Total gross fair value of derivatives included derivative assets of \$1.65 billion and derivative liabilities of \$4.13 billion, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the firm has not yet determined to be enforceable.
- On November 19, 2018, a clearing organization revised its rules to calculate notional amounts for certain exchange-traded derivative contracts. The impact of this rule change, as of the effective date, was a decrease in the notional amounts of derivative contracts of approximately \$150 billion, which primarily related to interest rate derivatives, with no change to their fair value.

Notes to Consolidated Statement of Financial Condition

Valuation Techniques for Derivatives

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

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialized nations are characterized by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.
- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.
- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialized nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

- **Commodity.** Commodity derivatives include transactions referenced to energy (e.g., oil and natural gas), metals (e.g., precious and base) and soft commodities (e.g., agricultural). Price transparency varies based on the underlying commodity, delivery location, tenor and product quality (e.g., diesel fuel compared to unleaded gasoline). In general, price transparency for commodity derivatives is greater for contracts with shorter tenors and contracts that are more closely aligned with major and/or benchmark commodity indices.
- **Equity.** Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

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

Level 1 Derivatives

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

Level 2 Derivatives

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence and exchange-traded derivatives that are not actively traded and/or that are valued using models that calibrate to market-clearing levels of OTC derivatives.

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

Notes to Consolidated Statement of Financial Condition

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

Level 3 Derivatives

Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs. The significant unobservable inputs used to value substantially all of the firm's level 3 derivatives are described below.

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

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

Valuation Adjustments

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

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

Fair Value of Derivatives by Level

The table below presents the fair value of derivatives on a gross basis by level and major product type, as well as the impact of netting.

<i>\$ in millions</i>	As of December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rates	\$ 12	\$ 11,411	\$ 10	\$ 11,433
Credit	–	3,454	402	3,856
Currencies	–	4,946	9	4,955
Commodities	–	51	–	51
Equities	2	33,907	517	34,426
Gross fair value	14	53,769	938	54,721
Counterparty netting in levels	–	(51,125)	(628)	(51,753)
Subtotal	\$ 14	\$ 2,644	\$ 310	\$ 2,968
Cross-level counterparty netting				(131)
Cash collateral netting				(430)
Net fair value				\$ 2,407
Liabilities				
Interest rates	\$ (13)	\$ (12,191)	\$ (1)	\$ (12,205)
Credit	–	(3,724)	(526)	(4,250)
Currencies	–	(5,643)	(1)	(5,644)
Commodities	–	(56)	–	(56)
Equities	(5)	(40,891)	(1,361)	(42,257)
Gross fair value	(18)	(62,505)	(1,889)	(64,412)
Counterparty netting in levels	–	51,125	628	51,753
Subtotal	\$ (18)	\$ (11,380)	\$ (1,261)	\$ (12,659)
Cross-level counterparty netting				131
Cash collateral netting				7,537
Net fair value				\$ (4,991)

Notes to Consolidated Statement of Financial Condition

In the table above:

- The gross fair values exclude the effects of both counterparty netting and collateral netting, and therefore are not representative of the firm's exposure.
- Counterparty netting is reflected in each level to the extent that receivable and payable balances are netted within the same level and is included in counterparty netting in levels. Where the counterparty netting is across levels, the netting is included in cross-level counterparty netting.
- Derivative assets are shown as positive amounts and derivative liabilities are shown as negative amounts.

Significant Unobservable Inputs

The table below presents the amount of level 3 assets (liabilities), and ranges, averages and medians of significant unobservable inputs used to value substantially all level 3 derivatives.

Level 3 Assets (Liabilities) and Range of Significant Unobservable Inputs (Average/Median)	
<i>\$ in millions</i>	as of December 2018
Credit, net	\$(124)
Credit spreads (bps)	2 to 215 (33/19)
Upfront credit points	2 to 99 (46/43)
Recovery rates	60% to 70% (69%/70%)
Equities, net	\$(844)
Correlation	(23)% to 97% (53%/53%)
Volatility	15% to 62% (35%/34%)

In the table above:

- Derivative assets are shown as positive amounts and derivative liabilities are shown as negative amounts.
- Ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative.
- Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average. For example, the difference between the average and the median for volatility inputs indicates that the majority of the inputs fall in the lower end of the range.

- The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation for equity derivatives is appropriate for valuing a specific equity derivative but may not be appropriate for valuing any other equity derivative. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of level 3 derivatives.
- Equities derivatives are valued using option pricing models, and credit derivatives are valued using option pricing and discounted cash flow models.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
- Correlation within equities includes cross-product type correlation.

Range of Significant Unobservable Inputs

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

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

Notes to Consolidated Statement of Financial Condition

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

The following is a description of the directional sensitivity of the firm's level 3 fair value measurements as of December 2018 to changes in significant unobservable inputs, in isolation:

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

Due to the distinctive nature of each of the firm's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

Level 3 Transfers

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur.

Transfers into level 3 derivatives during 2018 were \$123 million, primarily reflecting transfers of certain credit derivative liabilities from level 2, principally due to increased significance of certain unobservable credit spread inputs used to value these derivatives, and transfers of certain equity derivative liabilities from level 2, principally due to increased significance of certain unobservable volatility and correlation inputs used to value these derivatives.

Transfers out of level 3 derivatives during 2018 were \$78 million, primarily reflecting transfers of certain equity derivative liabilities to level 2, principally due to certain unobservable volatility and correlation inputs no longer being significant to the valuation of these derivatives, and transfers of certain credit derivative liabilities to level 2, principally due to certain unobservable credit spread inputs no longer being significant to the valuation of these derivatives.

Credit Derivatives

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

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

The firm enters into the following types of credit derivatives:

- **Credit Default Swaps.** Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer. If a credit event occurs, the seller of protection is required to make a payment to the buyer, calculated according to the terms of the contract.
- **Credit Options.** In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right, but does not assume the obligation, to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

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

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

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

As of December 2018, written credit derivatives had a total gross notional amount of \$96.74 billion and purchased credit derivatives had a total gross notional amount of \$98.91 billion, for total net notional purchased protection of \$2.17 billion. Substantially all of the firm's written and purchased credit derivatives are credit default swaps.

The table below presents information about credit derivatives.

<i>\$ in millions</i>	As of December 2018				
	Credit Spread on Underlier (basis points)				
	0 - 250	251 - 500	501 - 1,000	Greater than 1,000	Total
Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor					
Less than 1 year	\$ 10,424	\$ 593	\$ 963	\$ 2,646	\$ 14,626
1 – 5 years	49,096	6,356	7,277	4,027	66,756
Greater than 5 years	13,648	1,020	628	59	15,355
Total	\$ 73,168	\$ 7,969	\$ 8,868	\$ 6,732	\$ 96,737
Maximum Payout/Notional Amount of Purchased Credit Derivatives					
Offsetting	\$ 66,521	\$ 7,311	\$ 8,129	\$ 3,602	\$ 85,563
Other	7,651	1,056	1,410	3,233	13,350
Fair Value of Written Credit Derivatives					
Asset	\$ 937	\$ 180	\$ 130	\$ 78	\$ 1,325
Liability	315	154	568	1,608	2,645
Net asset/(liability)	\$ 622	\$ 26	\$ (438)	\$ (1,530)	\$ (1,320)

In the table above:

- Fair values exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under enforceable credit support agreements, and therefore are not representative of the firm's credit exposure.
- Tenor is based on remaining contractual maturity.
- The credit spread on the underlier, together with the tenor of the contract, are indicators of payment/performance risk. The firm is less likely to pay or otherwise be required to perform where the credit spread and the tenor are lower.
- Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives that economically hedge written credit derivatives with identical underliers.
- Other purchased credit derivatives represent the notional amount of all other purchased credit derivatives not included in offsetting.

Notes to Consolidated Statement of Financial Condition

Derivatives with Credit-Related Contingent Features

Certain of the firm's derivatives have been transacted under bilateral agreements with counterparties who may require the firm to post collateral or terminate the transactions based on changes in the firm's credit ratings. The firm assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of the firm at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies.

The table below presents information about net derivative liabilities under such bilateral agreements (excluding application of collateral posted), the related fair value of collateral posted and the additional collateral or termination payments that could have been called by counterparties in the event of a one-notch and two-notch downgrade in the firm's credit ratings.

<i>\$ in millions</i>	As of December 2018
Net derivative liabilities under bilateral agreements	\$ 499
Collateral posted	\$ 338
Additional collateral or termination payments:	
One-notch downgrade	\$ -
Two-notch downgrade	\$ 1

Hedge Accounting

The firm applies hedge accounting for certain foreign currency forward contracts used to manage foreign currency exposures on the firm's net investment in certain non-U.S. operations.

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

Net Investment Hedges

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

Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

In addition to cash and derivative instruments included in financial instruments owned and financial instruments sold, but not yet purchased, the firm accounts for certain of its other financial assets and financial liabilities at fair value, substantially all under the fair value option. The primary reasons for electing the fair value option are to:

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

Hybrid financial instruments are instruments that contain bifurcated embedded derivatives and do not require settlement by physical delivery of nonfinancial assets. If the firm elects to bifurcate the embedded derivative from the associated debt, the derivative is accounted for at fair value and the host contract is accounted for at amortized cost. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under the fair value option. As of December 2018, the firm did not elect to bifurcate any hybrid financial instruments.

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

- Resale and repurchase agreements;
- Certain securities borrowed and loaned;
- Certain other secured financings; and
- Certain receivables from customers and counterparties, including transfers of assets accounted for as secured loans and certain margin loans.

Notes to Consolidated Statement of Financial Condition

Fair Value of Other Financial Assets and Financial Liabilities by Level

The table below presents, by level within the fair value hierarchy, other financial assets and financial liabilities at fair value, substantially all of which are accounted for at fair value under the fair value option.

\$ in millions	As of December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Resale agreements	\$ -	\$ 109,772	\$ -	\$ 109,772
Securities borrowed	-	24,101	-	24,101
Receivables from customers and counterparties	-	178	-	178
Total	\$ -	\$ 134,051	\$ -	\$ 134,051
Liabilities				
Repurchase agreements	\$ -	\$ (105,709)	\$ -	\$ (105,709)
Securities loaned	-	(20,827)	-	(20,827)
Other secured financings	-	(7,457)	(141)	(7,598)
Total	\$ -	\$ (133,993)	\$ (141)	\$ (134,134)

In the table above, other financial assets are shown as positive amounts and other financial liabilities are shown as negative amounts.

Valuation Techniques and Significant Inputs

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

See below for information about the significant inputs used to value other financial assets and financial liabilities at fair value.

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates. As of December 2018, the firm had no level 3 resale and repurchase agreements, securities borrowed or securities loaned. See Note 9 for further information about collateralized agreements and financings.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. As of December 2018, the firm's level 3 other secured financings were \$141 million.

Generally, increases in yield or duration, in isolation, would have resulted in a lower fair value measurement as of December 2018. Due to the distinctive nature of each of the firm's level 3 other secured financings, the interrelationship of inputs is not necessarily uniform across such financings. See Note 9 for further information about collateralized agreements and financings.

Receivables from Customers and Counterparties.

Receivables from customers and counterparties at fair value primarily consist of certain margin loans and transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are interest rates, the amount and timing of expected future cash flows and funding spreads. As of December 2018, the firm had no level 3 receivables from customers and counterparties.

Level 3 Transfers

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial liabilities into level 3 and no material transfers out of level 3 during 2018.

Long-Term Debt Instruments

The difference between the aggregate contractual principal amount and the related fair value of long-term other secured financings for which the fair value option was elected was not material as of December 2018.

Notes to Consolidated Statement of Financial Condition

Note 9.

Collateralized Agreements and Financings

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

Collateralized agreements and financings are presented on a net-by-counterparty basis when a legal right of setoff exists. Interest on collateralized agreements and collateralized financings is recognized over the life of the transaction.

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

<i>\$ in millions</i>	As of December 2018
Resale agreements	\$ 109,772
Securities borrowed	\$ 147,644
Repurchase agreements	\$ 105,709
Securities loaned	\$ 65,556

In the table above:

- Resale and repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.
- As of December 2018, \$24.10 billion of securities borrowed and \$20.83 billion of securities loaned were at fair value.

Resale and Repurchase Agreements

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

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

Even though repurchase and resale agreements (including “repos- and reverses-to-maturity”) involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold before or at the maturity of the agreement. The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government and agency obligations, and equity securities.

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

Securities Borrowed and Loaned Transactions

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

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

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

Certain of the firm’s securities borrowed and loaned are recorded at fair value under the fair value option. See Note 8 for further information about securities borrowed and loaned accounted for at fair value.

Notes to Consolidated Statement of Financial Condition

All other securities borrowed and loaned are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these agreements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such agreements approximates fair value. As these agreements are not accounted for at fair value, they are not included in the firm's fair value hierarchy in Notes 5 through 8. Had these agreements been included in the firm's fair value hierarchy, they would have been classified in level 2 as of December 2018.

Offsetting Arrangements

The table below presents the gross and net resale and repurchase agreements and securities borrowed and loaned transactions, and the related amount of counterparty netting included in the consolidated statement of financial condition, as well as the amounts of counterparty netting and cash and securities collateral not offset in the consolidated statement of financial condition.

<i>\$ in millions</i>	As of December 2018			
	Assets		Liabilities	
	Resale agreements	Securities borrowed	Repurchase agreements	Securities loaned
Included in consolidated statement of financial condition				
Gross carrying value	\$ 159,082	\$ 147,644	\$ 155,019	\$ 65,556
Counterparty netting	(49,310)	–	(49,310)	–
Total	109,772	147,644	105,709	65,556
Amounts not offset				
Counterparty netting	(29,846)	(41,601)	(29,846)	(41,601)
Collateral	(79,004)	(100,525)	(74,832)	(23,953)
Total	\$ 922	\$ 5,518	\$ 1,031	\$ 2

In the table above:

- Substantially all of the gross carrying values of these arrangements are subject to enforceable netting agreements.
- Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.
- Amounts not offset includes counterparty netting that does not meet the criteria for netting under U.S. GAAP and the fair value of collateral received or posted subject to enforceable credit support agreements.

Gross Carrying Value of Repurchase Agreements and Securities Loaned

The table below presents the gross carrying value of repurchase agreements and securities loaned by class of collateral pledged.

<i>\$ in millions</i>	As of December 2018	
	Repurchase agreements	Securities loaned
Money market instruments	\$ 152	\$ –
U.S. government and agency obligations	147,289	3,343
Non-U.S. government and agency obligations	4,276	17,164
Securities backed by commercial real estate	18	–
Securities backed by residential real estate	582	36
Corporate debt securities	445	2,846
State and municipal obligations	25	–
Other debt obligations	27	17
Equity securities	2,205	42,150
Total	\$ 155,019	\$ 65,556

The table below presents the gross carrying value of repurchase agreements and securities loaned by maturity date.

<i>\$ in millions</i>	As of December 2018	
	Repurchase agreements	Securities loaned
No stated maturity and overnight	\$ 107,411	\$ 65,263
2 - 30 days	27,231	–
31 - 90 days	9,557	293
91 days - 1 year	8,787	–
Greater than 1 year	2,033	–
Total	\$ 155,019	\$ 65,556

In the table above:

- Repurchase agreements and securities loaned that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates.
- Repurchase agreements and securities loaned that are redeemable prior to maturity at the option of the holder are reflected at the earliest dates such options become exercisable.

Other Secured Financings

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

- Secured financings from Goldman Sachs Funding LLC (Funding IHC), a wholly owned subsidiary of Group Inc.;
- Liabilities of consolidated VIEs; and
- Other structured financing arrangements.

Notes to Consolidated Statement of Financial Condition

Other secured financings includes nonrecourse arrangements. Nonrecourse other secured financings were \$134 million as of December 2018.

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

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. As these financings are not accounted for at fair value, they are not included in the firm's fair value hierarchy in Notes 5 through 8. Had these financings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2018.

The table below presents other secured financings by maturity.

<i>\$ in millions</i>	As of December 2018
Other secured financings (short-term)	\$24,485
Other secured financings (long-term):	
2020	967
2021	353
2022	1,528
2023	-
2024 - thereafter	292
Total other secured financings (long-term)	3,140
Total other secured financings	\$27,625

In the table above:

- Long-term other secured financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates.
- Long-term other secured financings that are redeemable prior to maturity at the option of the holder are reflected at the earliest dates such options become exercisable.
- The weighted average interest rate on \$20.03 billion of other secured financings accounted for at amortized cost was 3.99%.

Collateral Received and Pledged

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

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

The firm also pledges certain financial instruments owned in connection with repurchase agreements, securities loaned transactions and other secured financings in connection with other secured financings to counterparties who may or may not have the right to deliver or repledge them.

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

<i>\$ in millions</i>	As of December 2018
Collateral available to be delivered or repledged	\$439,681
Collateral that was delivered or repledged	\$411,546

In the table above, collateral available to be delivered or repledged excludes \$14.10 billion of securities received under resale agreements and securities borrowed transactions that contractually had the right to be delivered or repledged, but were segregated for regulatory and other purposes.

The table below presents information about assets pledged.

<i>\$ in millions</i>	As of December 2018
Financial instruments owned pledged to counterparties that:	
Had the right to deliver or repledge	\$ 46,892
Did not have the right to deliver or repledge	\$ 27,944

The firm also segregated securities included in financial instruments owned of \$23.03 billion for regulatory and other purposes. See Note 3 for information about segregated cash.

Notes to Consolidated Statement of Financial Condition

Note 10.

Securitization Activities

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

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

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

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

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

The table below presents information about nonconsolidated securitization entities to which the firm sold assets and has continuing involvement.

	As of December 2018		
	Outstanding Principal Amount	Retained Interests	Purchased Interests
<i>\$ in millions</i>			
U.S. government agency-issued			
collateralized mortgage obligations	\$ 24,506	\$ 1,758	\$ 29
Other residential mortgage-backed	8	4	–
Corporate debt and other asset-backed	152	26	–
Total	\$ 24,666	\$ 1,788	\$ 29

In the table above:

- The outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities and is not representative of the firm's risk of loss.
- The firm's risk of loss from retained or purchased interests is limited to the fair value of these interests.
- Purchased interests represent senior and subordinated interests, purchased in connection with secondary market-making activities, in securitization entities in which the firm also holds retained interests.
- Substantially all of the total outstanding principal amount and total fair value of retained interests relate to securitizations during 2012 and thereafter as of December 2018.
- Retained interests were carried at fair value.

The table below presents information about the weighted average key economic assumptions used in measuring the fair value of mortgage-backed retained interests.

	As of December 2018
<i>\$ in millions</i>	
Fair value of retained interests	\$ 1,761
Weighted average life (years)	8.3
Constant prepayment rate	14.3%
Impact of 10% adverse change	\$ (22)
Impact of 20% adverse change	\$ (42)
Discount rate	3.9%
Impact of 10% adverse change	\$ (42)
Impact of 20% adverse change	\$ (83)

Notes to Consolidated Statement of Financial Condition

In the table above:

- Amounts do not reflect the 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.
- 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.
- The constant prepayment rate is included only for positions for which it is a key assumption in the determination of fair value.
- The discount rate for retained interests that relate to U.S. government agency-issued collateralized mortgage obligations does not include any credit loss. Expected credit loss assumptions are reflected in the discount rate for the remainder of retained interests.

The firm has other retained interests not reflected in the table above with a fair value of \$26 million and a weighted average life of 4.7 years as of December 2018. Due to the nature and fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of December 2018. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$26 million as of December 2018.

Note 11.

Variable Interest Entities

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

The firm's variable interests in VIEs include senior and subordinated debt; loans; limited and general partnership interests; and preferred and common equity.

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

VIE Consolidation Analysis

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

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

Notes to Consolidated Statement of Financial Condition

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

VIE Activities

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

Mortgage-Backed VIEs. The firm sells residential and commercial mortgage loans and securities to mortgage-backed VIEs and may retain beneficial interests in the assets sold to these VIEs. The firm purchases and sells beneficial interests issued by mortgage-backed VIEs in connection with market-making activities.

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

Corporate Debt and Other Asset-Backed VIEs. The firm structures VIEs that issue notes to clients, and purchases and sells beneficial interests issued by corporate debt and other asset-backed VIEs in connection with market-making activities.

Nonconsolidated VIEs

The table below presents a summary of the nonconsolidated VIEs in which the firm holds variable interests.

<i>\$ in millions</i>	As of December 2018
Total nonconsolidated VIEs	
Assets in VIEs	\$ 38,548
Carrying value of variable interests - assets	2,269
Maximum exposure to loss:	
Retained interests	1,828
Purchased interests	256
Loans and investments	185
Total maximum exposure to loss	\$ 2,269

In the table above:

- The nature of the firm's variable interests can take different forms, as described in the rows under maximum exposure to loss.
- The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities.
- The maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.
- The maximum exposure to loss from retained interests, purchased interests, and loans and investments is the carrying value of these interests.
- The maximum exposure to loss from commitments is the notional amount, which does not represent anticipated losses and has not been reduced by unrealized losses.

The table below disaggregates, by principal business activity, the information for nonconsolidated VIEs included in the summary table above.

<i>\$ in millions</i>	As of December 2018
Mortgage-backed	
Assets in VIEs	\$ 34,808
Carrying value of variable interests - assets	2,019
Maximum exposure to loss:	
Retained interests	1,802
Purchased interests	217
Total maximum exposure to loss	\$ 2,019
Real estate, credit- and power-related and other investing	
Assets in VIEs	\$ 2,688
Carrying value of variable interests - assets	185
Maximum exposure to loss:	
Loans and investments	185
Total maximum exposure to loss	\$ 185
Corporate debt and other asset-backed	
Assets in VIEs	\$ 1,052
Carrying value of variable interests - assets	65
Maximum exposure to loss:	
Retained interests	26
Purchased interests	39
Total maximum exposure to loss	\$ 65

The carrying values of the firm's variable interests in nonconsolidated VIEs are included in financial instruments owned and other assets.

Notes to Consolidated Statement of Financial Condition

Consolidated VIEs

The table below presents the carrying value and classification of assets and liabilities in consolidated VIEs.

<i>\$ in millions</i>	As of December 2018
Mortgage-backed and other asset-backed	
<i>Assets</i>	
Financial instruments owned	\$ 210
Other assets	3
Total	\$ 213
<i>Liabilities</i>	
Other secured financings	\$ 134
Total	\$ 134

In the table above:

- Assets and liabilities are presented net of intercompany eliminations and exclude the benefit of offsetting financial instruments that are held to mitigate the risks associated with the firm's variable interests.
- VIEs in which the firm holds a majority voting interest are excluded if (i) the VIE meets the definition of a business and (ii) the VIE's assets can be used for purposes other than the settlement of its obligations.
- Substantially all assets can only be used to settle obligations of the VIE.
- Creditors and beneficial interest holders of mortgage-backed and other asset-backed VIEs do not have recourse to the general credit of the firm.

Note 12.

Other Assets

The table below presents other assets by type.

<i>\$ in millions</i>	As of December 2018
Property, leasehold improvements and equipment	\$ 976
Receivables from affiliates	495
Income tax-related assets	377
Goodwill and identifiable intangible assets	66
Miscellaneous receivables and other	354
Total	\$2,268

In the table above, miscellaneous receivables and other primarily included prepaid expenses.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment in the table above is net of accumulated depreciation and amortization of \$3.15 billion as of December 2018. Property and equipment is depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Capitalized costs of software developed or obtained for internal use are amortized on a straight-line basis over three years.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. As of December 2018, the carrying amount of the firm's goodwill was \$50 million. Goodwill is assessed for impairment annually or more frequently if events occur or circumstances change that indicate an impairment may exist. No impairment was recorded in 2018.

Identifiable Intangible Assets

Intangible assets in the table above are presented net of accumulated amortization. As of December 2018, the gross carrying amount of the firm's identifiable intangible assets was \$484 million, the related accumulated amortization was \$468 million, and the net carrying amount was \$16 million.

The firm's identifiable intangible assets, which primarily include customer lists, are considered to have finite useful lives and are amortized over their estimated useful lives generally using the straight-line method.

Impairments

The firm tests property, leasehold improvements and equipment, identifiable intangible assets and other assets for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. To the extent the carrying value of an asset exceeds the projected undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group, the firm determines the asset is impaired and records an impairment equal to the difference between the estimated fair value and the carrying value of the asset or asset group. In addition, the firm will recognize an impairment prior to the sale of an asset if the carrying value of the asset exceeds its estimated fair value. During 2018, no impairments were recorded.

Notes to Consolidated Statement of Financial Condition

Note 13.

Short-Term Borrowings

The table below presents information about short-term borrowings.

<i>\$ in millions</i>	As of December 2018
Other secured financings (short-term)	\$24,485
Unsecured short-term borrowings	21,796
Total	\$46,281

See Note 9 for information about other secured financings.

The firm obtains substantially all unsecured short-term borrowings from Group Inc. and Funding IHC. The carrying value of unsecured short-term borrowings that are not recorded at fair value generally approximates fair value due to the short-term nature of the obligations. As these unsecured short-term borrowings are not accounted for at fair value, they are not included in the firm's fair value hierarchy in Notes 5 through 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2018.

The table below presents information about unsecured short-term borrowings.

<i>\$ in millions</i>	As of December 2018
Borrowings from affiliates	\$21,751
Other unsecured short-term borrowings	45
Total unsecured short-term borrowings	\$21,796
Weighted average interest rate	3.37%

Note 14.

Long-Term Borrowings

The table below presents information about long-term borrowings.

<i>\$ in millions</i>	As of December 2018
Other secured financings (long-term)	\$ 3,140
Unsecured long-term borrowings	25
Subordinated borrowings	18,500
Total	\$21,665

See Note 9 for information about other secured financings.

Subordinated Borrowings

As of December 2018, the firm had outstanding borrowings of \$5.00 billion from Group Inc. under four subordinated loan agreements, which mature in 2020. In addition, the firm has a \$13.50 billion revolving subordinated loan agreement with Group Inc., which also matures in 2020. As of December 2018, \$13.50 billion was outstanding.

Amounts borrowed under these subordinated loan agreements bear interest at a rate of the London Interbank Offered Rate plus 0.75% per annum. The carrying value of these borrowings approximates fair value. As these subordinated loan agreements are not accounted for at fair value, they are not included in the firm's fair value hierarchy in Notes 5 through 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2018.

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

Note 15.

Other Liabilities

The table below presents other liabilities by type.

<i>\$ in millions</i>	As of December 2018
Compensation and benefits	\$ 3,087
Payables to affiliates	1,917
Income tax-related liabilities	1,039
Accrued expenses and other	1,112
Total	\$ 7,155

Beginning in January 2018, accrued expenses and other in the table above includes contract liabilities, which represent consideration received by the firm, in connection with its contracts with clients, prior to providing the service. As of December 2018, the firm's contract liabilities were not material.

Notes to Consolidated Statement of Financial Condition

Note 16.

Commitments, Contingencies and Guarantees

Commitments

The table below presents commitments by type.

<i>\$ in millions</i>	As of December 2018
Contingent and forward starting collateralized agreements	\$ 36,661
Forward starting collateralized financings	4,673
Other	482
Total commitments	\$ 41,816

The table below presents commitments by expiration.

<i>\$ in millions</i>	As of December 2018			
	2019	2020 - 2021	2022 - 2023	2024 - Thereafter
Contingent and forward starting collateralized agreements	\$ 36,658	\$ -	\$ 3	\$ -
Forward starting collateralized financings	4,673	-	-	-
Other	269	78	35	100
Total commitments	\$ 41,600	\$ 78	\$ 38	\$ 100

Contingent and Forward Starting Collateralized Agreements / Forward Starting Collateralized Financings

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

Contingencies — Legal Proceedings

See Note 20 for information about legal proceedings.

Guarantees

The table below presents derivatives that meet the definition of a guarantee.

<i>\$ in millions</i>	As of December 2018
Carrying Value of Liability	\$ 2
Maximum Payout/Notional Amount by Period of Expiration	
2019	\$ 10
2020 - 2021	34
2022 - 2023	30
2024 - thereafter	7
Total	\$ 81

In the table above, the maximum payout is based on the notional amount of the contract and does not represent anticipated losses.

Derivative Guarantees. The firm enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore the amounts in the table above do not reflect the firm's overall risk related to derivative activities. Disclosures about derivatives are not required if they may be cash settled and the firm has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties, central clearing counterparties and certain other counterparties. Accordingly, the firm has not included such contracts in the table above. In addition, during 2018, the firm concluded that these conditions have also been met for hedge fund counterparties and, therefore, has not included contracts with these counterparties in the table above. See Note 7 for information about credit derivatives that meet the definition of a guarantee, which are not included in the table above.

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

Notes to Consolidated Statement of Financial Condition

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

The firm may also be liable to some clients or other parties for losses arising from its custodial role or caused by acts or omissions of third-party service providers, including sub-custodians and third-party brokers. In certain cases, the firm has the right to seek indemnification from these third-party service providers for certain relevant losses incurred by the firm. In addition, the firm is a member of payment, clearing and settlement networks, as well as securities exchanges that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults and other loss scenarios.

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

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the consolidated statement of financial condition as of December 2018.

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

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

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the consolidated statement of financial condition as of December 2018.

Note 17.

Transactions with Related Parties

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

The table below presents assets and liabilities with affiliates.

<i>\$ in millions</i>	As of December 2018
Assets	
Collateralized agreements:	
Resale agreements	\$ 64,300
Securities borrowed	55,031
Receivables:	
Brokers, dealers and clearing organizations	2,755
Customers and counterparties	664
Financial instruments owned	1,648
Other assets	495
Total	\$124,893
Liabilities	
Collateralized financings:	
Repurchase agreements	\$ 53,988
Securities loaned	64,747
Other secured financings	20,027
Payables:	
Brokers, dealers and clearing organizations	2,550
Customers and counterparties	10,885
Financial instruments sold, but not yet purchased	485
Unsecured short-term borrowings	21,751
Other liabilities	1,917
Subordinated borrowings	18,500
Total	\$194,850

Notes to Consolidated Statement of Financial Condition

In the table above:

- The firm makes markets in debt issued by Group Inc. and certain affiliates. Financial instruments owned primarily included such issuances of \$1.42 billion and affiliate derivative contracts of \$192 million.
- Financial instruments sold, but not yet purchased, consists of derivative contracts with affiliates.

Group Inc. has guaranteed the payment obligations of GS&Co., subject to certain exceptions.

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

The firm is subject to service charges from affiliates for employment related costs of employees of affiliates pursuant to a Master Services Agreement supplemented by Service Level Agreements.

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

The firm acts as the investment manager for numerous related party funds of Group Inc. and is entitled to receive management fees and, in certain cases, advisory fees from these funds.

The firm acts as underwriter for certain debt issuances of related parties.

Note 18.

Income Taxes

Tax Legislation

The estimated impact of Tax Legislation on the firm was due to the remeasurement of U.S. deferred tax assets at lower enacted tax rates. During 2018, the estimated impact of Tax Legislation was finalized to reflect the impact of updated information, including subsequent guidance issued by the U.S. Internal Revenue Service (IRS).

Provision for Income Taxes

GS&Co. has elected to be taxed as a corporation for U.S. federal income tax purposes. As a corporation for tax purposes, the firm is subject to U.S. Federal and various state and local income taxes on its earnings. The firm was also subject to taxes in foreign jurisdictions on certain of its operations. The firm is included with Group Inc. and subsidiaries in the consolidated corporate federal as well as consolidated or combined state and local tax returns. The firm computes its tax liability on a modified separate company basis and settles such liability with Group Inc. pursuant to a tax sharing agreement. To the extent the firm generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to the tax sharing agreement. The firm's state and local tax liabilities are allocated to reflect its share of the consolidated or combined state and local income tax liability.

Income taxes are provided for using the asset and liability method under which deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. As of December 2018, the firm's valuation allowance recorded was not material. Tax assets are included in other assets and tax liabilities are included in other liabilities.

The table below presents information about deferred tax assets and liabilities.

<i>\$ in millions</i>	As of December 2018
Deferred tax assets	
Compensation and benefits	\$ 587
Reserves	30
Total deferred tax assets	\$ 617
Deferred tax liabilities	
Depreciation and amortization	\$ 237
Unrealized gains	43
Other, net	17
Total deferred tax liabilities	\$ 297

Notes to Consolidated Statement of Financial Condition

Unrecognized Tax Benefits

The firm recognizes tax positions in the consolidated statement of financial condition only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the consolidated statement of financial condition. As of December 2018, the firm did not record a liability related to uncertainty in income taxes.

Regulatory Tax Examinations

The firm is subject to examination by the IRS and other taxing authorities in jurisdictions where the firm has significant business operations, such as New York State and City. The tax years under examination vary by jurisdiction.

U.S. Federal examinations of Group Inc. for calendar years 2011 and 2012 began in 2013. Group Inc. has been accepted into the Compliance Assurance Process program by the IRS for each of the tax years from 2013 through 2019. This program allows Group Inc. to work with the IRS to identify and resolve potential U.S. Federal tax issues before the filing of tax returns. The 2013 through 2017 tax years remain subject to post-filing review.

New York State and City examinations of 2011 through 2014 began in 2017. The 2015 through 2017 tax years remain subject to post-filing review.

The firm believes that no liability for unrecognized tax benefits is required to be established in relation to the potential for additional assessments.

Note 19.

Credit Concentrations

The firm's concentrations of credit risk arise from its market making, client facilitation, investing, underwriting, lending and collateralized transactions, and cash management activities, and may be impacted by changes in economic, industry or political factors. These activities expose the firm to many different industries and counterparties, and may also subject the firm to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, or to a particular clearing house or exchange. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

The firm measures and monitors its credit exposure based on amounts owed to the firm after taking into account risk mitigants that management considers when determining credit risk. Such risk mitigants include netting and collateral arrangements and economic hedges, such as credit derivatives, futures and forward contracts. Netting and collateral agreements permit the firm to offset receivables and payables with such counterparties and/or enable the firm to obtain collateral on an upfront or contingent basis.

The table below presents the credit concentrations in cash instruments included in financial instruments owned.

<i>\$ in millions</i>	As of December 2018
U.S. government and agency obligations	\$ 78,054
% of total assets	18.7%

As of December 2018, the firm did not have credit exposure to any other external counterparty that exceeded 2% of total assets.

Collateral obtained by the firm related to derivative assets is principally cash and is held by the firm or a third-party custodian. Collateral obtained by the firm related to resale agreements and securities borrowed transactions is primarily U.S. government and agency obligations and non-U.S. government and agency obligations. See Note 9 for further information about collateralized agreements and financings.

The table below presents U.S. government and agency obligations, and non-U.S. government and agency obligations that collateralize resale agreements and securities borrowed transactions.

<i>\$ in millions</i>	As of December 2018
U.S. government and agency obligations	\$ 105,835
Non-U.S. government and agency obligations	\$ 28,320

In the table above:

- Non-U.S. government and agency obligations primarily consists of securities issued by the governments of Japan and Belgium.
- Given that the firm's primary credit exposure on such transactions is to the counterparty to the transaction, the firm would be exposed to the collateral issuer only in the event of counterparty default.

Notes to Consolidated Statement of Financial Condition

Note 20.

Legal Proceedings

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

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

These proceedings include, but are not limited to, the firm's role in certain underwriting activities, currency-related matters, treasury matters, mutual fund, swaps and securities-related matters.

With respect to matters for which management has been able to estimate a range of reasonably possible loss where (i) actual or potential plaintiffs have claimed an amount of money damages, (ii) the firm is being, or threatened to be, sued by purchasers in a securities offering and is not being indemnified by a party that the firm believes will pay the full amount of any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the difference between the initial sales price of the securities that the firm sold in such offering and the estimated lowest subsequent price of such securities prior to the action being commenced and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of December 2018 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any other factors believed to be relevant to the particular matter or matters of that type. As of the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such matters where management has been able to estimate a range of reasonably possible aggregate loss to be approximately \$900 million in excess of the aggregate reserves for such matters.

More than one Group Inc. subsidiary may be named in a particular proceeding and Group Inc. may attribute the upper end of the range of reasonably possible loss to more than one Group Inc. subsidiary for such proceeding. Therefore the sum of the upper end of the range of reasonably possible loss amounts for all Group Inc. subsidiaries may exceed the upper end of the range of the consolidated reasonably possible loss reported by Group Inc. in its financial statements. Although more than one named subsidiary may be attributed the upper end of the range of reasonably possible loss for a proceeding, Group Inc. generally attributes reserves for a particular proceeding to only one subsidiary based on Group Inc.'s evaluation of the proceeding.

Management is generally unable to estimate a range of reasonably possible loss for matters other than those included in the estimate above, including where (i) actual or potential plaintiffs have not claimed an amount of money damages, except in those instances where management can otherwise determine an appropriate amount, (ii) matters are in early stages, (iii) matters relate to regulatory investigations or reviews, except in those instances where management can otherwise determine an appropriate amount, (iv) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (v) there is uncertainty as to the outcome of pending appeals or motions, (vi) there are significant factual issues to be resolved, and/or (vii) there are novel legal issues presented. For example, the firm's potential liabilities with respect to regulatory investigations and reviews generally are not included in management's estimate of reasonably possible loss. However, management does not believe, based on currently available information, that the outcomes of such other matters will have a material adverse effect on the firm's financial condition, though the outcomes could be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period.

Note 21.

Employee Benefit Plans

The firm's employees participate in various Group Inc. sponsored pension plans and certain other postretirement benefit plans, primarily healthcare and life insurance. Group Inc. also provides certain benefits to former or inactive employees prior to retirement. The cost of these plans is allocated to the firm by Group Inc.

Notes to Consolidated Statement of Financial Condition

Defined Benefit Pension Plans and Postretirement Plans

Group Inc. maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan was closed to new participants and frozen for existing participants. In addition, the firm maintains unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs. These plans do not have a material impact on the firm.

Defined Contribution Plans

The firm contributes to Group Inc.'s employer-sponsored U.S. defined contribution plan.

Note 22.

Employee Incentive Plans

The cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement-eligible employees) are expensed immediately. Share-based awards that require future service are amortized over the relevant service period. Forfeitures are recorded when they occur. Cash dividend equivalents are paid on outstanding restricted stock units (RSUs).

Stock Incentive Plan

Group Inc. sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2018) (2018 SIP), which provides for grants of RSUs, restricted stock, dividend equivalent rights, incentive stock options, nonqualified stock options, stock appreciation rights, and other share-based awards, each of which may be subject to performance conditions. On May 2, 2018, Group Inc.'s shareholders approved the 2018 SIP. The 2018 SIP replaced The Goldman Sachs Amended and Restated Stock Incentive Plan (2015) (2015 SIP) previously in effect, and applies to awards granted on or after the date of approval. The 2015 SIP had previously replaced The Goldman Sachs Amended and Restated Stock Incentive Plan (2013). The 2018 SIP is scheduled to terminate on the date of Group Inc.'s annual meeting of shareholders that occurs in 2022.

Restricted Stock Units

Group Inc. grants RSUs (including RSUs subject to performance conditions) to employees, which are generally valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting and delivery transfer restrictions. RSUs generally vest and underlying shares of common stock deliver (net of required withholding tax) as outlined in the applicable award agreements. Award agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. Delivery of the underlying shares of common stock, which generally occurs over a three-year period, is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. The subsequent amortization of the cost of these RSUs is allocated to the firm by Group Inc.

The table below presents the 2018 activity related to RSUs.

	Restricted Stock		Weighted Average Grant-Date Fair Value of Restricted Stock	
	Units Outstanding		Units Outstanding	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
Beginning balance	2,222,577	6,952,175	\$ 185.16	\$ 166.72
Granted	2,263,194	2,869,967	\$ 221.17	\$ 212.33
Forfeited	(231,588)	(120,757)	\$ 192.61	\$ 168.83
Delivered	-	(5,122,559)	\$ -	\$ 178.56
Vested	(2,123,602)	2,123,602	\$ 187.80	\$ 187.80
Transfers	4,202	(5,830)	\$ 203.54	\$ 194.27
Ending balance	2,134,783	6,696,598	\$ 219.75	\$ 183.82

In the table above:

- The weighted average grant-date fair value of RSUs granted was \$216.22 during 2018. The fair value of the RSUs granted included a liquidity discount of 12.7% during 2018 to reflect post-vesting and delivery transfer restrictions, generally of up to 4 years.
- The aggregate fair value of awards that vested was \$965 million during 2018.
- The ending balance included restricted stock subject to future service requirements of 412 shares as of December 2018.

Notes to Consolidated Statement of Financial Condition

In relation to 2018 year-end, during the first quarter of 2019, 6.1 million RSUs were granted to employees, of which 2.1 million RSUs require future service as a condition of delivery for the related shares of common stock. These awards are subject to additional conditions as outlined in the award agreements. Generally, shares underlying these awards, net of required withholding tax, deliver over a three-year period, but are subject to post-vesting and delivery transfer restrictions through January 2024. These grants are not included in the table above.

As of December 2018, there was \$257 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.95 years.

Stock Options

Stock options generally vested as outlined in the applicable stock option agreement. In general, options expired on the tenth anniversary of the grant date, although they may have been subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the applicable stock option agreement and the SIP in effect at the time of grant.

There were no options outstanding as of December 2018. During 2018, 772,959 options were exercised with a weighted average exercise price of \$78.78. The total intrinsic value of options exercised was \$99 million during 2018.

Note 23.

Net Capital Requirements

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

As of December 2018, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$17.45 billion, which exceeded the amount required by \$15.00 billion.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1.00 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5.00 billion. As of December 2018, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers and major security-based swap participants. GS&Co. is registered as a "swap dealer" under the CFTC rules and will be subject to regulatory capital requirements once the rules are finalized by the CFTC.

Note 24.

Subsequent Events

Management has evaluated whether any events or transactions occurred subsequent to the date of the consolidated statement of financial condition and through February 27, 2019, the date the consolidated statement of financial condition was issued, and determined that there were no material events or transactions that would require recognition or disclosure in this consolidated statement of financial condition.

Supplemental Financial Information Pursuant to Regulation 1.10**Statement of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges**

As of December 31, 2018

*(in millions)***Segregation Requirements (Section 4d(2) of the CEAct)**

1. Net ledger balance		
A. Cash		\$ 14,619
B. Securities (at market)		11,577
2. Net unrealized profit (loss) in open futures contracts traded on a contract market		(3,564)
3. Exchange traded options		
A. Add market value of open option contracts purchased on a contract market		11,078
B. Deduct market value of open option contracts granted (sold) on a contract market		<u>(10,557)</u>
4. Net equity (deficit) (add lines 1, 2 and 3)		23,153
5. Accounts liquidating to a deficit and accounts with debit balances – gross amount	\$ 1,490	
Less: amount offset by customer owned securities		<u>(1,482)</u> <u>8</u>
6. Amount required to be segregated (add lines 4 and 5)		<u>\$ 23,161</u>

Funds in Segregated Accounts

7. Deposited in segregated funds bank accounts		
A. Cash		\$ 3,197
B. Securities representing investments of customers' funds (at market)		–
C. Securities held for particular customers or option customers in lieu of cash (at market)		1,140
8. Margins on deposit with derivatives clearing organizations of contract markets		
A. Cash		235
B. Securities representing investments of customers' funds (at market)		8,424
C. Securities held for particular customers or option customers in lieu of cash (at market)		10,438
9. Net settlement from (to) derivatives clearing organizations of contract markets		106
10. Exchange traded options		
A. Value of open long option contracts		11,078
B. Value of open short option contracts		<u>(10,557)</u>
11. Net equities with other FCMs		
A. Net liquidating equity		1
B. Securities representing investments of customers' funds (at market)		–
C. Securities held for particular customers or option customers in lieu of cash (at market)		–
12. Segregated funds on hand		<u>–</u>
13. Total amount in segregation (add lines 7 through 12)		<u>24,062</u>
14. Excess (deficiency) funds in segregation (subtract line 6 from line 13)		<u>901</u>
15. Management target amount for excess funds in segregation		<u>675</u>
16. Excess (deficiency) funds in segregation over (under) management target amount excess		<u>\$ 226</u>

There are no material differences between the computations shown in the supplemental financial information as presented in this report and the corresponding computations prepared by GS&Co. included in its December 31, 2018, unaudited Part II FOCUS Report, as filed on January 25, 2019.

Supplemental Financial Information Pursuant to Regulation 1.10

Statement of Segregation Requirements and Funds in Segregation for Customers' Dealer Options Accounts

STATEMENT IS NOT APPLICABLE

Supplemental Financial Information Pursuant to Regulation 1.10**Statement of Secured Amounts and Funds Held in Separate Accounts Pursuant to Commission Regulation 30.7**

As of December 31, 2018

*(in millions)***Foreign Futures and Foreign Options Secured Amounts**

Amount required to be set aside pursuant to law, rule or regulation of a foreign government or a rule of a self-regulatory organization authorized thereunder	\$	-
1. Net ledger balance – foreign futures and foreign option trading – all customers		
A. Cash		5,018
B. Securities (at market)		3,725
2. Net unrealized profit (loss) in open futures contracts traded on a foreign board of trade		(427)
3. Exchange traded options		
A. Market value of open option contracts purchased on a foreign board of trade		4
B. Market value of open contracts granted (sold) on a foreign board of trade		(18)
4. Net equity (deficit) (add lines 1, 2 and 3)		8,302
5. Accounts liquidating to a deficit and accounts with debit balances – gross amount	\$	354
Less: amount offset by customer owned securities		(350)
6. Amount required to be set aside as the secured amount – net liquidating equity method (add lines 4 and 5)		8,306
7. Greater of amount required to be set aside pursuant to foreign jurisdiction (above) or line 6	\$	8,306

There are no material differences between the computations shown in the supplemental financial information as presented in this report and the corresponding computations prepared by GS&Co. included in its December 31, 2018, unaudited Part II FOCUS Report, as filed on January 25, 2019.

Supplemental Financial Information Pursuant to Regulation 1.10**Statement of Secured Amounts and Funds Held in Separate Accounts Pursuant to Commission Regulation 30.7**

As of December 31, 2018

*(in millions)***Funds Deposited in Separate Regulation 30.7 Accounts**

1. Cash in banks		
A. Banks located in the United States	\$	706
B. Other banks qualified under Regulation 30.7		<u>3,245</u> \$ <u>3,951</u>
2. Securities		
A. In safekeeping with banks located in the United States		1,996
B. In safekeeping with other banks qualified under Regulation 30.7		<u>—</u> <u>1,996</u>
3. Equities with registered futures commission merchants		
A. Cash		—
B. Securities		—
C. Unrealized gain (loss) on open futures contracts		—
D. Value of long option contracts		—
E. Value of short option contracts		<u>—</u> <u>—</u>
4. Amounts held by clearing organizations of foreign boards of trade		
A. Cash		—
B. Securities		—
C. Amount due to (from) clearing organizations - daily variation		—
D. Value of long option contracts		—
E. Value of short option contracts		<u>—</u> <u>—</u>
5. Amounts held by members of foreign boards of trade		
A. Cash		1,668
B. Securities		1,728
C. Unrealized gain (loss) on open futures contracts		(455)
D. Value of long option contracts		4
E. Value of short option contracts		<u>(18)</u> <u>2,927</u>
6. Amounts with other depositories designated by a foreign board of trade		—
7. Segregated funds on hand		<u>—</u>
8. Total funds in separate section 30.7 accounts		<u>8,874</u>
9. Excess (deficiency) set aside funds for secured amount (subtract line 7 secured statement from line 8)		<u>568</u>
10. Management target amount for excess funds in separate section 30.7 accounts		<u>475</u>
11. Excess (deficiency) funds in separate 30.7 accounts over (under) management target	\$	<u>93</u>

There are no material differences between the computations shown in the supplemental financial information as presented in this report and the corresponding computations prepared by GS&Co. included in its December 31, 2018, unaudited Part II FOCUS Report, as filed on January 25, 2019.

Supplemental Financial Information Pursuant to Regulation 1.10**Statement of Cleared Swaps Customer Segregation Requirements and Funds in Cleared Swaps Customer Accounts Under 4d(f) of the CEA**

As of December 31, 2018

*(in millions)***Cleared Swaps Customer Requirements**

1. Net ledger balance		
A. Cash		\$ 3,030
B. Securities (at market)		3,708
2. Net unrealized profit (loss) in open cleared swaps		(545)
3. Cleared swaps options		
A. Market value of open cleared swaps option contracts purchased		-
B. Market value of open cleared swaps option contracts granted (sold)		-
4. Net equity (deficit) (add lines 1, 2 and 3)		6,193
5. Accounts liquidating to a deficit and accounts with debit balances – gross amount	\$ 70	
Less: amount offset by customer owned securities	(70)	-
6. Amount required to be segregated for cleared swaps customers (add lines 4 and 5)		<u>\$ 6,193</u>

Funds in Cleared Swaps Customer Segregated Accounts

7. Deposited in cleared swaps customer segregated accounts at banks		
A. Cash		\$ 1,021
B. Securities representing investments of cleared swaps customers' funds (at market)		-
C. Securities held for particular cleared swaps customers in lieu of cash (at market)		192
8. Margins on deposit with derivatives clearing organizations in cleared swaps customer segregated accounts		
A. Cash		-
B. Securities representing investments of cleared swaps customers' funds (at market)		2,093
C. Securities held for particular cleared swaps customers in lieu of cash (at market)		3,515
9. Net settlement from (to) derivatives clearing organizations		(121)
10. Cleared swaps options		
A. Value of open cleared swaps long option contracts		-
B. Value of open cleared swaps short option contracts		-
11. Net equities with other FCMs		
A. Net liquidating equity		-
B. Securities representing investments of cleared swaps customers' funds (at market)		-
C. Securities held for particular cleared swaps customers in lieu of cash (at market)		-
12. Cleared swaps customer funds on hand		-
13. Total amount in cleared swaps customer segregation (add lines 7 through 12)		<u>6,700</u>
14. Excess (deficiency) funds in cleared swaps customer segregation (subtract line 6 from line 13)		<u>507</u>
15. Management target amount for excess funds in cleared swaps segregated accounts		<u>350</u>
16. Excess (deficiency) funds in cleared swaps customer segregated accounts over (under) management target excess		<u>\$ 157</u>

There are no material differences between the computations shown in the supplemental financial information as presented in this report and the corresponding computations prepared by GS&Co. included in its December 31, 2018, unaudited Part II FOCUS Report, as filed on January 25, 2019.