

GOLDMAN SACHS GROUP INC
Form 10-K
March 01, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-4019460 (I.R.S. Employer Identification No.)
200 West Street New York, N.Y. (Address of principal executive offices)	10282 (Zip Code)
(212) 902-1000	

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:
Common stock, par value \$.01 per share
Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate

Name of each exchange on which registered:
New York Stock Exchange
New York Stock Exchange

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Non-Cumulative Preferred Stock, Series A

Depository Shares, Each Representing 1/1,000th Interest in a Share of 6.20%

Non-Cumulative Preferred Stock, Series B

Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate

New York Stock Exchange

Non-Cumulative Preferred Stock, Series C

Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate

New York Stock Exchange

Non-Cumulative Preferred Stock, Series D

Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate

New York Stock Exchange

Non-Cumulative Preferred Stock, Series I

See Exhibit 99.2 for debt and trust securities registered under Section 12(b) of the Act

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Annual Report on Form 10-K or any amendment to the Annual Report on Form 10-K.

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

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

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

As of June 30, 2012, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$45.3 billion.

As of February 15, 2013, there were 465,503,097 shares of the registrant's common stock outstanding.

Documents incorporated by reference: Portions of The Goldman Sachs Group, Inc.'s Proxy Statement for its 2013 Annual Meeting of Shareholders are incorporated by reference in the Annual Report on Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

PART I

Item 1. Business

Introduction

Goldman Sachs is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

When we use the terms "Goldman Sachs," "the firm," "we," "us" and "our," we mean The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, and its consolidated subsidiaries.

References to "this Form 10-K" are to our Annual Report on Form 10-K for the year ended December 31, 2012. All references to 2012, 2011 and 2010 refer to our years ended, or the dates, as the context requires, December 31, 2012, December 31, 2011 and December 31, 2010, respectively.

Group Inc. is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). Our U.S. depository institution subsidiary, Goldman Sachs Bank USA (GS Bank USA), is a New York State-chartered bank.

As of December 2012, we had offices in over 30 countries and 49% of our total staff was based outside the Americas (which includes the countries in North and South America). Our clients are located worldwide, and we are an active participant in financial markets around the world. In 2012, we generated 41% of our net revenues outside the Americas. For more information on our geographic results, see Note 25 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

Our Business Segments and Segment Operating Results

We report our activities in four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management. The chart below presents our four business segments.

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The table below presents our segment operating results.

<i>\$ in millions</i>		Year Ended December ¹			% of 2012 Net Revenues
		2012	2011	2010	
Investment Banking	Net revenues	\$ 4,926	\$ 4,355	\$ 4,810	15%
	Operating expenses	3,330	2,995	3,459	
	Pre-tax earnings	\$ 1,596	\$ 1,360	\$ 1,351	
Institutional Client Services	Net revenues	\$18,124	\$17,280	\$21,796	53%
	Operating expenses	12,480	12,837	14,994	
	Pre-tax earnings	\$ 5,644	\$ 4,443	\$ 6,802	
Investing & Lending	Net revenues	\$ 5,891	\$ 2,142	\$ 7,541	17%
	Operating expenses	2,666	2,673	3,361	
	Pre-tax earnings/(loss)	\$ 3,225	\$ (531)	\$ 4,180	
Investment Management	Net revenues	\$ 5,222	\$ 5,034	\$ 5,014	15%
	Operating expenses	4,294	4,020	4,082	
	Pre-tax earnings	\$928	\$ 1,014	\$ 932	
Total	Net revenues	\$34,163	\$28,811	\$39,161	
	Operating expenses ²	22,956	22,642	26,269	
	Pre-tax earnings	\$11,207	\$ 6,169	\$12,892	

1. Financial information concerning our business segments for 2012, 2011 and 2010 is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Financial Statements and Supplementary Data, which are in Part II, Items 7 and 8, respectively, of this Form 10-K. See Note 25 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for a summary of our total net revenues, pre-tax earnings and net earnings by geographic region.

2. Total operating expenses includes the following expenses that have not been allocated to our segments: (i) charitable contributions of \$169 million, \$103 million and \$345 million for the years ended December 2012, December 2011 and December 2010, respectively; and (ii) real estate-related exit costs of \$17 million, \$14 million and \$28 million for the years ended December 2012, December 2011 and December 2010, respectively. Operating expenses related to net provisions for litigation and regulatory proceedings, previously not allocated to our segments, have now been allocated. This allocation is consistent with the manner in which management currently views the performance of our segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

Investment Banking

Investment Banking serves corporate and government clients around the world. We provide financial advisory services and help companies raise capital to strengthen and grow their businesses. We seek to develop and maintain long-term relationships with a diverse global group of

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institutional clients, including governments, states and municipalities. Our goal is to deliver to our clients the entire resources of the firm in a seamless fashion, with investment banking serving as the main initial point of contact with Goldman Sachs.

Financial Advisory. Financial Advisory includes strategic advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings and spin-offs. In particular, we help clients execute large, complex transactions for which we provide multiple services, including one-stop acquisition financing and cross-border structuring expertise. Financial Advisory also includes revenues from derivative transactions directly related to these client advisory assignments.

We also assist our clients in managing their asset and liability exposures and their capital. In addition, we may provide lending commitments and bank loan and bridge loan facilities in connection with our advisory assignments.

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Underwriting. The other core activity of Investment Banking is helping companies raise capital to fund their businesses. As a financial intermediary, our job is to match the capital of our investing clients who aim to grow the savings of millions of people with the needs of our corporate and government clients who need financing to generate growth, create jobs and deliver products and services. Our underwriting activities include public offerings and private placements, including domestic and cross-border transactions, of a wide range of securities and other financial instruments. Underwriting also includes revenues from derivative transactions entered into with corporate and government clients in connection with our underwriting activities.

Equity Underwriting. We underwrite common and preferred stock and convertible and exchangeable securities. We regularly receive mandates for large, complex transactions and have held a leading position in worldwide public common stock offerings and worldwide initial public offerings for many years.

Debt Underwriting. We underwrite and originate various types of debt instruments, including investment-grade and high-yield debt, bank loans and bridge loans, and emerging- and growth-market debt, which may be issued by, among others, corporate, sovereign, municipal and agency issuers. In addition, we underwrite and originate structured securities, which include mortgage-related securities and other asset-backed securities.

Institutional Client Services

Institutional Client Services serves our clients who come to the firm to buy and sell financial products, raise funding and manage risk. We do this by acting as a market maker and offering market expertise on a global basis. Institutional Client Services makes markets and facilitates client transactions in fixed income, equity, currency and commodity products. In addition, we make markets in and clear client transactions on major stock, options and futures exchanges worldwide. Market makers provide liquidity and play a critical role in price discovery, which contributes to the overall efficiency of the capital markets. Our willingness to make markets, commit capital and take risk in a broad range of products is crucial to our client relationships.

Our clients are primarily institutions that are professional market participants, including investment entities whose ultimate customers include individual investors investing for their retirement, buying insurance or putting aside surplus cash in a deposit account.

Through our global sales force, we maintain relationships with our clients, receiving orders and distributing investment research, trading ideas, market information and analysis. As a market maker, we provide prices to clients globally across thousands of products in all major asset classes and markets. At times we take the other side of transactions ourselves if a buyer or seller is not readily available and at other times we connect our clients to other parties who want to transact. Much of this connectivity between the firm and its clients is maintained on technology platforms and operates globally wherever and whenever markets are open for trading.

Institutional Client Services and our other businesses are supported by our Global Investment Research division, which, as of December 2012, provided fundamental research on more than 3,700 companies worldwide and more than 40 national economies, as well as on industries, currencies and commodities.

Institutional Client Services generates revenues in four ways:

In large, highly liquid markets (such as markets for U.S. Treasury bills, large capitalization S&P 500 stocks or certain mortgage pass-through securities), we execute a high volume of transactions for our clients for modest spreads and fees.

In less liquid markets (such as mid-cap corporate bonds, growth market currencies or certain non-agency mortgage-backed securities), we execute transactions for our clients for spreads and fees that are generally somewhat larger.

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We also structure and execute transactions involving customized or tailor-made products that address our clients' risk exposures, investment objectives or other complex needs (such as a jet fuel hedge for an airline).

We provide financing to our clients for their securities trading activities, as well as securities lending and other prime brokerage services.

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Institutional Client Services activities are organized by asset class and include both cash and derivative instruments. Cash refers to trading the underlying instrument (such as a stock, bond or barrel of oil). Derivative refers to instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors (such as an option, which is the right or obligation to buy or sell a certain bond or stock index on a specified date in the future at a certain price, or an interest rate swap, which is the agreement to convert a fixed rate of interest into a floating rate or vice versa).

Fixed Income, Currency and Commodities Client Execution. Includes interest rate products, credit products, mortgages, currencies and commodities.

Interest Rate Products. Government bonds, money market instruments such as commercial paper, treasury bills, repurchase agreements and other highly liquid securities and instruments, as well as interest rate swaps, options and other derivatives.

Credit Products. Investment-grade corporate securities, high-yield securities, credit derivatives, bank and bridge loans, municipal securities, emerging market and distressed debt, and trade claims.

Mortgages. Commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives (including U.S. government agency-issued collateralized mortgage obligations, other prime, subprime and Alt-A securities and loans), and other asset-backed securities, loans and derivatives.

Currencies. Most currencies, including growth-market currencies.

Commodities. Oil and natural gas, base, precious and other metals, electricity, coal, agricultural and other commodity products.

Equities. Includes equity client execution, commissions and fees, and securities services.

Equities Client Execution. We make markets in equity securities and equity-related products, including convertible securities, options, futures and over-the-counter (OTC) derivative instruments, on a global basis. As a principal, we facilitate client transactions by providing liquidity to our clients with large blocks of stocks or options, requiring the commitment of our capital. In addition, we engage in insurance activities where we insure, reinsure and acquire portfolios of insurance risk.

We also structure and execute derivatives on indices, industry groups, financial measures and individual company stocks. We develop strategies and provide information about portfolio hedging and restructuring and asset allocation transactions for our clients. We also work with our clients to create specially tailored instruments to enable sophisticated investors to establish or liquidate investment positions or undertake hedging strategies. We are one of the leading participants in the trading and development of equity derivative instruments.

Our exchange-based market-making activities include making markets in stocks and exchange-traded funds. We are a Designated Market Maker (DMM) for stocks traded on the NYSE, a registered market maker for ETFs on NYSE Arca, a market maker in listed options on the International Securities Exchange, the Chicago Board Options Exchange, NYSE Arca, the Boston Options Exchange, the Philadelphia Stock Exchange, the Miami Options Exchange and NYSE MKT, and a market maker in futures and options on the Chicago Mercantile Exchange and the Chicago Board of Trade.

Commissions and Fees. We generate commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide. We increasingly provide our clients with access to electronic low-touch equity trading platforms, and electronic trades account for the majority of our equity trading activity. However, a majority of our net revenues in these activities continue to be

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derived from our traditional high-touch handling of more complex trades. We expect both types of activity to remain important.

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Securities Services. Includes financing, securities lending and other prime brokerage services.

Financing Services. We provide financing to our clients for their securities trading activities through margin loans that are collateralized by securities, cash or other acceptable collateral. We earn a spread equal to the difference between the amount we pay for funds and the amount we receive from our client.

Securities Lending Services. We provide services that principally involve borrowing and lending securities to cover institutional clients short sales and borrowing securities to cover our short sales and otherwise to make deliveries into the market. In addition, we are an active participant in broker-to-broker securities lending and third-party agency lending activities.

Other Prime Brokerage Services. We earn fees by providing clearing, settlement and custody services globally. In addition, we provide our hedge fund and other clients with a technology platform and reporting which enables them to monitor their security portfolios and manage risk exposures.

Investing & Lending

Our investing and lending activities, which are typically longer-term, include the firm's investing and relationship lending activities across various asset classes, primarily debt securities and loans, public and private equity securities, and real estate. These activities include investing directly in publicly and privately traded securities and in loans, and also through certain investment funds that we manage. We manage a diversified global portfolio of investments in equity securities and debt and other investments in privately negotiated transactions, leveraged buyouts, acquisitions and investments in funds managed by external parties. We also provide financing to our clients.

ICBC. We have an investment in the ordinary shares of ICBC, the largest bank in China.

Equity Securities (excluding ICBC). We make corporate, real estate and infrastructure equity-related investments.

Debt Securities and Loans. We make corporate, real estate and infrastructure debt investments. In addition, we provide credit to corporate clients through loan facilities and to high-net-worth individuals primarily through secured loans.

Other. Our other investments primarily include our consolidated investment entities, which are entities we hold for investment purposes strictly for capital appreciation. These entities have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses. We also invest directly in distressed assets, currencies, commodities and other assets, including power generation facilities.

Investment Management

Investment Management provides investment and wealth advisory services to help clients preserve and grow their financial assets. Our clients include institutions and high-net-worth individuals, as well as retail investors who access our products through a network of third-party distributors around the world.

We manage client assets across a broad range of asset classes and investment strategies, including equity, fixed income and alternative investments. Alternative investments primarily include hedge funds, credit funds, private equity, real estate, currencies, commodities, and asset allocation strategies. Our investment offerings include those managed on a fiduciary basis by our portfolio managers as well as strategies managed by third-party managers. We offer our investments in a variety of structures, including separately managed accounts, mutual funds, private partnerships, and other commingled vehicles.

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We also provide customized investment advisory solutions designed to address our clients' investment needs. These solutions begin with identifying clients' objectives and continue through portfolio construction, ongoing asset allocation and risk management and investment realization. We draw from a variety of third-party managers as well as our proprietary offerings to implement solutions for clients.

We supplement our investment advisory solutions for high-net-worth clients with wealth advisory services that include income and liability management, trust and estate planning, philanthropic giving and tax planning. We also use the firm's global securities and derivatives market-making capabilities to address clients' specific investment needs.

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Management and Other Fees. The majority of revenues in management and other fees is comprised of asset-based fees on client assets. The fees that we charge vary by asset class and are affected by investment performance as well as asset inflows and redemptions. Other fees we receive include financial counseling fees generated through our wealth advisory services and fees related to the administration of real estate assets.

Assets under supervision include assets under management and other client assets. Assets under management include client assets where we earn a fee for managing assets on a discretionary basis. This includes net assets in our mutual funds, hedge funds, credit funds and private equity funds (including real estate funds), and separately managed accounts for institutional and individual investors. Other client assets include client assets invested with third-party managers, private bank deposits and assets related to advisory relationships where we earn a fee for advisory and other services, but do not have discretion over the assets. Assets under supervision do not include the self-directed brokerage accounts of our clients.

Incentive Fees. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund's or a separately managed account's return, or when the return exceeds a specified benchmark or other performance targets. Such fees include overrides, which consist of the increased share of the income and gains derived primarily from our private equity funds when the return on a fund's investments over the life of the fund exceeds certain threshold returns. Incentive fees are recognized only when all material contingencies are resolved.

Transaction Revenues. We receive commissions and net spreads for facilitating transactional activity in high-net-worth client accounts. In addition, we earn net interest income primarily associated with client deposits and margin lending activity undertaken by such clients.

The tables below present a breakdown of assets under supervision, including assets under management by asset class and by distribution channel.

<i>in billions</i>	As of December		
	2012	2011	2010
Alternative investments ¹	\$133	\$142	\$148
Equity	133	126	144
Fixed income	370	340	340
Total non-money market assets	636	608	632
Money markets	218	220	208
Total assets under management (AUM)	854	828	840
Other client assets	111	67	77
Total assets under supervision (AUS)	\$965	\$895	\$917

1. Primarily includes hedge funds, credit funds, private equity, real estate, currencies, commodities and asset allocation strategies.

<i>in billions</i>	As of December		
	2012	2011	2010
Directly distributed:			
Institutional	\$293	\$283	\$286
High-net-worth individuals	240	227	229

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Third-party distributed:

Institutional, high-net-worth individuals and retail	321	318	325
Total AUM	854	828	840
Other client assets	111	67	77
Total AUS	\$965	\$895	\$917

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Business Continuity and Information Security

Business continuity and information security, including cybersecurity, are high priorities for Goldman Sachs. Our Business Continuity Program has been developed to provide reasonable assurance of business continuity in the event of disruptions at the firm's critical facilities and to comply with regulatory requirements, including those of FINRA. Because we are a bank holding company, our Business Continuity Program is also subject to review by the Federal Reserve Board. The key elements of the program are crisis planning and management, people recovery, business recovery, systems and data recovery, and process improvement. In the area of information security, we have developed and implemented a framework of principles, policies and technology to protect the information provided to us by our clients and that of the firm from cyber attacks and other misappropriation, corruption or loss. Safeguards are applied to maintain the confidentiality, integrity and availability of information.

Employees

Management believes that a major strength and principal reason for the success of Goldman Sachs is the quality and dedication of our people and the shared sense of being part of a team. We strive to maintain a work environment that fosters professionalism, excellence, diversity, cooperation among our employees worldwide and high standards of business ethics.

Instilling the Goldman Sachs culture in all employees is a continuous process, in which training plays an important part. All employees are offered the opportunity to participate in education and periodic seminars that we sponsor at various locations throughout the world. Another important part of instilling the Goldman Sachs culture is our employee review process. Employees are reviewed by supervisors, co-workers and employees they supervise in a 360-degree review process that is integral to our team approach, and includes an evaluation of an employee's performance with respect to risk management, compliance and diversity. As of December 2012, we had 32,400 total staff.

Competition

The financial services industry and all of our businesses are intensely competitive, and we expect them to remain so. Our competitors are other entities that provide investment banking, securities and investment management services, as well as those entities that make investments in securities, commodities, derivatives, real estate, loans and other financial assets. These entities include brokers and dealers, investment banking firms, commercial banks, insurance companies, investment advisers, mutual funds, hedge funds, private equity funds and merchant banks. We compete with some entities globally and with others on a regional, product or niche basis. Our competition is based on a number of factors, including transaction execution, products and services, innovation, reputation and price.

Over time, there has been substantial consolidation and convergence among companies in the financial services industry and, in particular, the credit crisis caused numerous mergers and asset acquisitions among industry participants. Efforts by our competitors to gain market share have resulted in pricing pressure in our investment banking and client execution businesses and could result in pricing pressure in other of our businesses. Moreover, we have faced, and expect to continue to face, pressure to retain market share by committing capital to businesses or transactions on terms that offer returns that may not be commensurate with their risks. In particular, corporate clients seek such commitments (such as agreements to participate in their commercial paper backstop or other loan facilities) from financial services firms in connection with investment banking and other assignments.

Consolidation and convergence have significantly increased the capital base and geographic reach of some of our competitors, and have also hastened the globalization of the securities and other financial services markets. As a result, we have had to commit capital to support our international operations and to execute large global transactions. To take advantage of some of our most significant opportunities, we will have to compete successfully with financial institutions that are larger and have more capital and that may have a stronger local presence and longer operating history outside the United States.

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We have experienced intense price competition in some of our businesses in recent years. For example, over the past several years the increasing volume of trades executed electronically, through the internet and through alternative trading systems, has increased the pressure on trading commissions, in that commissions for low-touch electronic trading are generally lower than for high-touch non-electronic trading. It appears that this trend toward electronic and other low-touch, low-commission trading will continue. In addition, we believe that we will continue to experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by further reducing prices.

The provisions of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the requirements promulgated by the Basel Committee on Banking Supervision (Basel Committee) and other financial regulation could affect our competitive position to the extent that limitations on activities, increased fees and compliance costs or other regulatory requirements do not apply, or do not apply equally, to all of our competitors or are not implemented uniformly across different jurisdictions. The impact of the Dodd-Frank Act and other regulatory developments on our competitive position will depend to a large extent on the manner in which the required rulemaking and regulatory guidance evolve, the extent of international convergence, and the development of market practice and structures under the new regulatory regimes as discussed further under Regulation below.

We also face intense competition in attracting and retaining qualified employees. Our ability to continue to compete effectively will depend upon our ability to attract new employees, retain and motivate our existing employees and to continue to compensate employees competitively amid intense public and regulatory scrutiny on the compensation practices of large financial institutions. Our pay practices and those of our principal competitors are subject to review by, and the standards of, the Federal Reserve Board and regulators outside the United States, including the Financial Services Authority (FSA) in the United Kingdom. See Regulation Banking Regulation and Regulation Compensation Practices below and Risk Factors Our businesses may be adversely affected if we are unable to hire and retain qualified employees in Part I, Item 1A of this Form 10-K for more information on the regulation of our compensation practices.

Regulation

As a participant in the banking, securities, investment management, OTC derivatives, futures and options and insurance industries, we are subject to extensive regulation worldwide. Regulatory bodies around the world are generally charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of the customers of market participants, including depositors in banking entities and the customers of broker-dealers, investment advisers, swap dealers and security-based swap dealers.

The financial services industry has been the subject of intense regulatory scrutiny in recent years. Our businesses have been subject to increasing regulation and supervision in the United States and other countries, and we expect this trend to continue in the future. In particular, the Dodd-Frank Act, which was enacted in July 2010, significantly altered the financial regulatory regime within which we operate. The implications of the Dodd-Frank Act for our businesses will depend to a large extent on the rules that will be adopted by the Federal Reserve Board, the FDIC, the SEC, the CFTC and other agencies to implement the legislation, as well as the development of market practices and structures under the regime established by the legislation and the implementing rules. Other reforms have been adopted or are being considered by other regulators and policy makers worldwide, as discussed further throughout this section. We will continue to assess our business, risk management, and compliance practices to conform to developments in the regulatory environment.

Bank Holding Company Regulation

Group Inc. is a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999 (GLB Act).

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Supervision and Regulation

As a bank holding company and a financial holding company under the BHC Act, Group Inc. is subject to supervision and examination by the Federal Reserve Board. Under the system of functional regulation established under the BHC Act, the Federal Reserve Board serves as the primary regulator of our consolidated organization, but generally defers to the primary regulators of our U.S. non-bank subsidiaries with respect to the activities of those subsidiaries. Such functionally regulated non-bank subsidiaries include broker-dealers registered with the SEC, such as our principal U.S. broker-dealer, Goldman, Sachs & Co. (GS&Co.), entities registered with or regulated by the CFTC with respect to futures-related and swaps-related activities, insurance companies regulated by state insurance authorities and investment advisers registered with the SEC with respect to their investment advisory activities.

As discussed further below, our subsidiary, GS Bank USA, is supervised and regulated by the Federal Reserve Board, the FDIC, the New York State Department of Financial Services and the Consumer Financial Protection Bureau (CFPB). In addition, Group Inc. has two limited purpose trust company subsidiaries that are not permitted to and do not accept deposits or make loans (other than as incidental to their trust activities) and are not insured by the FDIC. The Goldman Sachs Trust Company, N.A., a national banking association that is limited to fiduciary activities, is regulated by the Office of the Comptroller of the Currency and is a member bank of the Federal Reserve System. The Goldman Sachs Trust Company of Delaware, a Delaware limited purpose trust company, is regulated by the Office of the Delaware State Bank Commissioner.

Activities

The BHC Act generally restricts bank holding companies from engaging in business activities other than the business of banking and certain closely related activities. Financial holding companies, however, generally can engage in a broader range of financial and related activities than are otherwise permissible for bank holding companies as long as they continue to meet the eligibility requirements for financial holding companies. These requirements include that the financial holding company and each of its U.S. depository institution subsidiaries maintain their status as well-capitalized and well-managed. The broader range of permissible activities for financial holding companies includes underwriting, dealing and making markets in

securities, insurance underwriting and making investments in non-financial companies. In addition, financial holding companies are permitted under the GLB Act to engage in certain commodities activities in the United States that may otherwise be impermissible for bank holding companies, so long as the assets held pursuant to these activities do not equal 5% or more of their consolidated assets.

The Federal Reserve Board, however, has the authority to limit our ability to conduct activities that would otherwise be permissible for a financial holding company, and will do so if we do not satisfactorily meet certain requirements of the Federal Reserve Board. In addition, we are required to obtain prior Federal Reserve Board approval before engaging in certain banking and other financial activities both in the United States and abroad.

We may face additional limitations on our activities upon implementation of those provisions of the Dodd-Frank Act referred to as the Volcker Rule, which will prohibit proprietary trading (but will allow activities such as underwriting, market-making related activities and risk-mitigation hedging activities) and will limit the sponsorship of, and investment in, hedge funds and private equity funds by banking entities, including bank holding companies. The Volcker Rule is expected to also limit certain types of transactions between us and our sponsored funds, similar to the limitations on transactions between depository institutions and their affiliates as described below under Transactions with Affiliates. In October 2011, the proposed rules to implement the Volcker Rule were issued and included an extensive request for comments on the proposal. The proposed rules are highly complex, and many aspects of the Volcker Rule remain unclear. The full impact of the rule on us will depend upon the detailed scope of the prohibitions, permitted activities, exceptions and exclusions, and will not be known with certainty until the rules are finalized and market practices and structures develop under the final rules. Currently, companies are expected to be required to be in compliance by July 2014 (subject to possible extensions).

While many aspects of the Volcker Rule remain unclear, we evaluated the prohibition on proprietary trading and determined that businesses that engage in bright line proprietary trading are most likely to be prohibited. In 2011 and 2010, we liquidated substantially all of our Principal Strategies and Global Macro Proprietary trading positions.

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In addition, we have evaluated the limitations on sponsorship of, and investments in, hedge funds and private equity funds. We earn management fees and incentive fees for investment management services from hedge funds and private equity funds, which are included in our Investment Management segment. We also make investments in funds, and the gains and losses from these investments are included in our Investing & Lending segment; these gains and losses will be impacted by the Volcker Rule. The Volcker Rule limitation on investments in hedge funds and private equity funds requires us to reduce our investment in each hedge fund and private equity fund to 3% or less of the fund's net asset value, and to reduce our aggregate investment in all such funds to 3% or less of our Tier 1 capital. Our aggregate net revenues from our investments in hedge funds and private equity funds were not material to our aggregate total net revenues over the period from 1999 through 2012. We continue to manage our existing private equity funds, taking into account the transition periods under the Volcker Rule. With respect to our hedge funds, we currently plan to comply with the Volcker Rule by redeeming certain of our interests in the funds. Since March 2012, we have been redeeming up to approximately 10% of certain hedge funds' total redeemable units per quarter, and expect to continue to do so through June 2014. In addition, we have limited our initial investment to 3% for certain new investments in hedge funds and private equity funds.

The Dodd-Frank Act also establishes the CFPB, which has broad authority to regulate providers of credit, payment and other consumer financial products and services, and has oversight over certain of our products and services.

Capital and Liquidity Requirements

Capital requirements are increasingly a factor in determining risk levels and assessing business opportunities and strategies. As a bank holding company, we are subject to consolidated regulatory capital requirements administered by the Federal Reserve Board.

GS Bank USA is subject to broadly similar capital requirements. Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action that is applicable to GS Bank

USA, both Group Inc. and GS Bank USA must meet specific regulatory capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items. The sufficiency of our capital levels and those of GS Bank USA, as well as GS Bank USA's prompt corrective action classification, are also subject to qualitative judgments by regulators.

Other regulated subsidiaries, including GS&Co. and Goldman Sachs International (GSI), are also subject to capital requirements. We expect Group Inc., GS Bank USA, GS&Co., GSI and other regulated subsidiaries to become subject to increased capital requirements over time.

Capital Ratios. See Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information on our Tier 1 capital ratio, Tier 1 capital, total capital ratio, total capital, risk-weighted assets (RWAs) and Tier 1 leverage ratio, and for a discussion of minimum required ratios. For information on our Tier 1 common ratio, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Equity Capital - Consolidated Regulatory Capital Ratios in Part II, Item 7 of this Form 10-K.

Changes in Capital Requirements. Changes to the market risk capital rules of the U.S. federal bank regulatory agencies (the Agencies) became effective on January 1, 2013. These changes require the addition of several new model-based capital requirements, as well as an increase in capital requirements for securitization positions, and are designed to implement the new market risk framework of the Basel Committee, as well as the prohibition on the use of external credit ratings, as required by the Dodd-Frank Act. This revised market risk framework is a significant part of the regulatory capital changes that will ultimately be included in our capital ratios under the guidelines issued by the Basel Committee in December 2010 (Basel 3). See Management's Discussion and Analysis of Financial Condition and Results of Operations - Equity Capital - Consolidated Regulatory Capital Ratios in Part II, Item 7 of this Form 10-K for information on the impact of these rules on our Tier 1 common ratio.

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We are also currently working to implement the requirements set out in the Agencies' Risk-Based Capital Standards: Advanced Capital Adequacy Framework – Basel 2, as applicable to us as a bank holding company and as an advanced approach banking organization (Basel 2). These requirements are based on the advanced approaches under the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee. Basel 2, among other things, revises the regulatory capital framework for credit risk and equity investments, and introduces a new operational risk capital requirement. We will adopt Basel 2 once we are approved to do so by regulators. Our capital adequacy ratio will also be impacted by the further changes outlined below under Basel 3 and provisions of the Dodd-Frank Act.

The Collins Amendment of the Dodd-Frank Act requires advanced approach banking organizations to continue, upon adoption of Basel 2, to calculate risk-based capital ratios under both Basel 2 and the Federal Reserve Board's risk-based capital requirements currently applicable to bank holding companies (Basel 1), which are based on the 1988 Capital Accord of the Basel Committee. For each of the Tier 1 and Total capital ratios, the lower of the Basel 1 and Basel 2 ratios calculated will be used to determine whether such advanced approach banking organizations meet their minimum risk-based capital requirements. Furthermore, the June 2012 proposals described below include provisions which, if enacted as proposed, would modify these minimum risk-based capital requirements.

In June 2012, the Agencies proposed further modifications to their capital adequacy regulations to address aspects of both the Dodd-Frank Act and Basel 3. If enacted as proposed, the most significant changes that would impact us include (i) revisions to the definition of Tier 1 capital, including new deductions from Tier 1 capital, (ii) higher minimum capital and leverage ratios, (iii) a new minimum ratio of Tier 1 common equity to RWAs, (iv) new capital conservation and counter-cyclical capital buffers, (v) an additional leverage ratio that includes measures of off-balance sheet exposures, (vi) revisions to the methodology for calculating RWAs, particularly for credit risk capital requirements for derivatives and (vii) a new

standardized approach to the calculation of RWAs that would replace the Federal Reserve's current Basel 1 risk-based capital framework in 2015, including for purposes of calculating the requisite capital floor under the Collins Amendment.

In November 2012, the Agencies announced that the proposed effective date of January 1, 2013 for these modifications would be deferred, but have not indicated a revised effective date. These proposals incorporate the phase-out of Tier 1 capital treatment for our junior subordinated debt issued to trusts; such capital would instead be eligible as Tier 2 capital. Under the Collins Amendment, this phase-out was scheduled to begin on January 1, 2013. Due to the aforementioned deferral of the effective date of the proposed capital rules, however, the application of this phase-out remains uncertain at this time.

Both the Basel Committee and U.S. banking regulators implementing the Dodd-Frank Act have indicated that they will impose more stringent capital standards on systemically important financial institutions. In November 2011, the Basel Committee published its final provisions for assessing the global systemic importance of banking institutions and the range of additional Tier 1 common equity that should be maintained by banking institutions deemed to be globally systemically important. The additional capital for these institutions would initially range from 1% to 2.5% of Tier 1 common equity and could be as much as 3.5% for a banking institution that increases its systemic footprint (e.g., by increasing total assets). In November 2012, the Financial Stability Board (established at the direction of the leaders of the Group of 20) indicated that we would be required to hold an additional 1.5% of Tier 1 common equity as a globally systemically important banking institution under the Basel Committee's methodology, based on 2011 financial data. The final determination of the amount of additional Tier 1 common equity that we will be required to hold will be based on our 2013 financial data and the manner and timing of the U.S. banking regulators' implementation of the Basel Committee's methodology. The Basel Committee indicated that globally systemically important banking institutions will be required to meet the capital surcharges on a phased-in basis from 2016 through 2019.

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In October 2012, the Basel Committee also published its final provisions for calculating incremental capital requirements for domestic systemically important banking institutions. The provisions are complementary to the framework outlined above for global systemically important banking institutions, but are more principles-based in order to provide an appropriate degree of national discretion. The impact of these provisions on the regulatory capital requirements of GS Bank USA and other of our subsidiaries, including GSI, will depend on how they are implemented by the banking and non-banking regulators in the United States and other jurisdictions.

During the last year, the Basel Committee has released other consultation papers that may result in further changes to regulatory capital requirements, including a Fundamental Review of the Trading Book and Revisions to the Basel Securitization Framework. The full impact of these developments on the firm will not be known with certainty until after any resulting rules are finalized.

In December 2011, the Federal Reserve Board proposed rules to implement the enhanced prudential standards and early remediation requirements contemplated by the Dodd-Frank Act. The proposed rules would apply to bank holding companies with \$50 billion or more in total consolidated assets such as us, as well as systemically important nonbank financial institutions. With respect to the enhanced prudential standards, the proposed rules address, among other things, risk-based capital and leverage requirements, liquidity requirements, overall risk management requirements and concentration/credit exposure limits. The proposed rules do not include additional capital requirements for globally systemically important banking institutions but contemplate the Federal Reserve Board's adopting such requirements. The proposed rules require increased involvement by boards of directors in liquidity and risk management. The proposed early remediation rules are modeled on the prompt corrective action regime, described below, but are designed to require

action beginning in earlier stages of a company's financial distress by mandating action on the basis of a range of triggers, including capital and leverage, stress test results, liquidity and risk management. In addition, the proposed enhanced prudential standards impose single-counterparty credit limits, including more stringent requirements for credit exposure among major financial institutions, which (together with other provisions incorporated into the Basel 3 capital rules) may affect our ability to transact or hedge with other financial institutions. Other provisions in the June 2012 proposals discussed above may affect our ability to make markets in the stock of other financial institutions. Although many of the proposals mirror initiatives to which bank holding companies are already subject, their full impact on us will not be known with certainty until the rules are finalized and market practices and structures develop under the final rules.

In October 2012, the Federal Reserve Board issued final rules implementing the requirements of the Dodd-Frank Act concerning supervisory stress tests to be conducted by the Federal Reserve Board and semi-annual company-run stress tests for bank holding companies with total consolidated assets of \$50 billion or more, such as us, as well as designated nonbank financial companies. The stress test rules require increased involvement by boards of directors in stress testing and, beginning in March 2013, public disclosure of the results of both the Federal Reserve Board's annual stress tests and a bank holding company's semi-annual internal stress tests. Certain stress test requirements are also applicable to GS Bank USA, as discussed below.

The interaction among the Dodd-Frank Act, other reform initiatives contemplated by the Agencies, the Basel Committee's proposed and announced changes and other proposed or announced changes from other governmental entities and regulators (including the European Union (EU) and the FSA) adds further uncertainty to our future capital and liquidity requirements and those of our subsidiaries.

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Liquidity Ratios under Basel 3. Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, both in the United States and internationally, without required formulaic measures. Basel 3 will require banks and bank holding companies to measure their liquidity against two specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, will be mandated by regulation. One test, referred to as the liquidity coverage ratio, is designed to ensure that the entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio, is designed to promote more medium- and long-term funding of the assets and activities of these entities over a one-year time horizon. These requirements may incentivize banking entities to increase their holdings of securities that qualify as high-quality liquid assets and increase the use of long-term debt as a funding source. Under the Basel Committee's framework, the liquidity coverage ratio would be introduced on January 1, 2015; however there would be a phase-in period whereby firms would have a 60% minimum in 2015, which would be raised 10% per year until it reaches 100% in 2019. The net stable funding ratio is not expected to be introduced as a requirement until January 1, 2018. While the principles behind the new framework are broadly consistent with our current liquidity management framework, it is possible that the refinement and implementation of these standards could impact our liquidity and funding requirements and practices, including as the Agencies propose and adopt the Basel 3 liquidity framework in the United States.

We also expect that liquidity requirements applicable to us and several of our subsidiaries will be impacted in the future by the various developments arising from the Basel Committee, the Dodd-Frank Act and actions by other governmental entities and regulators.

Payment of Dividends and Stock Repurchases

Dividend payments by Group Inc. to its shareholders and stock repurchases by Group Inc. are subject to the oversight of the Federal Reserve Board. Under rules adopted by the Federal Reserve Board in November 2011, the dividend and share repurchase policies of large bank holding companies, such as Group Inc., are reviewed by the Federal Reserve Board based on capital plans and stress tests submitted by

the bank holding company, and will be assessed against, among other things, the bank holding company's ability to meet and exceed minimum regulatory capital ratios under stressed scenarios, its expected sources and uses of capital over the planning horizon (generally a period of two years) under baseline and stressed scenarios, and any potential impact of changes to its business plan and activities on its capital adequacy and liquidity. The purpose of the capital plan review is to ensure that these institutions have robust, forward-looking capital planning processes that account for each institution's unique risks and that permit continued operations during times of economic and financial stress. As part of the capital plan review, the Federal Reserve Board will evaluate an institution's plan to make capital distributions, such as repurchasing or redeeming stock or increasing dividend payments, across a range of macro-economic and firm-specific assumptions. As part of our 2012 Comprehensive Capital Analysis and Review submission, the Federal Reserve Board informed us that it did not object to our proposed capital actions through the first quarter of 2013, including the repurchase of outstanding common stock and increases in our quarterly common stock dividend.

Federal and state law impose limitations on the payment of dividends by our depository institution subsidiaries to Group Inc. In general, the amount of dividends that may be paid by GS Bank USA or our national bank trust company subsidiary is limited to the lesser of the amounts calculated under a recent earnings test and an undivided profits test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by the entity in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, unless the entity obtains prior regulatory approval. Under the undivided profits test, a dividend may not be paid in excess of the entity's undivided profits (generally, accumulated net profits that have not been paid out as dividends or transferred to surplus). The banking regulators have authority to prohibit or limit the payment of dividends if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

In addition, certain of Group Inc.'s non-bank subsidiaries are or will become subject to separate regulatory limitations on dividends and distributions, including our broker-dealer, swap-related and insurance subsidiaries as described below.

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Source of Strength

Federal Reserve Board policy historically has required bank holding companies to act as a source of strength to their bank subsidiaries and to commit capital and financial resources to support those subsidiaries. The Dodd-Frank Act codifies this policy as a statutory requirement. This support may be required by the Federal Reserve Board at times when we might otherwise determine not to provide it. Capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In addition, if a bank holding company commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the Federal Reserve Board's invoking its source-of-strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment, ahead of other creditors of the bank holding company.

The BHC Act provides for regulation of bank holding company activities by various functional regulators and prohibits the Federal Reserve Board from requiring a payment by a holding company subsidiary to a depository institution if the functional regulator of that subsidiary objects to such payment. In such a case, the Federal Reserve Board could instead require the divestiture of the depository institution and impose operating restrictions pending the divestiture.

Guarantees

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

Compensation Practices

Our compensation practices are subject to oversight by the Federal Reserve Board and, with respect to some of our subsidiaries and employees, by other financial regulatory bodies worldwide. The scope and content of compensation regulation in the financial industry are continuing to develop, and we expect that these regulations and resulting market practices will evolve over a number of years.

In June 2010, the Agencies jointly issued guidance designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. The guidance sets forth the following three key principles with respect to incentive compensation arrangements: the arrangements should provide employees with incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; the arrangements should be compatible with effective controls and risk management; and the arrangements should be supported by strong corporate governance. In addition, the Federal Reserve Board has conducted a review of the incentive compensation policies and practices of a number of large, complex banking organizations, including us. The June 2010 guidance provides that supervisory findings with respect to incentive compensation will be incorporated, as appropriate, into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance also provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk management, control or governance processes pose a risk to the organization's safety and soundness.

The Financial Stability Board has released standards for implementing certain compensation principles for banks and other financial companies designed to encourage sound compensation practices. These standards are to be implemented by local regulators. In Europe, the Third Capital Requirements Directive includes compensation provisions designed to implement the Financial Stability Board's compensation standards within the EU. Regulators in a number of countries, including the United Kingdom, France and Germany, have adopted compensation regulations applicable to financial institutions pursuant to this Directive. In addition, the European Parliament has proposed further compensation rules to be included in the Fourth Capital Requirements Directive. These requirements are in addition to the guidance issued by U.S. financial regulators discussed above and the Dodd-Frank Act provision discussed below.

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The Dodd-Frank Act requires the U.S. financial regulators, including the Federal Reserve Board, to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least \$1 billion in total assets (which would include Group Inc. and some of its depository institution, broker-dealer and investment advisor subsidiaries) that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The initial version of these regulations was proposed by the U.S. financial regulators in early 2011 but the regulations have not yet been finalized. The proposed regulations incorporate the three key principles from the June 2010 regulatory guidance discussed above. If the regulations are adopted in the form initially proposed, they will restrict our flexibility with respect to the manner in which we may structure compensation.

Regulation of GS Bank USA

Our subsidiary, GS Bank USA, an FDIC-insured, New York State-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve Board, the FDIC, the New York State Department of Financial Services and the CFPB, and is subject to minimum capital requirements (described below) that are calculated in a manner similar to those applicable to bank holding companies. A number of our activities are conducted partially or entirely through GS Bank USA and its subsidiaries, including: origination of bank loans; interest rate, credit, currency and other derivatives; leveraged finance; mortgage origination; structured finance; and agency lending.

Under rules adopted by the Agencies in 2012 under the Dodd-Frank Act, GS Bank USA is required to undertake stress tests, to submit the results to the Federal Reserve Board, and to make a summary of those results public. The rules require that the board of directors of GS Bank USA, among other things, consider the results of the stress tests in the normal course of the bank's business including, but not limited to, its capital planning, assessment of capital adequacy and risk management practices.

The Dodd-Frank Act contains derivative push-out provisions that, beginning in July 2013 (subject to possible extensions), will prevent us from conducting certain swaps-related activities through GS Bank USA or another insured depository institution subsidiary, subject to exceptions for certain interest rate, currency and cleared credit default swaps and for hedging or risk mitigation activities directly related to the bank's business. These precluded activities may be conducted elsewhere within the firm, subject to certain requirements and potential registration as a swap or security-based swap dealer. In addition, New York State banking law imposes lending limits (which have recently been amended to take into account credit exposure from derivative transactions) and other requirements that could impact the manner and scope of GS Bank USA's activities.

Transactions with Affiliates

Transactions between GS Bank USA or its subsidiaries, on the one hand, and Group Inc. or its other subsidiaries and affiliates, on the other hand, are regulated by the Federal Reserve Board under the Federal Reserve Act. The statute and the related regulations limit the types and amounts of transactions (including credit extensions from GS Bank USA or its subsidiaries to Group Inc. or its other subsidiaries and affiliates) that may take place and generally require those transactions to be on market terms or better to GS Bank USA. These regulations generally do not apply to transactions between GS Bank USA and its subsidiaries. The Dodd-Frank Act significantly expands the coverage and scope of the regulations that limit affiliate transactions within a banking organization, including by applying these regulations to the credit exposure arising under derivative transactions, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions.

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Deposit Insurance

GS Bank USA accepts deposits, and those deposits have the benefit of FDIC insurance up to the applicable limits. The FDIC's Deposit Insurance Fund is funded by assessments on insured depository institutions, such as GS Bank USA. The amounts of these assessments for larger depository institutions (generally those that have \$10 billion in assets or more), such as GS Bank USA, are currently based on the average total consolidated assets less the average tangible equity of the insured depository institution during the assessment period, the supervisory ratings of the insured depository institution and specified forward-looking financial measures used to calculate the assessment rate. The assessment rate is subject to adjustment by the FDIC.

Prompt Corrective Action and Capital Ratios

The U.S. Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, requires the federal banking agencies to take prompt corrective action in respect of depository institutions that do not meet specified capital requirements. FDICIA establishes five capital categories for FDIC-insured banks: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

A depository institution is generally deemed to be well-capitalized, the highest category, if it has a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. GS Bank USA has agreed with the Federal Reserve Board to maintain minimum capital ratios in excess of these well-capitalized levels.

See Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information on the calculation of GS Bank USA's capital ratios under Basel 1 and for a discussion of minimum required ratios.

GS Bank USA computes its capital ratios in accordance with the regulatory capital requirements currently applicable to state member banks, which are based on Basel 1, as implemented by the Federal Reserve Board. On January 1, 2013, GS Bank USA also adopted the revised market risk regulatory capital framework outlined above.

GS Bank USA will adopt Basel 2 once it is approved to do so by regulators. In addition, the capital requirements for GS Bank USA are expected to be impacted by the June 2012 proposed modifications to the Agencies' capital adequacy regulations outlined above, including the requirement for a floor to the advanced risk-based capital ratios. If enacted as proposed, these proposals would also change the regulatory framework for prompt corrective action that is applicable to GS Bank USA by, among other things, introducing a common equity Tier 1 ratio requirement, increasing the minimum Tier 1 capital ratio requirement and introducing a supplementary leverage ratio as a component of the prompt corrective action analysis.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, as the capital category of an institution declines. Failure to meet the capital requirements could also require a depository institution to raise capital. Ultimately, critically undercapitalized institutions are subject to the appointment of a receiver or conservator, as described under Insolvency of an Insured Depository Institution or a Bank Holding Company below.

The prompt corrective action regulations apply only to depository institutions and not to bank holding companies such as Group Inc. However, the Federal Reserve Board is authorized to take appropriate action at the holding company level, based upon the undercapitalized status of the holding company's depository institution subsidiaries. In certain instances relating to an undercapitalized depository institution subsidiary, the bank holding company would be required to guarantee the performance of the undercapitalized subsidiary's capital restoration plan and might be liable for civil money damages for failure to fulfill its commitments on that guarantee. Furthermore, in the event of the bankruptcy of the holding company, the guarantee would take priority over the holding company's general unsecured creditors, as described under Source of Strength above.

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Insolvency of an Insured Depository Institution or a Bank

Holding Company

If the FDIC is appointed as conservator or receiver for an insured depository institution such as GS Bank USA, upon its insolvency or in certain other events, the FDIC has broad powers, including the power:

to transfer any of the depository institution's assets and liabilities to a new obligor, including a newly formed bridge bank, without the approval of the depository institution's creditors;

to enforce the terms of the depository institution's contracts pursuant to their terms without regard to any provisions triggered by the appointment of the FDIC in that capacity; or

to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

In addition, under federal law, the claims of holders of domestic deposit liabilities and certain claims for administrative expenses against an insured depository institution would be afforded a priority over other general unsecured claims, including deposits at non-U.S. branches, against such an institution, including claims of debt holders of the institution, in the liquidation or other resolution of such an institution by any receiver. As a result, whether or not the FDIC ever sought to repudiate any debt obligations of GS Bank USA, the debt holders (other than depositors) would be treated differently from, and could receive, if anything, substantially less than, the depositors of GS Bank USA.

The Dodd-Frank Act created a new resolution regime (known as orderly liquidation authority) for bank holding companies and their affiliates, and systemically important non-bank financial companies. Under the orderly liquidation authority, the FDIC may be appointed as receiver for the systemically important institution, and its failed non-bank subsidiaries, for purposes of liquidating the entity if, among other conditions, it is determined at the time of the institution's failure that it is in default or in danger of default and the failure poses a risk to the stability of the U.S. financial system.

If the FDIC is appointed as receiver under the orderly liquidation authority, then the powers of the receiver, and the rights and obligations of creditors and other parties who have dealt with the institution, would be determined under the orderly liquidation authority, and not under the insolvency law that would otherwise apply. The powers of the receiver under the orderly liquidation authority were generally based on the powers of the FDIC as receiver for depository institutions under the Federal Deposit Insurance Act. Substantial differences in the rights of creditors exist between the orderly liquidation authority and the U.S. Bankruptcy Code, including the right of the FDIC under the orderly liquidation authority to disregard the strict priority of creditor claims in some circumstances, the use of an administrative claims procedure to determine creditors' claims (as opposed to the judicial procedure utilized in bankruptcy proceedings), and the right of the FDIC to transfer claims to a bridge entity. In addition, the orderly liquidation authority limits the ability of creditors to enforce contractual cross-defaults against affiliates of the institution in receivership.

The orderly liquidation authority provisions of the Dodd-Frank Act became effective upon enactment. The FDIC has completed several rulemakings under the orderly liquidation authority, but may provide additional guidance. New guidance may affect the manner in which the new authority is applied, particularly with respect to broker-dealer and futures commission merchant subsidiaries of bank holding companies.

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Resolution Plan

As required by the Dodd-Frank Act, the Federal Reserve Board and FDIC have jointly issued a rule requiring each bank holding company with over \$50 billion in assets and each designated systemically important financial institution to provide to regulators an annual plan for its rapid and orderly resolution in the event of material financial distress or failure (resolution plan). Our resolution plan must, among other things, demonstrate that GS Bank USA is adequately protected from risks arising from our other entities. The regulators' joint rule sets specific standards for the resolution plans, including requiring a detailed resolution strategy and analyses of the company's material entities, organizational structure, interconnections and interdependencies, and management information systems, among other elements. We submitted our resolution plan to the regulators on June 29, 2012. GS Bank USA also submitted its resolution plan on June 29, 2012, as required by the FDIC.

Broker-Dealer and Securities Regulation

Goldman Sachs' broker-dealer subsidiaries are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices, use and safekeeping of clients' funds and securities, capital structure, recordkeeping, the financing of clients' purchases, and the conduct of directors, officers and employees. In the United States, the SEC is the federal agency responsible for the administration of the federal securities laws. GS&Co. is registered as a broker-dealer, a municipal advisor and an investment adviser with the SEC and as a broker-dealer in all 50 states and the District of Columbia. Self-regulatory organizations, such as FINRA and the NYSE, adopt rules that apply to, and examine, broker-dealers such as GS&Co.

In addition, state securities and other regulators also have regulatory or oversight authority over GS&Co. Similarly, our businesses are also subject to regulation by various non-U.S. governmental and regulatory bodies and self-regulatory authorities in virtually all countries where we have offices, as discussed further under "Other Regulation" below. GSEC and one of its subsidiaries are registered U.S. broker-dealers and are regulated by the SEC,

the NYSE and FINRA. For a discussion of net capital requirements applicable to GS&Co. and GSEC, see Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

Our exchange-based market-making activities are subject to extensive regulation by a number of securities exchanges. As a DMM on the NYSE and as a market maker on other exchanges, we are required to maintain orderly markets in the securities to which we are assigned. Under the NYSE's DMM rules, this may require us to supply liquidity to these markets when markets are declining.

The Dodd-Frank Act will result in additional regulation by the SEC, the CFTC and other regulators of our broker-dealer and regulated subsidiaries in a number of respects. The legislation calls for the imposition of expanded standards of care by market participants in dealing with clients and customers, including by providing the SEC with authority to adopt rules establishing fiduciary duties for broker-dealers and directing the SEC to examine and improve sales practices and disclosure by broker-dealers and investment advisers.

Our broker-dealer subsidiaries will also be affected by rules to be adopted by federal agencies pursuant to the Dodd-Frank Act that require any person who organizes or initiates an asset-backed security transaction to retain a portion (generally, at least five percent) of any credit risk that the person conveys to a third party. Securitizations will also be affected by rules proposed by the SEC in September 2011 to implement the Dodd-Frank Act's prohibition against securitization participants' engaging in any transaction that would involve or result in any material conflict of interest with an investor in a securitization transaction. The proposed rules would except bona fide market-making activities and risk-mitigating hedging activities in connection with securitization activities from the general prohibition.

The SEC, FINRA and regulators in various non-U.S. jurisdictions have imposed both conduct-based and disclosure-based requirements with respect to research reports and research analysts and may impose additional regulations.

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Swaps, Derivatives and Commodities Regulation

The commodity futures, commodity options and swaps industry in the United States is subject to regulation under the U.S. Commodity Exchange Act. The CFTC is the federal agency charged with the administration of the CEA. In addition, the SEC is the federal agency charged with the regulation of security-based swaps. Several of Goldman Sachs' subsidiaries, including GS&Co. and GSEC, are registered with the CFTC and act as futures commission merchants, commodity pool operators, commodity trading advisors or (as discussed below) swap dealers, and are subject to CFTC regulations. The rules and regulations of various self-regulatory organizations, such as the Chicago Board of Trade and the Chicago Mercantile Exchange, other futures exchanges and the National Futures Association, also govern the commodity futures, commodity options and swaps activities of these entities. In addition, Goldman Sachs Financial Markets, L.P. (GSFM) is registered with the SEC as an OTC derivatives dealer and conducts certain OTC derivatives activities.

The Dodd-Frank Act provides for significantly increased regulation of and restrictions on derivative markets and transactions. In particular, the Dodd-Frank Act imposes the following requirements relating to swaps and security-based swaps:

real-time public and regulatory reporting of trade information for swaps and security-based swaps and large trader reporting for swaps;

registration of swap dealers and major swap participants with the CFTC and of security-based swap dealers and major security-based swap participants with the SEC;

position limits that cap exposure to derivatives on certain physical commodities;

mandated clearing through central counterparties and execution through regulated exchanges or electronic facilities for certain swaps and security-based swaps;

new business conduct standards and other requirements for swap dealers, major swap participants, security-based swap dealers and major security-based swap participants, covering their relationships with counterparties, internal oversight and compliance structures, conflict of interest rules, internal information barriers, general and trade-specific record-keeping and risk management;

margin requirements for trades that are not cleared through a central counterparty; and

entity-level capital requirements for swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants.

The terms swaps and security-based swaps are generally defined broadly for purposes of these requirements, and can include a wide variety of derivative instruments in addition to those conventionally called swaps, including certain forward contracts, options, certain loan participations and guarantees of swaps, subject to certain exceptions, and relate to a wide variety of underlying assets or obligations, including currencies, commodities, interest or other monetary rates, yields, indices, securities, credit events, loans and other financial obligations.

The CFTC is responsible for issuing rules relating to swaps, swap dealers and major swap participants, and the SEC is responsible for issuing rules relating to security-based swaps, security-based swap dealers and major security-based swap participants. Certain of the requirements, including registration of swap dealers and real-time public trade reporting, have taken effect already under CFTC rules, and the SEC and the CFTC have finalized the definitions of a number of key terms. The CFTC has finalized a number of other implementing rules and laid out a series of implementation deadlines in 2013 covering rules for business conduct standards for swap dealers and clearing requirements.

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The SEC has proposed rules to impose margin, capital and segregation requirements for security-based swap dealers and major security-based swap participants. The SEC has also proposed rules relating to registration of security-based swap dealers and major security-based swap participants, trade reporting and real-time reporting, and business conduct requirements for security-based swap dealers and major security-based swap participants.

Both agencies have proposed, but not yet finalized, rules that would govern the design of new trading venues for swaps and security-based swaps and establish the process for determining which products must be traded on these venues.

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We have registered certain subsidiaries as swap dealers under the CFTC rules, including GS&Co., GS Bank USA, GSI and J. Aron & Company. We expect that these entities, and our businesses more broadly, will be subject to significant and developing regulation and regulatory oversight in connection with swap-related activities. However, the full impact of the various U.S. and non-U.S. regulatory developments in this area will not be known with certainty until the rules are implemented and market practices and structures develop under the final rules.

Final rules have not been adopted by the CFTC or proposed by the SEC with respect to derivative activities outside the United States. Under the CFTC's proposed rules, a non-U.S. entity may need to register as a swap dealer if it effects swap transactions with U.S. persons, subject to certain exceptions.

Similar regulations have been proposed or adopted in jurisdictions outside the United States (such as the European Market Infrastructure Regulation, which took effect in 2012 subject to ongoing implementation), including the introduction of standardized execution and clearing, margining and reporting requirements for OTC derivatives. In July 2012 and February 2013, the Basel Committee and the International Organization of Securities Commissions released consultative documents proposing margin requirements for non-centrally-cleared derivatives.

J. Aron & Company is authorized by the U.S. Federal Energy Regulatory Commission (FERC) to sell wholesale physical power at market-based rates. As a FERC-authorized power marketer, J. Aron & Company is subject to regulation under the U.S. Federal Power Act and FERC regulations and to the oversight of FERC. As a result of our investing activities, Group Inc. is also an exempt holding company under the U.S. Public Utility Holding Company Act of 2005 and applicable FERC rules.

In addition, as a result of our power-related and commodities activities, we are subject to energy, environmental and other governmental laws and regulations, as discussed under Risk Factors. Our commodities activities, particularly our power generation interests and our physical commodities activities, subject us to extensive regulation, potential catastrophic events and environmental, reputational and other risks that may expose us to significant liabilities and costs in Part I, Item 1A of this Form 10-K.

Insurance Regulation

Our U.S. insurance subsidiaries are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed, and Group Inc. is subject to oversight as an insurance holding company in states where our insurance subsidiaries are domiciled. State insurance regulations limit the ability of our insurance subsidiaries to pay dividends to Group Inc. in certain circumstances, and could require regulatory approval for any change in control of Group Inc., which may include control of 10% or more of our voting stock. In addition, certain of our insurance subsidiaries are regulated by the Bermuda Monetary Authority, and Rothesay Life Limited (Rothesay Life), our U.K. insurance subsidiary, is regulated by the FSA. As of December 2012, all of our insurance subsidiaries were in compliance with applicable capital requirements.

Investment Management Regulation

Our investment management business is subject to significant regulation in numerous jurisdictions around the world relating to, among other things, the safeguarding of client assets, offerings of funds, marketing activities, transactions among affiliates and our management of client funds. Certain of our subsidiaries are registered with, and subject to oversight by, the SEC as investment advisers. SEC officials have stated publicly that the SEC may propose changes to the regulation of money market funds, which could include requiring a floating net asset value, capital buffers and/or restrictions on redemptions. Certain of such changes, if proposed and adopted, may negatively impact our money market business.

Other Regulation

The U.S. and non-U.S. government agencies, regulatory bodies and self-regulatory organizations, as well as state securities commissions and other state regulators in the United States, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease and desist orders, or the suspension or expulsion of a broker-dealer or its directors, officers or employees. In addition, a number of our other activities require us to obtain licenses, adhere to applicable regulations and be subject to the oversight of various regulators in the jurisdictions in which we conduct these activities. From time to time, our subsidiaries have been subject to investigations and proceedings, and sanctions have been imposed for infractions of various regulations relating to our activities.

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In Europe, Goldman Sachs provides investment services that are subject to oversight by national regulators as well as the EU. These investment services are regulated in accordance with national laws, many of which implement EU directives, and increasingly by directly applicable EU regulations. These national and EU laws require, among other things, compliance with certain capital adequacy standards, customer protection requirements and market conduct and trade reporting rules.

Goldman Sachs provides investment services in and from the United Kingdom under the regulation of the FSA. GSI, our regulated U.K. broker-dealer subsidiary, is subject to the capital requirements imposed by the FSA. Other subsidiaries, including Goldman Sachs International Bank (GSIB), our regulated U.K. bank, are also regulated by the FSA. As of December 2012, GSI and GSIB were in compliance with the FSA capital requirements.

Various other Goldman Sachs entities are regulated by the banking, insurance and securities regulatory authorities of the European countries in which they operate, including, among others, the Federal Financial Supervisory Authority (BaFin) and the Bundesbank in Germany, the Autorité de Contrôle Prudentiel and the Autorité des Marchés Financiers in France, the Federal Financial Markets Service and the Central Bank of the Russian Federation and the Swiss Financial Market Supervisory Authority.

The EU and national financial legislators and regulators have proposed or adopted numerous market reforms that may impact our businesses. These include stricter capital and liquidity requirements (including increased capital requirements for market risk for certain of our EU subsidiaries as a result of the new market risk framework of the Basel Committee), risk retention and enhanced disclosure requirements for asset-backed security offerings, reporting requirements and restrictions on short selling and credit default swaps, additional obligations and restrictions on the management and marketing of funds in the EU, and revised market structure, conduct of business and market abuse rules. In addition, the European Commission, the European Securities Market Authority, the European Banking Authority and the European Insurance and Occupational Pensions Authority have announced or are

formulating regulatory standards and other measures which will impact our European operations. Certain Goldman Sachs entities are also regulated by the European securities, derivatives and commodities exchanges of which they are members.

Goldman Sachs Japan Co., Ltd. (GSJCL), our regulated Japanese broker-dealer, is subject to the capital requirements imposed by Japan's Financial Services Agency. As of December 2012, GSJCL was in compliance with its capital adequacy requirements. GSJCL is also regulated by the Tokyo Stock Exchange, the Osaka Securities Exchange, the Tokyo Financial Exchange, the Japan Securities Dealers Association, the Tokyo Commodity Exchange, Securities and Exchange Surveillance Commission, Bank of Japan, the Ministry of Finance and the Ministry of Economy, Trade and Industry, among others.

Also, the Securities and Futures Commission in Hong Kong, the Monetary Authority of Singapore, the China Securities Regulatory Commission, the Korean Financial Supervisory Service, the Reserve Bank of India, the Securities and Exchange Board of India, the Australian Securities and Investments Commission and the Australian Securities Exchange, among others, regulate various of our subsidiaries and also have capital standards and other requirements comparable to the rules of the SEC. Various other Goldman Sachs entities are regulated by the banking and regulatory authorities in countries in which Goldman Sachs operates, including, among others, Brazil and Dubai.

The U.S. Bank Secrecy Act (BSA), as amended by the USA PATRIOT Act of 2001 (PATRIOT Act), contains anti-money laundering and financial transparency laws and mandated the implementation of various regulations applicable to all financial institutions, including standards for verifying client identification at account opening, and obligations to monitor client transactions and report suspicious activities. Through these and other provisions, the BSA and the PATRIOT Act seek to promote the identification of parties that may be involved in terrorism, money laundering or other suspicious activities. Anti-money laundering laws outside the United States contain some similar provisions.

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In addition, we are subject to laws and regulations worldwide, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, relating to corrupt and illegal payments to government officials and others. The obligation of financial institutions, including Goldman Sachs, to identify their clients, to monitor for and report suspicious transactions, to monitor direct and indirect payments to government officials, to respond to requests for information by regulatory authorities and law enforcement agencies, and to share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls that have increased, and may continue to increase, our costs, and any failure with respect to our programs in this area could subject us to substantial liability and regulatory fines.

As discussed above, many of our subsidiaries are subject to regulatory capital requirements in jurisdictions throughout the world. Subsidiaries not subject to separate regulation may hold capital to satisfy local tax guidelines, rating agency requirements or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based upon its underlying risk.

Certain of our businesses are subject to compliance with regulations enacted by U.S. federal and state governments, the EU or other jurisdictions and/or enacted by various regulatory organizations or exchanges relating to the privacy of the information of clients, employees or others, and any failure to comply with these regulations could expose us to liability and/or reputational damage.

Available Information

Our internet address is www.gs.com and the investor relations section of our web site is located at www.gs.com/shareholders. We make available free of charge through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934 (Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are our certificate of incorporation and by-laws, charters for our Audit Committee, Risk Committee, Compensation Committee, and Corporate Governance, Nominating and Public Responsibilities Committee, our Policy Regarding Director Independence Determinations, our Policy on Reporting of Concerns Regarding Accounting and Other Matters, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC, we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer.

In addition, our web site includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

Our Investor Relations Department can be contacted at The Goldman Sachs Group, Inc., 200 West Street, 29th Floor, New York, New York 10282, Attn: Investor Relations, telephone: 212-902-0300, e-mail: gs-investor-relations@gs.com.

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Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995

We have included or incorporated by reference in this Form 10-K, and from time to time our management may make, statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include our belief regarding the effect of changes to the capital and leverage rules applicable to bank holding companies, the impact of the Dodd-Frank Act on our businesses and operations, and various legal proceedings as set forth under Legal Proceedings in Note 27 to the consolidated financial statements in Part II, Item 8 of this Form 10-K, as well as statements about the objectives and effectiveness of our risk management and liquidity policies, statements about trends in or growth opportunities for our businesses, statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation, and statements about our investment banking transaction backlog.

By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed below and under Risk Factors in Part I, Item 1A of this Form 10-K.

In the case of statements about our investment banking transaction backlog, such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues, if any, that we actually earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline or continued weakness in general economic conditions, outbreak of hostilities, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an inability to obtain adequate financing, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. For a discussion of other important factors that could adversely affect our investment banking transactions, see Risk Factors in Part I, Item 1A of this Form 10-K.

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Item 1A. Risk Factors

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal, regulatory and reputational risks. The following are some of the more important factors that could affect our businesses.

Our businesses have been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.

Our businesses, by their nature, do not produce predictable earnings, and all of our businesses are materially affected by conditions in the global financial markets and economic conditions generally, both directly and through their impact on client activity levels. Since 2008, these conditions have changed suddenly and, for a period of time, very negatively. In 2008 and through early 2009, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. In 2011 and 2012, concerns about European sovereign debt risk and its impact on the European banking system, and about U.S. growth and uncertainty regarding U.S. federal fiscal policies, resulted, at times, in significant volatility while negatively impacting the levels of client activity.

Since 2008, governments, regulators and central banks in the United States and worldwide have taken numerous steps to increase liquidity and to restore investor and public confidence. In addition, numerous legislative and regulatory actions have been taken to deal with what regulators, politicians and others believe to be the root causes of the financial crisis, including laws and regulations relating to financial institution capital requirements and compensation practices, restrictions on the type of activities in which financial institutions are permitted to engage, and generally increased regulatory scrutiny. Additional taxes have been, and may in the future be, imposed on us and certain other financial institutions and on financial transactions in which we engage. Many of the regulations that are required to implement this legislation (including the Dodd-Frank Act) are still being developed or are not yet in effect; therefore, the exact impact that these regulations will have on our businesses, results of operations and cash flows is presently unclear.

National and local governments continue to face difficult financial conditions due to significant reductions in tax revenues, particularly from corporate and personal income taxes, as well as increased outlays for unemployment benefits due to high unemployment levels and the cost of stimulus programs.

General uncertainty about economic, political and market activities, and the timing and final details of regulatory reform, as well as a lack of consumer, investor and CEO confidence resulting in large part from such uncertainty, continues to negatively impact client activity which, together with low levels of volatility, has adversely affected many of our businesses.

Our revenues, profitability and return on equity are significantly below 2007 levels, due primarily to the post-2008 economic, financial and political conditions (including the uncertainty about future regulations) and their impact on the markets and the level of client activity. In addition, our revenues and profitability and those of our competitors have been and will continue to be impacted by changes resulting from the financial crisis, including increased capital requirements, minimum liquidity levels and levels of regulatory oversight, as well as limitations on the type of and manner in which certain business activities may be carried out by financial institutions. Financial institution returns have also been negatively impacted by increased funding costs due in part to the withdrawal of perceived government support of such institutions in the event of future financial crises.

The degree to which these and other changes resulting from the financial crisis will have a long-term impact on the profitability of financial institutions will depend on the final interpretation and implementation of new regulations, the manner in which markets, market participants and financial institutions adapt to the new landscape, and the prevailing economic and financial market conditions. However, there is a risk that such changes will, at least in the near-term, continue to negatively impact the absolute level of revenues, profitability and return on equity at our firm and at other financial institutions.

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Our financial performance is highly dependent on the environment in which our businesses operate. A favorable business environment is generally characterized by, among other factors, high global gross domestic product growth, transparent, liquid and efficient capital markets, low inflation, high business and investor confidence, stable geopolitical conditions, regulatory certainty and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: concerns about sovereign defaults; uncertainty in U.S. federal fiscal policy; uncertainty about the timing and nature of regulatory reforms; declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities; outbreaks of hostilities or other geopolitical instability; corporate, political or other scandals that reduce investor confidence in capital markets; extreme weather events or other natural disasters or pandemics; or a combination of these or other factors.

Our businesses have been and may be adversely affected by declining asset values. This is particularly true for those businesses in which we have net long positions, receive fees based on the value of assets managed, or receive or post collateral.

Many of our businesses have net long positions in debt securities, loans, derivatives, mortgages, equities (including private equity and real estate) and most other asset classes. These include positions we take when we act as a principal to facilitate our clients' activities, including our exchange-based market-making activities, or commit large amounts of capital to maintain positions in interest rate and credit products, as well as through our currencies, commodities and equities activities. Because nearly all of these investing, lending and market-making positions are marked-to-market on a daily basis, declines in asset values directly and immediately impact our earnings, unless we have effectively hedged our exposures to such declines. In certain circumstances (particularly in the case of leveraged loans and private equities or other securities that are not freely tradable or lack established and liquid trading markets), it may not be possible or economic to hedge such exposures and to the extent that we do so the hedge may be ineffective or may greatly reduce our ability to profit from increases in the values of the assets. Sudden declines and significant volatility in the prices of assets may substantially

curtail or eliminate the trading markets for certain assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions and the difficulty in valuing assets may require us to maintain additional capital and increase our funding costs.

In our exchange-based market-making activities, we are obligated by stock exchange rules to maintain an orderly market, including by purchasing shares in a declining market. In markets where asset values are declining and in volatile markets, this results in losses and an increased need for liquidity.

We receive asset-based management fees based on the value of our clients' portfolios or investment in funds managed by us and, in some cases, we also receive incentive fees based on increases in the value of such investments. Declines in asset values reduce the value of our clients' portfolios or fund assets, which in turn reduce the fees we earn for managing such assets.

If financial markets decline, revenues from our variable annuity products are likely to decrease. In addition, unanticipated changes in reinvestment returns, policy lapses or mortality rates may also impact earnings from our insurance activities.

We post collateral to support our obligations and receive collateral to support the obligations of our clients and counterparties in connection with our client execution businesses. When the value of the assets posted as collateral declines, the party posting the collateral may need to provide additional collateral or, if possible, reduce its trading position. A classic example of such a situation is a margin call in connection with a brokerage account. Therefore, declines in the value of asset classes used as collateral mean that either the cost of funding positions is increased or the size of positions is decreased. If we are the party providing collateral, this can increase our costs and reduce our profitability and if we are the party receiving collateral, this can also reduce our profitability by reducing the level of business done with our clients and counterparties. In addition, volatile or less liquid markets increase the difficulty of valuing assets which can lead to costly and time-consuming disputes over asset values and the level of required collateral, as well as increased credit risk to the recipient of the collateral due to delays in receiving adequate collateral.

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Our businesses have been and may be adversely affected by disruptions in the credit markets, including reduced access to credit and higher costs of obtaining credit.

Widening credit spreads, as well as significant declines in the availability of credit, have in the past adversely affected our ability to borrow on a secured and unsecured basis and may do so in the future. We fund ourselves on an unsecured basis by issuing long-term debt, by accepting deposits at our bank subsidiaries, by issuing promissory notes and commercial paper or by obtaining bank loans or lines of credit. We seek to finance many of our assets on a secured basis, including by entering into repurchase agreements. Any disruptions in the credit markets may make it harder and more expensive to obtain funding for our businesses. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability, particularly in our businesses that involve investing, lending and market making.

Our clients engaging in mergers and acquisitions often rely on access to the secured and unsecured credit markets to finance their transactions. A lack of available credit or an increased cost of credit can adversely affect the size, volume and timing of our clients' merger and acquisition transactions—particularly large transactions—and adversely affect our financial advisory and underwriting businesses.

In addition, we may incur significant unrealized gains or losses due solely to changes in our credit spreads or those of third parties, as these changes may affect the fair value of our derivative instruments and the debt securities that we hold or issue.

Our market-making activities have been and may be affected by changes in the levels of market volatility.

Certain of our market-making activities depend on market volatility to provide trading and arbitrage opportunities to our clients, and decreases in volatility may reduce these opportunities and adversely affect the results of these activities. On the other hand, increased volatility, while it can increase trading volumes and spreads, also increases risk as measured by Value-at-Risk (VaR) and may expose us to increased risks in connection with our market-making activities or cause us to reduce our market-making

positions in order to avoid increasing our VaR. Limiting the size of our market-making positions can adversely affect our profitability. In periods when volatility is increasing, but asset values are declining significantly, it may not be possible to sell assets at all or it may only be possible to do so at steep discounts. In such circumstances we may be forced to either take on additional risk or to incur losses in order to decrease our VaR. In addition, increases in volatility increase the level of our RWAs and increase our capital requirements, both of which in turn increase our funding costs.

Our investment banking, client execution and investment management businesses have been adversely affected and may continue to be adversely affected by market uncertainty or lack of confidence among investors and CEOs due to general declines in economic activity and other unfavorable economic, geopolitical or market conditions.

Our investment banking business has been and may continue to be adversely affected by market conditions. Poor economic conditions and other adverse geopolitical conditions can adversely affect and have adversely affected investor and CEO confidence, resulting in significant industry-wide declines in the size and number of underwritings and of financial advisory transactions, which could have an adverse effect on our revenues and our profit margins. In particular, because a significant portion of our investment banking revenues is derived from our participation in large transactions, a decline in the number of large transactions would adversely affect our investment banking business.

In certain circumstances, market uncertainty or general declines in market or economic activity may affect our client execution businesses by decreasing levels of overall activity or by decreasing volatility, but at other times market uncertainty and even declining economic activity may result in higher trading volumes or higher spreads or both.

Market uncertainty, volatility and adverse economic conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our funds or other products or their brokerage accounts and result in reduced net revenues, principally in our investment management business. To the extent that clients do not withdraw their funds, they may invest them in products that generate less fee income.

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Our investment management business may be affected by the poor investment performance of our investment products.

Poor investment returns in our investment management business, due to either general market conditions or underperformance (relative to our competitors or to benchmarks) by funds or accounts that we manage or investment products that we design or sell, affects our ability to retain existing assets and to attract new clients or additional assets from existing clients. This could affect the management and incentive fees that we earn on assets under supervision or the commissions and net spreads that we earn for selling other investment products, such as structured notes or derivatives.

We may incur losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. Our risk management process seeks to balance our ability to profit from market-making, investing or lending positions with our exposure to potential losses. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, we may, in the course of our activities, incur losses. Market conditions in recent years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

The models that we use to assess and control our risk exposures reflect assumptions about the degrees of correlation or lack thereof among prices of various asset classes or other market indicators. In times of market stress or other unforeseen circumstances, such as occurred during 2008 and early 2009, and to some extent in 2011 and 2012, previously uncorrelated indicators may become correlated, or conversely previously correlated indicators may move in different directions. These types of market movements have at times limited the effectiveness of our hedging strategies and have caused us to incur significant losses, and they may

do so in the future. These changes in correlation can be exacerbated where other market participants are using risk or trading models with assumptions or algorithms that are similar to ours. In these and other cases, it may be difficult to reduce our risk positions due to the activity of other market participants or widespread market dislocations, including circumstances where asset values are declining significantly or no market exists for certain assets.

To the extent that we have positions through our market-making or origination activities or we make investments directly through our investing activities in securities, including private equity, that do not have an established liquid trading market or are otherwise subject to restrictions on sale or hedging, we may not be able to reduce our positions and therefore reduce our risk associated with such positions. In addition, we invest our own capital in private equity, credit, real estate and hedge funds that we manage and limitations on our ability to withdraw some or all of our investments in these funds, whether for legal, reputational or other reasons, may make it more difficult for us to control the risk exposures relating to these investments.

For a further discussion of our risk management policies and procedures, see Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management in Part II, Item 7 of this Form 10-K.

Our liquidity, profitability and businesses may be adversely affected by an inability to access the debt capital markets or to sell assets or by a reduction in our credit ratings or by an increase in our credit spreads.

Liquidity is essential to our businesses. Our liquidity may be impaired by an inability to access secured and/or unsecured debt markets, an inability to access funds from our subsidiaries, an inability to sell assets or redeem our investments, or unforeseen outflows of cash or collateral. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects third parties or us, or even by the perception among market participants that we, or other market participants, are experiencing greater liquidity risk.

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The financial instruments that we hold and the contracts to which we are a party are often complex, as we employ structured products to benefit our clients and ourselves, and these complex structured products often do not have readily available markets to access in times of liquidity stress. Our investing and lending activities may lead to situations where the holdings from these activities represent a significant portion of specific markets, which could restrict liquidity for our positions.

Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis. In addition, financial institutions with which we interact may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair our access to liquidity.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, limit our access to the capital markets or trigger our obligations under certain provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with Goldman Sachs or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements. Certain rating agencies have indicated that the Dodd-Frank Act could result in the rating agencies reducing their assumed level of government support and therefore result in ratings downgrades for certain large financial institutions, including Goldman Sachs. As of December 2012, each of Moody's Investors Service, Standard & Poor's Ratings Services and Ratings and Investment Information, Inc. had issued a negative outlook on our long-term credit ratings. As of December 2012, in the event of a one-notch and two-notch downgrade of our credit ratings our counterparties could have called for additional collateral or termination payments in an aggregate amount of \$1.5 billion and \$2.5 billion, respectively.

Our cost of obtaining long-term unsecured funding is directly related to our credit spreads (the amount in excess of the interest rate of U.S. Treasury securities (or other benchmark securities) of the same maturity that we need to pay to our debt investors). Increases in our credit spreads can significantly increase our cost of this funding. Changes in credit spreads are continuous, market-driven, and subject at times to unpredictable and highly volatile movements. Our credit spreads are also influenced by market perceptions of our creditworthiness. In addition, our credit spreads may be influenced by movements in the costs to purchasers of credit default swaps referenced to our long-term debt. The market for credit default swaps, although very large, has proven to be extremely volatile and at times may lack a high degree of structure or transparency.

Conflicts of interest are increasing and a failure to appropriately identify and address conflicts of interest could adversely affect our businesses.

As we have expanded the scope of our businesses and our client base, we increasingly must address potential conflicts of interest, including situations where our services to a particular client or our own investments or other interests conflict, or are perceived to conflict, with the interests of another client, as well as situations where one or more of our businesses have access to material non-public information that may not be shared with other businesses within the firm and situations where we may be a creditor of an entity with which we also have an advisory or other relationship.

In addition, our status as a bank holding company subjects us to heightened regulation and increased regulatory scrutiny by the Federal Reserve Board with respect to transactions between GS Bank USA and entities that are or could be viewed as affiliates of ours.

We have extensive procedures and controls that are designed to identify and address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses. However, appropriately identifying and dealing with conflicts of interest is complex and difficult, and our reputation, which is one of our most important assets, could be damaged and the willingness of clients to enter into transactions with us may be affected if we fail, or appear to fail, to identify, disclose and deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions.

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Group Inc. is a holding company and is dependent for liquidity on payments from its subsidiaries, many of which are subject to restrictions.

Group Inc. is a holding company and, therefore, depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Many of our subsidiaries, including our broker-dealer, bank and insurance subsidiaries, are subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Group Inc. In addition, our broker-dealer, bank and insurance subsidiaries are subject to restrictions on their ability to lend or transact with affiliates and to minimum regulatory capital requirements, as well as restrictions on their ability to use funds deposited with them in brokerage or bank accounts to fund their businesses. Additional restrictions on related-party transactions, increased capital and liquidity requirements and additional limitations on the use of funds on deposit in bank or brokerage accounts, as well as lower earnings, can reduce the amount of funds available to meet the obligations of Group Inc. and even require Group Inc. to provide additional funding to such subsidiaries. Restrictions or regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on its obligations, including debt obligations, or dividend payments. In addition, Group Inc.'s right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

As a result of the 2008 financial crisis, there has been a trend towards increased regulation and supervision of our subsidiaries by the governments and regulators in the countries in which those subsidiaries are incorporated or do business. Concerns about protecting clients and creditors of financial institutions that are controlled by persons or entities located outside of the country in which such entities are incorporated or do business have caused or may cause a number of governments and regulators to take additional steps to ring fence such entities in order to protect clients and creditors of such entities in the event of financial difficulties involving such entities. The result has been and may continue to be additional limitations on our ability to efficiently move capital and liquidity among our affiliated entities, thereby increasing the overall level of capital and liquidity required by the firm on a consolidated basis.

Furthermore, Group Inc. has guaranteed the payment obligations of certain of its subsidiaries, including GS&Co., GS Bank USA and GSEC subject to certain exceptions, and has pledged significant assets to GS Bank USA to support obligations to GS Bank USA. In addition, Group Inc. guarantees many of the obligations of its other consolidated subsidiaries on a transaction-by-transaction basis, as negotiated with counterparties. These guarantees may require Group Inc. to provide substantial funds or assets to its subsidiaries or their creditors or counterparties at a time when Group Inc. is in need of liquidity to fund its own obligations. See **Business Regulation** in Part I, Item 1 of this Form 10-K for a further discussion of regulatory restrictions.

Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us.

We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of our rights. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

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As part of our clearing and prime brokerage activities, we finance our clients' positions, and we could be held responsible for the defaults or misconduct of our clients. Although we regularly review credit exposures to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee.

Concentration of risk increases the potential for significant losses in our market-making, underwriting, investing and lending activities.

Concentration of risk increases the potential for significant losses in our market-making, underwriting, investing and lending activities. The number and size of such transactions may affect our results of operations in a given period. Moreover, because of concentration of risk, we may suffer losses even when economic and market conditions are generally favorable for our competitors. Disruptions in the credit markets can make it difficult to hedge these credit exposures effectively or economically. In addition, we extend large commitments as part of our credit origination activities. The Dodd-Frank Act will require issuers of asset-backed securities and any person who organizes and initiates an asset-backed securities transaction to retain economic exposure to the asset, which could significantly increase the cost to us of engaging in securitization activities. Our inability to reduce our credit risk by selling, syndicating or securitizing these positions, including during periods of market stress, could negatively affect our results of operations due to a decrease in the fair value of the positions, including due to the insolvency or bankruptcy of the borrower, as well as the loss of revenues associated with selling such securities or loans.

In the ordinary course of business, we may be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, and a failure or downgrade of, or default by, such entity could negatively impact our businesses, perhaps materially, and the systems by which we set limits and monitor the level of our credit exposure to individual entities, industries and countries may not function as we have anticipated. While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties engaged in financial services activities, including brokers and dealers,

commercial banks, clearing houses, exchanges and investment funds. This has resulted in significant credit concentration with respect to these counterparties. Provisions of the Dodd-Frank Act are expected to lead to increased centralization of trading activity through particular clearing houses, central agents or exchanges, which may increase our concentration of risk with respect to these entities.

The financial services industry is highly competitive.

The financial services industry and all of our businesses are intensely competitive, and we expect them to remain so. We compete on the basis of a number of factors, including transaction execution, our products and services, innovation, reputation, creditworthiness and price. Over time, there has been substantial consolidation and convergence among companies in the financial services industry. This trend accelerated over recent years as a result of numerous mergers and asset acquisitions among industry participants. This trend has also hastened the globalization of the securities and other financial services markets. As a result, we have had to commit capital to support our international operations and to execute large global transactions. To the extent we expand into new business areas and new geographic regions, we will face competitors with more experience and more established relationships with clients, regulators and industry participants in the relevant market, which could adversely affect our ability to expand. Governments and regulators have recently adopted regulations, imposed taxes or otherwise put forward various proposals that have or may impact our ability to conduct certain of our businesses in a cost-effective manner or at all in certain or all jurisdictions, including proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage. These or other similar rules, many of which do not apply to all our U.S. or non-U.S. competitors, could impact our ability to compete effectively.

Pricing and other competitive pressures in our businesses have continued to increase, particularly in situations where some of our competitors may seek to increase market share by reducing prices. For example, in connection with investment banking and other assignments, we have experienced pressure to extend and price credit at levels that may not always fully compensate us for the risks we take.

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We face enhanced risks as new business initiatives lead us to transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.

A number of our recent and planned business initiatives and expansions of existing businesses may bring us into contact, directly or indirectly, with individuals and entities that are not within our traditional client and counterparty base and expose us to new asset classes and new markets. For example, we continue to transact business and invest in new regions, including a wide range of emerging and growth markets. Furthermore, in a number of our businesses, including where we make markets, invest and lend, we directly or indirectly own interests in, or otherwise become affiliated with the ownership and operation of public services, such as airports, toll roads and shipping ports, as well as power generation facilities, physical commodities and other commodities infrastructure components, both within and outside the United States. Recent market conditions may lead to an increase in opportunities to acquire distressed assets and we may determine opportunistically to increase our exposure to these types of assets.

These activities expose us to new and enhanced risks, including risks associated with dealing with governmental entities, reputational concerns arising from dealing with less sophisticated counterparties and investors, greater regulatory scrutiny of these activities, increased credit-related, sovereign and operational risks, risks arising from accidents or acts of terrorism, and reputational concerns with the manner in which these assets are being operated or held.

Derivative transactions and delayed settlements may expose us to unexpected risk and potential losses.

We are party to a large number of derivative transactions, including credit derivatives. Many of these derivative instruments are individually negotiated and non-standardized, which can make exiting, transferring or settling positions difficult. Many credit derivatives require that we deliver to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, we do not hold the underlying security, loan or other obligation and may not be able to obtain the underlying security, loan or other obligation. This could cause us to forfeit the payments due to us under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to the firm. Derivative transactions may also involve the risk that they are not authorized or appropriate for a counterparty, that documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty.

Derivative contracts and other transactions, including secondary bank loan purchases and sales, entered into with third parties are not always confirmed by the counterparties or settled on a timely basis. While the transaction remains unconfirmed or during any delay in settlement, we are subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce our rights. In addition, as new and more complex derivative products are created, covering a wider array of underlying credit and other instruments, disputes about the terms of the underlying contracts could arise, which could impair our ability to effectively manage our risk exposures from these products and subject us to increased costs. The provisions of the Dodd-Frank Act requiring central clearing of credit derivatives and other OTC derivatives, or a market shift toward standardized derivatives, could reduce the risk associated with such transactions, but under certain circumstances could also limit our ability to develop derivatives that best suit the needs of our clients and ourselves and adversely affect our profitability and increase our credit exposure to such platform.

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Our businesses may be adversely affected if we are unable to hire and retain qualified employees.

Our performance is largely dependent on the talents and efforts of highly skilled individuals; therefore, our continued ability to compete effectively in our businesses, to manage our businesses effectively and to expand into new businesses and geographic areas depends on our ability to attract new talented and diverse employees and to retain and motivate our existing employees. Factors that affect our ability to attract and retain such employees include our compensation and benefits, and our reputation as a successful business with a culture of fairly hiring, training and promoting qualified employees.

Competition from within the financial services industry and from businesses outside the financial services industry for qualified employees has often been intense. This is particularly the case in emerging and growth markets, where we are often competing for qualified employees with entities that have a significantly greater presence or more extensive experience in the region.

As described further in Business Regulation Banking Regulation and Regulation Compensation Practices in Part I, Item 1 of this Form 10-K, our compensation practices are subject to review by, and the standards of, the Federal Reserve Board. As a large financial and banking institution, we are subject to limitations on compensation practices (which may or may not affect our competitors) by the Federal Reserve Board, the FSA, the FDIC or other regulators worldwide. These limitations, including any imposed by or as a result of future legislation or regulation, may require us to alter our compensation practices in ways that could adversely affect our ability to attract and retain talented employees.

Our businesses and those of our clients are subject to extensive and pervasive regulation around the world.

As a participant in the financial services industry and a bank holding company, we are subject to extensive regulation in jurisdictions around the world. We face the risk of significant intervention by regulatory and taxing authorities in all jurisdictions in which we conduct our businesses. Among other things, as a result of regulators enforcing existing laws and regulations, we could be fined, prohibited from engaging in some of our business activities, subject to limitations or conditions on our business activities or subjected to new or substantially higher taxes or other governmental charges in connection with the conduct of our business or with respect to our employees. In many cases, our activities may be subject to overlapping and divergent regulation in different jurisdictions.

There is also the risk that new laws or regulations or changes in enforcement of existing laws or regulations applicable to our businesses or those of our clients, including capital, liquidity and margin requirements, tax burdens and compensation restrictions, could be imposed on a limited subset of financial institutions (either based on size, activities, geography or other criteria), which may adversely affect our ability to compete effectively with other institutions that are not affected in the same way. In addition, regulation imposed on financial institutions or market participants generally, such as taxes on financial transactions, could adversely impact levels of market activity more broadly, and thus impact our businesses.

These developments could impact our profitability in the affected jurisdictions, or even make it uneconomic for us to continue to conduct all or certain of our businesses in such jurisdictions, or could cause us to incur significant costs associated with changing our business practices, restructuring our businesses, moving all or certain of our businesses and our employees to other locations or complying with applicable capital requirements, including liquidating assets or raising capital in a manner that adversely increases our funding costs or otherwise adversely affects our shareholders and creditors.

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U.S. and non-U.S. regulatory developments, in particular the Dodd-Frank Act and Basel 3, have significantly altered the regulatory framework within which we operate and may adversely affect our competitive position and profitability. Among the aspects of the Dodd-Frank Act most likely to affect our businesses are: the prohibition on proprietary trading and the limitation on the sponsorship of, and investment in, hedge funds and private equity funds by bank holding companies and other banking entities; increased capital requirements; increased regulation of and restrictions on OTC derivatives markets and transactions; limitations on incentive compensation; the prohibition on engaging in certain swaps-based activities through an insured depository institution; limitations on affiliate transactions; the annual updating of a resolution plan; increased deposit insurance assessments; and increased standards of care for broker-dealers in dealing with clients. The implementation of higher capital requirements, the liquidity coverage ratio and the net stable funding ratio under Basel 3 may adversely affect our profitability and competitive position, particularly if the requirements do not apply, or do not apply equally, to our competitors or are not implemented uniformly across jurisdictions.

In addition, the attorneys general of a number of states have filed lawsuits against financial institutions alleging, among other things, that the centralized system of recording mortgages and designating a common entity as the mortgage holder is in violation of state law, and other authorities have brought similar actions or indicated that they are contemplating bringing such actions. If this system and related practices are deemed invalid, it may call into question the validity or enforceability of certain mortgage-related obligations under securitizations and other transactions in which we have participated, negatively impact the market for mortgages and mortgage-related products and our mortgage-related activities, or subject us to additional costs or penalties.

For a discussion of the extensive regulation to which our businesses are subject, see **Business Regulation** in Part I, Item 1 of this Form 10-K.

We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to compensation, our business practices, our past actions and other matters has increased dramatically in the past several years. The financial crisis and the current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials. Press coverage and other public statements that assert some form of wrongdoing often result in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits. Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time-consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation and on the morale and performance of our employees, which could adversely affect our businesses and results of operations.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, result in the disclosure of confidential information, damage our reputation and cause losses.

Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as the information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards.

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As our client base and our geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. Our financial, accounting, data processing or other operational systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, adversely affecting our ability to process these transactions or provide these services. We must continuously update these systems to support our operations and growth and to respond to changes in regulations and markets. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones.

In addition, we also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions, and as our interconnectivity with our clients grows, we increasingly face the risk of operational failure with respect to our clients' systems.

In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses and an increasing number of derivative transactions are now or in the near future will be cleared on exchanges, which has increased our exposure to operational failure, termination or capacity constraints of the particular financial intermediaries that we use and could affect our ability to find adequate and cost-effective alternatives in the event of any such failure, termination or constraint. Industry consolidation, whether among market participants or financial intermediaries, increases the risk of operational failure as disparate complex systems need to be integrated, often on an accelerated basis.

Furthermore, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased centrality of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact our ability to conduct business. Any such failure, termination or constraint could adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses or result in financial loss or liability to our clients, impairment of our liquidity, disruption of our businesses, regulatory intervention or reputational damage.

Despite the resiliency plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may include a disruption involving electrical, satellite, undersea cable or other communications, internet, transportation or other services facilities used by us or third parties with which we conduct business. These disruptions may occur as a result of events that affect only our buildings or systems or those of such third parties, or as a result of events with a broader impact globally, regionally or in the cities where those buildings or systems are located.

Nearly all of our employees in our primary locations, including the New York metropolitan area, London, Bangalore, Hong Kong, Tokyo and Salt Lake City, work in close proximity to one another, in one or more buildings. Notwithstanding our efforts to maintain business continuity, given that our headquarters and the largest concentration of our employees are in the New York metropolitan area and our two principal office buildings in the New York area both are located on the waterfront of the Hudson River, depending on the intensity and longevity of the event, a catastrophic event impacting our New York metropolitan area offices, including a terrorist attack, extreme weather event or other hostile or catastrophic event, could very negatively affect our business. If a disruption occurs in one location and our employees in that location are unable to occupy our offices or communicate with or travel to other locations, our ability to service and interact with our clients may suffer, and we may not be able to successfully implement contingency plans that depend on communication or travel.

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Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. We are regularly the target of attempted cyber attacks, including denial-of-service attacks, and must continuously monitor and develop our systems to protect our technology infrastructure and data from misappropriation or corruption. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations, which could impact their ability to transact with us or otherwise result in significant losses or reputational damage. The increased use of mobile technologies can heighten these and other operational risks. We expect to expend significant additional resources on an ongoing basis to modify our protective measures and to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

We routinely transmit and receive personal, confidential and proprietary information by email and other electronic means. We have discussed and worked with clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against cyber attacks, but we do not have, and may be unable to put in place, secure capabilities with all of our clients, vendors, service providers, counterparties and other third parties and we may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a client, vendor, service provider, counterparty or other third party could result in legal liability, regulatory action and reputational harm.

Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause us significant reputational harm, which in turn could seriously harm our business prospects.

We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. See "Legal Proceedings" in Part I, Item 3 of this Form 10-K for a discussion of certain legal proceedings in which we are involved. Our experience has been that legal claims by customers and clients increase in a market downturn and that employment-related claims increase following periods in which we have reduced our staff.

The growth of electronic trading and the introduction of new trading technology may adversely affect our business and may increase competition.

Technology is fundamental to our business and our industry. The growth of electronic trading and the introduction of new technologies is changing our businesses and presenting us with new challenges. Securities, futures and options transactions are increasingly occurring electronically, both on our own systems and through other alternative trading systems, and it appears that the trend toward alternative trading systems will continue and probably accelerate. Some of these alternative trading systems compete with us, particularly our exchange-based market-making activities, and we may experience continued competitive pressures in these and other areas. In addition, the increased use by our clients of low-cost electronic trading systems and direct electronic access to trading markets could cause a reduction in commissions and spreads. As our clients increasingly use our systems to trade directly in the markets, we may incur liabilities as a result of their use of our order routing and execution infrastructure. We have invested significant resources into the development of electronic trading systems and expect to continue to do so, but there is no assurance that the revenues generated by these systems will yield an adequate return on our investment, particularly given the relatively lower commissions arising from electronic trades.

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Our commodities activities, particularly our power generation interests and our physical commodities activities, subject us to extensive regulation, potential catastrophic events and environmental, reputational and other risks that may expose us to significant liabilities and costs.

We engage in, or invest in entities that engage in, the production, storage, transportation, marketing and trading of numerous commodities, including crude oil, oil products, natural gas, electric power, agricultural products, metals (base and precious), minerals (including uranium), emission credits, coal, freight, liquefied natural gas and related products and indices. These activities subject us to extensive and evolving federal, state and local energy, environmental and other governmental laws and regulations worldwide, including environmental laws and regulations relating to, among others, air quality, water quality, waste management, transportation of hazardous substances, natural resources, site remediation and health and safety. Additionally, rising climate change concerns may lead to additional regulation that could increase the operating costs and profitability of our investments.

We may incur substantial costs in complying with current or future laws and regulations relating to our commodities-related activities and investments, particularly electric power generation, transportation and storage of physical commodities and wholesale sales and trading of electricity and natural gas. Compliance with these laws and regulations could require us to commit significant capital toward environmental monitoring, installation of pollution control equipment, renovation of storage facilities or transport vessels, payment of emission fees and carbon or other taxes, and application for, and holding of, permits and licenses.

Our commodities-related activities are also subject to the risk of unforeseen or catastrophic events, many of which are outside of our control, including breakdown or failure of power generation equipment, transmission lines, transport vessels, storage facilities or other equipment or processes or other mechanical malfunctions, fires, leaks, spills or release of hazardous substances, performance below expected levels of output or efficiency, terrorist attacks, extreme weather events or other natural disasters or other hostile or catastrophic events. In addition, we rely on third-party suppliers or service providers to perform their contractual obligations and any failure on their part, including the failure to obtain raw materials at reasonable prices or to safely transport or store commodities, could adversely affect our activities. Also, we may not be able to obtain insurance to cover some of these risks and the insurance that we have may be inadequate to cover our losses.

The occurrence of any of such events may prevent us from performing under our agreements with clients, may impair our operations or financial results and may result in litigation, regulatory action, negative publicity or other reputational harm.

In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks that are inherent in operating in many countries.

In conducting our businesses and maintaining and supporting our global operations, we are subject to risks of possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities or acts of terrorism. In many countries, the laws and regulations applicable to the securities and financial services industries and many of the transactions in which we are involved are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Any determination by local regulators that we have not acted in compliance with the application of local laws in a particular market or our failure to develop effective working relationships with local regulators could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure might not be legally enforceable in all cases.

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Our businesses and operations are increasingly expanding into new regions throughout the world, including emerging and growth markets, and we expect this trend to continue. Various emerging and growth market countries have experienced severe economic and financial disruptions, including significant devaluations of their currencies, defaults or threatened defaults on sovereign debt, capital and currency exchange controls, and low or negative growth rates in their economies, as well as military activity or acts of terrorism. The possible effects of any of these conditions include an adverse impact on our businesses and increased volatility in financial markets generally.

While business and other practices throughout the world differ, our principal legal entities are subject in their operations worldwide to rules and regulations relating to corrupt and illegal payments and money laundering, as well as laws relating to doing business with certain individuals, groups and countries, such as the U.S. Foreign Corrupt Practices Act, the USA PATRIOT Act and U.K. Bribery Act. While we have invested and continue to invest significant resources in training and in compliance monitoring, the geographical diversity of our operations, employees, clients and customers, as well as the vendors and other third parties that we deal with, greatly increases the risk that we may be found in violation of such rules or regulations and any such violation could subject us to significant penalties or adversely affect our reputation.

In addition, there have been a number of highly publicized cases around the world, involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. This misconduct has included and may include in the future the theft of proprietary information, including proprietary software. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity have not been and may not be effective in all cases.

We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events or other natural disasters.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks, extreme weather events or other natural disasters, could create economic and financial disruptions, could lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses.

In our life and our property catastrophe insurance activities, losses related to unforeseen or catastrophic events could significantly exceed the related reserves and reinsurance proceeds.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Item 1B. Unresolved Staff Comments

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the end of our fiscal year relating to our periodic or current reports under the Exchange Act.

Item 2. Properties

Our principal executive offices are located at 200 West Street, New York, New York and comprise approximately 2.1 million gross square feet. The building is located on a parcel leased from Battery Park City Authority pursuant to a ground lease. Under the lease, Battery Park City Authority holds title to all improvements, including the office building, subject to Goldman Sachs' right of exclusive possession and use until June 2069, the expiration date of the lease. Under the terms of the ground lease, we made a lump sum ground rent payment in June 2007 of \$161 million for rent through the term of the lease.

We have offices at 30 Hudson Street in Jersey City, New Jersey, which we own and which include approximately 1.6 million gross square feet of office space, and we own over 700,000 square feet of additional commercial space spread among four locations in New York and New Jersey. We also have offices with approximately 450,000 rentable square feet in the New York Metropolitan Area.

We have additional offices in the United States and elsewhere in the Americas, which together comprise approximately 2.0 million rentable square feet of leased space.

In Europe, the Middle East and Africa, we have offices that total approximately 1.8 million rentable square feet of leased and owned space. Our European headquarters is located in London at Peterborough Court, pursuant to a lease expiring in 2026. In total, we have offices with approximately 1.2 million rentable square feet in London, relating to various properties.

In Asia (including India), Australia and New Zealand, we have offices with approximately 1.9 million rentable square feet. Our headquarters in this region are in Tokyo, at the Roppongi Hills Mori Tower, and in Hong Kong, at the Cheung Kong Center. In Tokyo, we currently have offices with approximately 340,000 rentable square feet, the majority of which have leases that will expire in 2018. In Hong Kong, we currently have offices with approximately 340,000 rentable square feet, the majority of which have leases that will expire in 2017.

See Management's Discussion and Analysis of Financial Condition and Results of Operations—Off-Balance-Sheet Arrangements and Contractual Obligations—Contractual Obligations in Part II, Item 7 of this Form 10-K for a discussion of exit costs we may incur in the future to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth.

Item 3. Legal Proceedings

We are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages. However, we believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition, but may be material to our operating results for any particular period, depending, in part, upon the operating results for such period. Given the range of litigation and investigations presently under way, our litigation expenses can be expected to remain high. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Use of Estimates in Part II, Item 7 of this Form 10-K. See Note 27 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information on certain judicial, regulatory and legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Executive Officers of The Goldman Sachs Group, Inc.

Set forth below are the name, age, present title, principal occupation and certain biographical information for our executive officers. All of our executive officers have been appointed by and serve at the pleasure of our board of directors.

Lloyd C. Blankfein, 58

Mr. Blankfein has been our Chairman and Chief Executive Officer since June 2006, and a director since April 2003.

Alan M. Cohen, 62

Mr. Cohen has been an Executive Vice President of Goldman Sachs and our Global Head of Compliance since February 2004.

Gary D. Cohn, 52

Mr. Cohn has been our President and Chief Operating Officer (or Co-Chief Operating Officer) and a director since June 2006.

Edith W. Cooper, 51

Ms. Cooper has been an Executive Vice President of Goldman Sachs since April 2011 and our Global Head of Human Capital Management since March 2008. From 2002 to 2008, she served in various positions at the firm, including sales management within the Securities Division.

J. Michael Evans, 55

Mr. Evans has been our global head of Growth Markets since January 2011 and a Vice Chairman of Goldman Sachs since February 2008. From 2004 to June 2012, Mr. Evans was Chairman of Goldman Sachs Asia Pacific.

Gregory K. Palm, 64

Mr. Palm has been an Executive Vice President of Goldman Sachs since May 1999, and our General Counsel and head or co-head of the Legal Department since May 1992.

John F.W. Rogers, 56

Mr. Rogers has been an Executive Vice President of Goldman Sachs since April 2011 and Chief of Staff and Secretary to the Board of Directors of Goldman Sachs since December 2001.

Harvey M. Schwartz, 48

Mr. Schwartz has been an Executive Vice President of Goldman Sachs and our Chief Financial Officer since January 2013. From February 2008 to January 2013, Mr. Schwartz was global co-head of the Securities Division.

Mark Schwartz, 58

Mr. Schwartz has been a Vice Chairman of Goldman Sachs and Chairman of Goldman Sachs Asia Pacific since rejoining the firm in June 2012. From 2006 to June 2012, he was Chairman of MissionPoint Capital Partners, an investment firm he co-founded.

Michael S. Sherwood, 47

Mr. Sherwood has been a Vice Chairman of Goldman Sachs since February 2008 and co-chief executive officer of Goldman Sachs International since 2005.

John S. Weinberg, 56

Mr. Weinberg has been a Vice Chairman of Goldman Sachs since June 2006. He has been co-head of Goldman Sachs Investment Banking Division since December 2002.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

PART II**Item 5. Market for Registrant's Common Equity,
Related Stockholder Matters and Issuer Purchases
of Equity Securities**

The principal market on which our common stock is traded is the NYSE. Information relating to the high and low sales prices per share of our common stock, as reported by the Consolidated Tape Association, for each full quarterly period during 2011 and 2012 is set forth under the heading "Supplemental Financial Information - Common Stock Price Range" in Part II, Item 8 of this Form 10-K. As of February 15, 2013, there were 13,297 holders of record of our common stock.

During 2011 and 2012, dividends of \$0.35 per common share were declared on January 18, 2011, April 18, 2011, July 18, 2011, October 17, 2011 and January 17, 2012, dividends of \$0.46 per common share were declared on April 16, 2012 and July 16, 2012 and a dividend of \$0.50 per common share was declared on October 15, 2012. The holders of our common stock share proportionately on a per share basis in all dividends and other distributions on common stock declared by the Board of Directors of Group Inc. (Board).

The declaration of dividends by Group Inc. is subject to the discretion of our Board. Our Board will take into account such matters as general business conditions, our financial results, capital requirements, contractual, legal and regulatory restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us, the effect on our debt ratings and such other factors as our Board may deem relevant. See "Business - Regulation" in Part I, Item 1 of this Form 10-K for a discussion of potential regulatory limitations on our receipt of funds from our regulated subsidiaries and our payment of dividends to shareholders of Group Inc.

The table below sets forth the information with respect to purchases made by or on behalf of Group Inc. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act), of our common stock during the fourth quarter of our year ended December 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ¹	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs ¹
Month #1				
(October 1, 2012 to October 31, 2012)	2,698,223	\$121.96	2,698,223	31,486,968
Month #2				
(November 1, 2012 to November 30, 2012)	6,343,995	119.01	6,343,995	25,142,973
Month #3				
(December 1, 2012 to December 31, 2012)	3,654,122	120.66	3,654,122	21,488,851
Total	12,696,340		12,696,340	

1.

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On March 21, 2000, we announced that our Board had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 325 million shares by resolutions of our Board adopted on June 18, 2001, March 18, 2002, November 20, 2002, January 30, 2004, January 25, 2005, September 16, 2005, September 11, 2006, December 17, 2007 and July 18, 2011. We use our share repurchase program to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm's current and projected capital position (i.e., comparisons of our desired level and composition of capital to our actual level and composition of capital), but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock. The repurchase program has no set expiration or termination date. Any repurchase of our common stock requires approval by the Federal Reserve Board.

Information relating to compensation plans under which our equity securities are authorized for issuance is presented in Part III, Item 12 of this Form 10-K.

Item 6. Selected Financial Data

The Selected Financial Data table is set forth under Part II, Item 8 of this Form 10-K.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Introduction

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

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

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

References to "this Form 10-K" are to our Annual Report on Form 10-K for the year ended December 31, 2012. All references to 2012, 2011 and 2010 refer to our years ended, or the dates, as the context requires, December 31, 2012, December 31, 2011 and December 31, 2010, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

In this discussion and analysis of our financial condition and results of operations, we have included information that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. This information includes statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include statements about the objectives and effectiveness of our risk management and liquidity policies, statements about trends in or growth opportunities for our businesses, statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation, and statements about our investment banking transaction backlog. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in these forward-looking statements include, among others, those discussed below under "Certain Risk Factors That May Affect Our Businesses" as well as "Risk Factors" in Part I, Item 1A of this Form 10-K and "Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995" in Part I, Item 1 of this Form 10-K.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Executive Overview

The firm generated net earnings of \$7.48 billion for 2012, compared with \$4.44 billion and \$8.35 billion for 2011 and 2010, respectively. Our diluted earnings per common share were \$14.13 for 2012, compared with \$4.51¹ for 2011 and \$13.18² for 2010. Return on average common shareholders' equity (ROE) was 10.7% for 2012, compared with 3.7%¹ for 2011 and 11.5%² for 2010.

Book value per common share increased approximately 11% to \$144.67 and tangible book value per common share⁴ increased approximately 12% to \$134.06 compared with the end of 2011. During the year, the firm repurchased 42.0 million shares of its common stock for a total cost of \$4.64 billion. Our Tier 1 capital ratio under Basel 1 was 16.7% and our Tier 1 common ratio under Basel 1⁵ was 14.5% as of December 2012.

The firm generated net revenues of \$34.16 billion for 2012. These results reflected significantly higher net revenues in Investing & Lending, as well as higher net revenues in Institutional Client Services, Investment Banking and Investment Management compared with 2011.

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

Investment Banking

Net revenues in Investment Banking increased compared with 2011, reflecting significantly higher net revenues in our Underwriting business, due to strong net revenues in debt underwriting. Net revenues in debt underwriting were significantly higher compared with 2011, primarily reflecting higher net revenues from investment-grade and leveraged finance activity. Net revenues in equity underwriting were lower compared with 2011, primarily reflecting a decline in industry-wide initial public offerings. Net revenues in Financial Advisory were essentially unchanged compared with 2011.

Institutional Client Services

Net revenues in Institutional Client Services increased compared with 2011, reflecting higher net revenues in Fixed Income, Currency and Commodities Client Execution.

The increase in Fixed Income, Currency and Commodities Client Execution compared with 2011 reflected strong net revenues in mortgages, which were significantly higher compared with 2011. In addition, net revenues in credit products and interest rate products were solid and higher compared with 2011. These increases were partially offset by significantly lower net revenues in commodities and slightly lower net revenues in currencies. Although broad market concerns persisted during 2012, Fixed Income, Currency and Commodities Client Execution operated in a generally improved environment characterized by tighter credit spreads and less challenging market-making conditions compared with 2011.

1. Excluding the impact of the preferred dividend of \$1.64 billion in the first quarter of 2011 (calculated as the difference between the carrying value and the redemption value of the preferred stock), related to the redemption of our 10% Cumulative Perpetual Preferred Stock, Series G (Series G Preferred Stock) held by Berkshire Hathaway Inc. and certain of its subsidiaries (collectively, Berkshire Hathaway), diluted earnings per common share were \$7.46 and ROE was 5.9% for 2011. We believe that presenting our results for 2011 excluding this dividend is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and ROE excluding this dividend are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. See Results of Operations' Financial Overview' below for further information about our calculation of diluted earnings per common share and ROE excluding the impact of this dividend.

2.

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Excluding the impact of the \$465 million related to the U.K. bank payroll tax, the \$550 million related to the SEC settlement and the \$305 million impairment of our New York Stock Exchange (NYSE) Designated Market Maker (DMM) rights, diluted earnings per common share were \$15.22 and ROE was 13.1% for 2010. We believe that presenting our results for 2010 excluding the impact of these items is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and ROE excluding these items are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. See Results of Operations Financial Overview below for further information about our calculation of diluted earnings per common share and ROE excluding the impact of these items.

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

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

5. Tier 1 common ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. See Equity Capital Consolidated Regulatory Capital Ratios below for further information about our Tier 1 common ratio.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Net revenues in Equities were essentially unchanged compared with 2011. Net revenues in securities services were significantly higher compared with 2011, reflecting a gain of approximately \$500 million on the sale of our hedge fund administration business. In addition, equities client execution net revenues were higher than 2011, primarily reflecting significantly higher results in cash products, principally due to increased levels of client activity. These increases were offset by lower commissions and fees, reflecting lower market volumes. During 2012, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels.

The net loss attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$714 million (\$433 million and \$281 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2012, compared with a net gain of \$596 million (\$399 million and \$197 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2011.

Investing & Lending

Net revenues in Investing & Lending were \$5.89 billion and \$2.14 billion for 2012 and 2011, respectively. During 2012, Investing & Lending net revenues were positively impacted by tighter credit spreads and an increase in global equity prices. Results for 2012 included a gain of \$408 million from our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC), net gains of \$2.39 billion from other investments in equities, primarily in private equities, net gains and net interest income of \$1.85 billion from debt securities and loans, and other net revenues of \$1.24 billion, principally related to our consolidated investment entities.

Results for 2011 included a loss of \$517 million from our investment in the ordinary shares of ICBC and net gains of \$1.12 billion from other investments in equities, primarily in private equities, partially offset by losses from public equities. In addition, Investing & Lending included net revenues of \$96 million from debt securities and loans. This amount includes approximately \$1 billion of unrealized losses related to relationship lending activities, including the effect of hedges, offset by net interest income and net gains from other debt securities and loans. Results for 2011 also included other net revenues of \$1.44 billion, principally related to our consolidated investment entities.

Investment Management

Net revenues in Investment Management increased compared with 2011, due to significantly higher incentive fees, partially offset by lower transaction revenues and slightly lower management and other fees. During the year, assets under supervision¹ increased \$70 billion to \$965 billion. Assets under management increased \$26 billion to \$854 billion, reflecting net market appreciation of \$44 billion, primarily in fixed income and equity assets, partially offset by net outflows of \$18 billion. Net outflows in assets under management included outflows in equity, alternative investment and money market assets, partially offset by inflows in fixed income assets². Other client assets increased \$44 billion to \$111 billion, primarily due to net inflows², principally in client assets invested with third-party managers and assets related to advisory relationships.

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

1. Assets under supervision include assets under management and other client assets. Assets under management include client assets where we earn a fee for managing assets on a discretionary basis. Other client assets include client assets invested with third-party managers, private bank deposits and assets related to advisory relationships where we earn a fee for advisory and other services, but do not have discretion over the assets.

2. Includes \$34 billion of fixed income asset inflows in connection with our acquisition of Dwight Asset Management Company LLC (Dwight Asset Management), including \$17 billion in assets under management and \$17 billion in other client assets, and \$5 billion of fixed income and equity asset outflows in connection with our liquidation of Goldman Sachs Asset Management Korea Co., Ltd. (Goldman Sachs Asset Management Korea, formerly known as Macquarie IMM Investment Management), all related to assets under management, for the year ended December 2012.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Business Environment

Global economic conditions generally weakened in 2012, as real gross domestic product (GDP) growth slowed in most major economies. Market sentiment was affected by continued broad market concerns and uncertainties, although positive developments helped to improve market conditions. These developments included certain central bank actions to ease monetary policy and address funding risks for European financial institutions. In addition, the U.S. economy posted stable to improving economic data, including favorable developments in unemployment and housing. These improvements resulted in tighter credit spreads, higher global equity prices and lower levels of volatility. However, concerns about the outlook for the global economy and continued political uncertainty, particularly the political debate in the United States surrounding the fiscal cliff, generally resulted in client risk aversion and lower activity levels. Also, uncertainty over financial regulatory reform persisted. These concerns weighed on investment banking activity, as completed mergers and acquisitions activity declined compared with 2011, and equity and equity-related underwriting activity remained low, particularly in initial public offerings. However, industry-wide debt underwriting activity improved compared with 2011. For a further discussion of how market conditions may affect our businesses, see "Certain Risk Factors That May Affect Our Businesses" below as well as "Risk Factors" in Part I, Item 1A of this Form 10-K.

Global

During 2012, real GDP growth declined in most advanced economies and emerging markets. In advanced economies, the slowdown primarily reflected a decline in consumer expenditure and fixed investment growth, particularly in Europe, as well as a deceleration in international trade compared with 2011. In emerging markets, growth in domestic demand weakened, although the contribution from government spending was generally positive. Unemployment levels declined slightly in some economies compared with 2011, but increased in others, particularly in the Euro area. The rate of unemployment continued to

remain elevated in many advanced economies. During 2012, the U.S. Federal Reserve, the Bank of England and the Bank of Japan left interest rates unchanged, while the European Central Bank reduced its interest rate. In addition, the People's Bank of China lowered its one-year benchmark lending rate during the year. The price of crude oil generally declined during 2012. The U.S. dollar weakened against both the Euro and the British pound, while it strengthened against the Japanese yen.

United States

In the United States, real GDP increased by 2.2% in 2012, compared with an increase of 1.8% in 2011. Growth was supported by an acceleration in residential investment and a smaller decrease in state and local government spending, which were partially offset by a slowdown in consumer spending and business investment. Both house prices and housing starts increased. Industrial production expanded in 2012, despite the negative impact of Hurricane Sandy during the fourth quarter. Business and consumer confidence declined during parts of the year, primarily reflecting increased global economic concerns and heightened uncertainties, but ended the year higher compared with the end of 2011. Measures of core inflation on average were higher compared with 2011. The unemployment rate declined during 2012, but remained elevated. The U.S. Federal Reserve maintained its federal funds rate at a target range of zero to 0.25% during the year and extended its program to lengthen the maturity of the U.S. Treasury debt it holds. In addition, the U.S. Federal Reserve announced an open-ended program to purchase U.S. Treasury securities and mortgage-backed securities, as well as a commitment to keep short-term interest rates exceptionally low until the unemployment rate falls to 6.5% or inflation rises materially. The yield on the 10-year U.S. Treasury note fell by 11 basis points during 2012 to 1.78%. In equity markets, the NASDAQ Composite Index, the S&P 500 Index and the Dow Jones Industrial Average increased by 16%, 13% and 7%, respectively, compared with the end of 2011.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis**Europe**

In the Euro area, real GDP declined by 0.5% in 2012, compared with an increase of 1.5% in 2011. The contraction was principally due to a sharp fall in domestic demand, primarily reflecting downturns in consumer spending and fixed investment. Business and consumer confidence declined and measures of core inflation increased slightly during the year. The unemployment rate increased substantially, particularly in Spain and Italy. These negative developments reflected the impact that the sovereign debt crisis had on the region's economic growth, particularly during the first half of the year, as concerns about Greece's debt situation and the fiscal outlook in Spain and Italy intensified. To address these issues, the European Central Bank injected liquidity in the Eurosystem through its longer-term refinancing operations (LTROs), decreased its main refinancing operations rate by 25 basis points to 0.75%, and announced a program to make outright purchases of sovereign bonds in the secondary markets. The Euro appreciated by 2% against the U.S. dollar. In the United Kingdom, real GDP increased by 0.2% in 2012 compared with an increase of 0.9% in 2011. The Bank of England maintained its official bank rate at 0.50% and increased the size of its asset purchase program. The British pound appreciated by 4% against the U.S. dollar. Long-term government bond yields generally declined during the year. In equity markets, the DAX Index, the CAC 40 Index, the Euro Stoxx 50 Index, and the FTSE 100 index increased by 29%, 15%, 14% and 6%, respectively, compared with the end of 2011.

Asia

In Japan, real GDP increased by 1.9% in 2012, compared with a decline of 0.6% in 2011. Fixed investment growth increased, particularly from the public sector, helped by reconstruction efforts following the earthquake and tsunami in 2011. However, the trade balance continued to deteriorate during 2012. Measures of inflation remained negative or close to zero during the year. The Bank of Japan maintained its target overnight call rate at a range of zero to 0.10% during the year, increased the size of its asset purchase program, and announced measures to facilitate

outright purchases of government and corporate bonds. The yield on 10-year Japanese government bonds fell by 20 basis points during the year to 0.79%. The Japanese yen depreciated by 13% against the U.S. dollar and, in equity markets, the Nikkei 225 Index increased by 23%. In China, real GDP increased by 7.8% in 2012, compared with an increase of 9.3% in 2011. Growth slowed as household consumption and fixed investment growth moderated. In addition, growth in industrial production declined. Measures of inflation declined during the year. The People's Bank of China lowered its one-year benchmark lending rate by 56 basis points to 6.00% and reduced the reserve requirement ratio by 100 basis points during the year. The Chinese yuan appreciated slightly against the U.S. dollar and, in equity markets, the Shanghai Composite Index increased by 3%. In India, real GDP increased by an estimated 5.4% in 2012, compared with an increase of 7.5% in 2011. Growth decelerated, primarily reflecting a slowdown in domestic demand growth and a deterioration in the trade balance. The rate of wholesale inflation declined compared with 2011, but remained elevated. The Indian rupee depreciated by 4% against the U.S. dollar and, in equity markets, the BSE Sensex Index increased 26%. Equity markets in Hong Kong and South Korea were higher, as the Hang Seng Index increased 23% and the KOSPI Composite Index increased 9%, respectively, compared with the end of 2011.

Other Markets

In Brazil, real GDP increased by an estimated 1.0% in 2012, compared with an increase of 2.7% in 2011. Growth decelerated, primarily reflecting a decline in private consumption growth and a downturn in fixed investment. The Brazilian real depreciated by 9% against the U.S. dollar and, in equity markets, the Bovespa Index increased by 7% compared with the end of 2011. In Russia, real GDP increased by 3.4% in 2012, compared with 4.3% in 2011. Growth slowed, primarily reflecting a decline in domestic demand growth, particularly during the second half of the year. The Russian ruble appreciated by 5% against the U.S. dollar and, in equity markets, the MICEX Index increased by 5% compared with the end of 2011.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Critical Accounting Policies

Fair Value

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

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

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

Instruments categorized within level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. As of December 2012 and December 2011, level 3 assets represented 5.0% and 5.2%, respectively, of the firm's total assets. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. Estimating the fair value of level 3 financial instruments requires judgments to be made. These judgments include:

- determining the appropriate valuation methodology and/or model for each type of level 3 financial instrument;

- determining model inputs based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations; and

- determining appropriate valuation adjustments related to illiquidity or counterparty credit quality.

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

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

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

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

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

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

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

Collateral Analyses. Margin disputes on derivatives are examined and investigated to determine the impact, if any, on our valuations.

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

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

See Notes 5 through 8 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about fair value measurements.

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

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

the model's suitability for valuation and risk management of a particular instrument type;

the model's accuracy in reflecting the characteristics of the related product and its significant risks;

the suitability of the calculation techniques incorporated in the model;

the model's consistency with models for similar products; and

the model's sensitivity to input parameters and assumptions.

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

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

Total level 3 financial assets were \$47.10 billion and \$47.94 billion as of December 2012 and December 2011, respectively.

See Notes 5 through 8 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about changes in level 3 financial assets and fair value measurements.

	As of December 2012		As of December 2011	
	Total at	Level 3	Total at	Level 3
<i>in millions</i>	Fair Value	Total	Fair Value	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 6,057	\$	\$ 13,440	\$
U.S. government and federal agency obligations	93,241		87,040	
Non-U.S. government and agency obligations	62,250	26	49,205	148
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	9,805	3,389	6,699	3,346
Loans and securities backed by residential real estate	8,216	1,619	7,592	1,709
Bank loans and bridge loans	22,407	11,235	19,745	11,285
Corporate debt securities	20,981	2,821	22,131	2,480
State and municipal obligations	2,477	619	3,089	599
Other debt obligations	2,251	1,185	4,362	1,451
Equities and convertible debentures	96,454	14,855	65,113	13,667
Commodities	11,696		5,762	
Total cash instruments	335,835	35,749	284,178	34,685
Derivatives	71,176	9,920	80,028	11,900
Financial instruments owned, at fair value	407,011	45,669	364,206	46,585
Securities segregated for regulatory and other purposes	30,484		42,014	
Securities purchased under agreements to resell	141,331	278	187,789	557
Securities borrowed	38,395		47,621	

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Receivables from customers and counterparties	7,866	641	9,682	795
Other assets ¹	13,426	507		
Total	\$638,513	\$47,095	\$651,312	\$47,937

1. Consists of assets classified as held for sale related to our reinsurance business, primarily consisting of securities accounted for as available-for-sale and insurance separate account assets, which were previously included in Financial instruments owned, at fair value and Securities segregated for regulatory and other purposes, respectively. See Note 12 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about assets held for sale.

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Goodwill and Identifiable Intangible Assets

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

Estimating the fair value of our reporting units requires management to make judgments. Critical inputs to the fair value estimates include (i) projected earnings, (ii) estimated long-term growth rates and (iii) cost of equity. The net book value of each reporting unit reflects an allocation of total shareholders' equity and represents the estimated amount of shareholders' equity required to support the activities of the reporting unit under guidelines issued by the Basel Committee on Banking Supervision (Basel Committee) in December 2010.

Our market capitalization was below book value during 2012. Accordingly, we performed a quantitative impairment test during the fourth quarter of 2012 and determined that goodwill was not impaired. The estimated fair value of our reporting units in which we hold substantially all of our goodwill significantly exceeded the estimated carrying values. We believe that it is appropriate to consider market capitalization, among other factors, as an indicator of fair value over a reasonable period of time.

If the more recent improvement in market conditions does not continue, and we return to a prolonged period of weakness in the business environment or financial markets, our goodwill could be impaired in the future. In addition, significant changes to critical inputs of the goodwill impairment test (e.g., cost of equity) could cause the estimated fair value of our reporting units to decline, which could result in an impairment of goodwill in the future.

See Note 13 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our goodwill.

Identifiable Intangible Assets. We amortize our identifiable intangible assets (i) over their estimated lives, (ii) based on economic usage or (iii) in proportion to estimated gross profits or premium revenues. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable.

An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. See Note 13 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for the carrying value and estimated remaining lives of our identifiable intangible assets by major asset class and impairments of our identifiable intangible assets.

A prolonged period of market weakness could adversely impact our businesses and impair the value of our identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including (i) decreases in revenues from commodity-related customer contracts and relationships, (ii) decreases in cash receipts from television broadcast royalties, (iii) an adverse action or assessment by a regulator or (iv) adverse actual experience on the contracts in our variable annuity and life insurance business. Management judgment is required to evaluate whether indications of potential impairment have occurred, and to test intangibles for impairment if required.

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Use of Estimates

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

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be reasonably estimated. In accounting for income taxes, we estimate and provide for potential liabilities that may arise out of tax audits to the extent that uncertain tax positions fail to meet the recognition standard under FASB Accounting Standards

Codification 740. See Note 24 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about accounting for income taxes.

Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total estimated liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. See Notes 18 and 27 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information on certain judicial, regulatory and legal proceedings.

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Management's Discussion and Analysis**Results of Operations**

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. See "Certain Risk Factors That May Affect Our Businesses" below and "Risk

Factors" in Part I, Item 1A of this Form 10-K for a further discussion of the impact of economic and market conditions on our results of operations.

Financial Overview

The table below presents an overview of our financial results.

<i>\$ in millions, except per share amounts</i>	Year Ended December		
	2012	2011	2010
Net revenues	\$34,163	\$28,811	\$39,161
Pre-tax earnings	11,207	6,169	12,892
Net earnings	7,475	4,442	8,354
Net earnings applicable to common shareholders	7,292	2,510	7,713
Diluted earnings per common share	14.13	4.51 ²	13.18 ³
Return on average common shareholders' equity	10.7%	3.7% ²	11.5% ³

1. ROE is computed by dividing net earnings applicable to common shareholders by average monthly common shareholders' equity. The table below presents our average common shareholders' equity.

<i>in millions</i>	Average for the		
	Year Ended December		
	2012	2011	2010
Total shareholders' equity	\$72,530	\$72,708	\$74,257
Preferred stock	(4,392)	(3,990)	(6,957)
Common shareholders' equity	\$68,138	\$68,718	\$67,300

2.

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Excluding the impact of the preferred dividend of \$1.64 billion in the first quarter of 2011 (calculated as the difference between the carrying value and the redemption value of the preferred stock), related to the redemption of our Series G Preferred Stock, diluted earnings per common share were \$7.46 and ROE was 5.9% for 2011. We believe that presenting our results for 2011 excluding this dividend is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and ROE excluding this dividend are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. The tables below present the calculation of net earnings applicable to common shareholders, diluted earnings per common share and average common shareholders equity excluding the impact of this dividend.

	Year Ended
<i>in millions, except per share amount</i>	December 2011
Net earnings applicable to common shareholders	\$ 2,510
Impact of the Series G Preferred Stock dividend	1,643
Net earnings applicable to common shareholders, excluding the impact of the Series G Preferred Stock dividend	4,153
Divided by: average diluted common shares outstanding	556.9
Diluted earnings per common share, excluding the impact of the Series G Preferred Stock dividend	\$ 7.46
<i>in millions</i>	Average for the Year Ended December 2011
Total shareholders equity	\$72,708
Preferred stock	(3,990)
Common shareholders equity	68,718
Impact of the Series G Preferred Stock dividend	1,264
Common shareholders equity, excluding the impact of the Series G Preferred Stock dividend	\$69,982

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3. Excluding the impact of the \$465 million related to the U.K. bank payroll tax, the \$550 million related to the SEC settlement and the \$305 million impairment of our NYSE DMM rights, diluted earnings per common share were \$15.22 and ROE was 13.1% for 2010. We believe that presenting our results for 2010 excluding the impact of these items is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and ROE excluding these items are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. The tables below present the calculation of net earnings applicable to common shareholders, diluted earnings per common share and average common shareholders' equity excluding the impact of these items.

<i>in millions, except per share amount</i>	Year Ended December 2010
Net earnings applicable to common shareholders	\$ 7,713
Impact of the U.K. bank payroll tax	465
Pre-tax impact of the SEC settlement	550
Tax impact of the SEC settlement	(6)
Pre-tax impact of the NYSE DMM rights impairment	305
Tax impact of the NYSE DMM rights impairment	(118)
Net earnings applicable to common shareholders, excluding the impact of the U.K. bank payroll tax, the SEC settlement and the NYSE DMM rights impairment	8,909
Divided by: average diluted common shares outstanding	585.3
Diluted earnings per common share, excluding the impact of the U.K. bank payroll tax, the SEC settlement and the NYSE DMM rights impairment	\$ 15.22

<i>in millions</i>	Average for the Year Ended December 2010
Total shareholders' equity	\$74,257
Preferred stock	(6,957)
Common shareholders' equity	67,300
Impact of the U.K. bank payroll tax	359
Impact of the SEC settlement	293
Impact of the NYSE DMM rights impairment	14
Common shareholders' equity, excluding the impact of the U.K. bank payroll tax, the SEC settlement and the NYSE DMM rights impairment	\$67,966

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Management's Discussion and Analysis

Net Revenues

2012 versus 2011. Net revenues on the consolidated statements of earnings were \$34.16 billion for 2012, 19% higher than 2011, reflecting significantly higher other principal transactions revenues, as well as higher market-making revenues, investment banking revenues and investment management revenues compared with 2011. These increases were partially offset by significantly lower net interest income and lower commissions and fees compared with 2011.

2011 versus 2010. Net revenues on the consolidated statements of earnings were \$28.81 billion for 2011, 26% lower than 2010, reflecting significantly lower other principal transactions revenues and market-making revenues, as well as lower investment banking revenues and net interest income. These decreases were partially offset by higher commissions and fees compared with 2010. Investment management revenues were essentially unchanged compared with 2010.

Non-interest Revenues

Investment banking

During 2012, investment banking revenues reflected an operating environment generally characterized by continued concerns about the outlook for the global economy and political uncertainty. These concerns weighed on investment banking activity, as completed mergers and acquisitions activity declined compared with 2011, and equity and equity-related underwriting activity remained low, particularly in initial public offerings. However, industry-wide debt underwriting activity improved compared with 2011, as credit spreads tightened and interest rates remained low. If macroeconomic concerns continue and result in lower levels of client activity, investment banking revenues would likely be negatively impacted.

2012 versus 2011. Investment banking revenues on the consolidated statements of earnings were \$4.94 billion for 2012, 13% higher than 2011, reflecting significantly higher revenues in our underwriting business, due to strong revenues in debt underwriting. Revenues in debt underwriting were significantly higher compared with 2011, primarily reflecting higher revenues from investment-grade and leveraged finance activity. Revenues in equity underwriting were lower compared with 2011, primarily reflecting a decline in industry-wide initial public offerings. Revenues in financial advisory were essentially unchanged compared with 2011.

2011 versus 2010. Investment banking revenues on the consolidated statements of earnings were \$4.36 billion for 2011, 9% lower than 2010, primarily reflecting lower revenues in our underwriting business. Revenues in equity underwriting were significantly lower than 2010, principally due to a decline in industry-wide activity. Revenues in debt underwriting were essentially unchanged compared with 2010. Revenues in financial advisory decreased slightly compared with 2010.

Investment management

During 2012, investment management revenues reflected an operating environment generally characterized by improved asset prices, resulting in appreciation in the value of client assets. However, the mix of assets under supervision has shifted slightly from asset classes that typically generate higher fees to asset classes that typically generate lower fees compared with 2011. In the future, if asset prices were to decline, or investors continue to favor asset classes that typically generate lower fees or investors continue to withdraw their assets, investment management revenues would likely be negatively impacted. In addition, continued concerns about the global economic outlook could result in downward pressure on assets under supervision.

2012 versus 2011. Investment management revenues on the consolidated statements of earnings were \$4.97 billion for 2012, 6% higher compared with 2011, due to significantly higher incentive fees, partially offset by slightly lower management and other fees.

2011 versus 2010. Investment management revenues on the consolidated statements of earnings were \$4.69 billion for 2011, essentially unchanged compared with 2010, primarily due to higher management and other fees, reflecting favorable changes in the mix of assets under

management, offset by lower incentive fees.

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Management's Discussion and Analysis

Commissions and fees

Although global equity prices increased during 2012, commissions and fees reflected an operating environment characterized by lower market volumes primarily due to lower volatility levels, concerns about the outlook for the global economy and continued political uncertainty. If macroeconomic concerns continue and result in lower market volumes, commissions and fees would likely continue to be negatively impacted.

2012 versus 2011. Commissions and fees on the consolidated statements of earnings were \$3.16 billion for 2012, 16% lower than 2011, reflecting lower market volumes.

2011 versus 2010. Commissions and fees on the consolidated statements of earnings were \$3.77 billion for 2011, 6% higher than 2010, primarily reflecting higher market volumes, particularly during the third quarter of 2011.

Market making

During 2012, market-making revenues reflected an operating environment generally characterized by continued broad market concerns and uncertainties, although positive developments helped to improve market conditions. These developments included certain central bank actions to ease monetary policy and address funding risks for European financial institutions. In addition, the U.S. economy posted stable to improving economic data, including favorable developments in unemployment and housing. These improvements resulted in tighter credit spreads, higher global equity prices and lower levels of volatility. However, concerns about the outlook for the global economy and continued political uncertainty, particularly the political debate in the United States surrounding the fiscal cliff, generally resulted in client risk aversion and lower activity levels. Also, uncertainty over financial regulatory reform persisted. If these concerns and uncertainties continue over the long term, market-making revenues would likely be negatively impacted.

2012 versus 2011. Market-making revenues on the consolidated statements of earnings were \$11.35 billion for 2012, 22% higher than 2011, primarily reflecting significantly higher revenues in mortgages and higher revenues in interest rate products, credit products and equity cash products, partially offset by significantly lower revenues in commodities. In addition, market-making revenues included significantly higher revenues in securities services compared with 2011, reflecting a gain of approximately \$500 million on the sale of our hedge fund administration business.

2011 versus 2010. Market-making revenues on the consolidated statements of earnings were \$9.29 billion for 2011, 32% lower than 2010. Although activity levels during 2011 were generally consistent with 2010 levels, and results were solid during the first quarter of 2011, the environment during the remainder of 2011 was characterized by broad market concerns and uncertainty, resulting in volatile markets and significantly wider credit spreads, which contributed to difficult market-making conditions and led to reductions in risk by us and our clients. As a result of these conditions, revenues across most of our major market-making activities were lower during 2011 compared with 2010.

Other principal transactions

During 2012, other principal transactions revenues reflected an operating environment characterized by tighter credit spreads and an increase in global equity prices. However, concerns about the outlook for the global economy and uncertainty over financial regulatory reform persisted. If equity markets decline or credit spreads widen, other principal transactions revenues would likely be negatively impacted.

2012 versus 2011. Other principal transactions revenues on the consolidated statements of earnings were \$5.87 billion and \$1.51 billion for 2012 and 2011, respectively. Results for 2012 included a gain from our investment in the ordinary shares of ICBC, net gains from other investments in equities, primarily in private equities, net gains from debt securities and loans, and revenues related to our consolidated investment entities.

2011 versus 2010. Other principal transactions revenues on the consolidated statements of earnings were \$1.51 billion and \$6.93 billion for 2011 and 2010, respectively. Results for 2011 included a loss from our investment in the ordinary shares of ICBC and net gains from other

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investments in equities, primarily in private equities, partially offset by losses from public equities. In addition, revenues in other principal transactions included net losses from debt securities and loans, primarily reflecting approximately \$1 billion of unrealized losses related to relationship lending activities, including the effect of hedges, partially offset by net gains from other debt securities and loans. Results for 2011 also included revenues related to our consolidated investment entities. Results for 2010 included a gain from our investment in the ordinary shares of ICBC, net gains from other investments in equities, net gains from debt securities and loans, and revenues related to consolidated investment entities.

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Management's Discussion and Analysis**Net Interest Income**

2012 versus 2011. Net interest income on the consolidated statements of earnings was \$3.88 billion for 2012, 25% lower than 2011. The decrease compared with 2011 was primarily due to lower average yields on financial instruments owned, at fair value, and collateralized agreements.

2011 versus 2010. Net interest income on the consolidated statements of earnings was \$5.19 billion for 2011, 6% lower than 2010. The decrease compared with 2010 was primarily due to higher interest expense related to our long-term borrowings and higher dividend expense related to financial instruments sold, but not yet purchased, partially offset by an increase in interest income from higher yielding collateralized agreements.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity.

Compensation and benefits includes salaries, discretionary compensation, amortization of equity awards and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, overall financial performance, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment.

In the context of more difficult economic and financial conditions, the firm launched an initiative during the second quarter of 2011 to identify areas where we can operate more efficiently and reduce our operating expenses. During 2012 and 2011, we announced targeted annual run rate compensation and non-compensation reductions of approximately \$1.9 billion in aggregate.

The table below presents our operating expenses and total staff.

<i>\$ in millions</i>	Year Ended December		
	2012	2011	2010
Compensation and benefits	\$12,944	\$12,223	\$15,376
U.K. bank payroll tax			465
Brokerage, clearing, exchange and distribution fees	2,208	2,463	2,281
Market development	509	640	530
Communications and technology	782	828	758
Depreciation and amortization	1,738	1,865	1,889
Occupancy	875	1,030	1,086

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Professional fees	867	992	927
Insurance reserves ¹	598	529	398
Other expenses	2,435	2,072	2,559
Total non-compensation expenses	10,012	10,419	10,428
Total operating expenses	\$22,956	\$22,642	\$26,269
Total staff at period-end ²	32,400	33,300	35,700

1. Related revenues are included in Market making on the consolidated statements of earnings.

2. Includes employees, consultants and temporary staff.

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2012 versus 2011. Operating expenses on the consolidated statements of earnings were \$22.96 billion for 2012, essentially unchanged compared with 2011. Compensation and benefits expenses on the consolidated statements of earnings were \$12.94 billion for 2012, 6% higher compared with \$12.22 billion for 2011. The ratio of compensation and benefits to net revenues for 2012 was 37.9%, compared with 42.4% for 2011. Total staff decreased 3% during 2012.

Non-compensation expenses on the consolidated statements of earnings were \$10.01 billion for 2012, 4% lower compared with 2011. The decrease compared with 2011 primarily reflected the impact of expense reduction initiatives, lower brokerage, clearing, exchange and distribution fees, lower occupancy expenses and lower impairment charges. These decreases were partially offset by higher other expenses and increased reserves related to our reinsurance business. The increase in other expenses compared with 2011 primarily reflected higher net provisions for litigation and regulatory proceedings and higher charitable contributions. Net provisions for litigation and regulatory proceedings were \$448 million during 2012 (including a settlement with the Board of Governors of the Federal Reserve System (Federal Reserve Board) regarding the independent foreclosure review). Charitable contributions were \$225 million during 2012, including \$159 million to Goldman Sachs Gives, our donor-advised fund, and \$10 million to The Goldman Sachs Foundation. Compensation was reduced to fund the charitable contribution to Goldman Sachs Gives. The firm asks its participating managing directors to make recommendations regarding potential charitable recipients for this contribution.

2011 versus 2010. Operating expenses on the consolidated statements of earnings were \$22.64 billion for 2011, 14% lower than 2010. Compensation and benefits expenses on the consolidated statements of earnings were \$12.22 billion for 2011, a 21% decline compared with \$15.38 billion for 2010. The ratio of compensation and benefits to net revenues for 2011 was 42.4%, compared with 39.3%¹ (which excludes the impact of the U.K. bank payroll tax) for 2010. Operating expenses for 2010 included \$465 million related to the U.K. bank payroll tax. Total staff decreased 7% during 2011.

Non-compensation expenses on the consolidated statements of earnings were \$10.42 billion for 2011, essentially unchanged compared with 2010. Non-compensation expenses for 2011 included higher brokerage, clearing, exchange and distribution fees, increased reserves related to our reinsurance business and higher market development expenses compared with 2010. These increases were offset by lower other expenses during 2011. The decrease in other expenses primarily reflected lower net provisions for litigation and regulatory proceedings (2010 included \$550 million related to a settlement with the SEC). In addition, non-compensation expenses during 2011 included impairment charges of approximately \$440 million, primarily related to consolidated investments and Litton Loan Servicing LP. Charitable contributions were \$163 million during 2011, including \$78 million to Goldman Sachs Gives and \$25 million to The Goldman Sachs Foundation. Compensation was reduced to fund the charitable contribution to Goldman Sachs Gives. The firm asks its participating managing directors to make recommendations regarding potential charitable recipients for this contribution.

1. We believe that presenting our ratio of compensation and benefits to net revenues excluding the impact of the \$465 million U.K. bank payroll tax is meaningful, as excluding it increases the comparability of period-to-period results. The ratio of compensation and benefits to net revenues excluding the impact of this item is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. The table below presents the calculation of the ratio of compensation and benefits to net revenues including and excluding the impact of this item.

	Year Ended
<i>\$ in millions</i>	December 2010
Compensation and benefits (which excludes the impact of the \$465 million U.K. bank payroll tax)	\$15,376
Ratio of compensation and benefits to net revenues	39.3%

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Compensation and benefits, including the impact of the \$465 million U.K. bank payroll tax	\$15,841
Ratio of compensation and benefits to net revenues, including the impact of the \$465 million U.K. bank payroll tax	40.5%

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Management's Discussion and Analysis**Provision for Taxes**

The effective income tax rate for 2012 was 33.3%, up from 28.0% for 2011. The increase from 28.0% to 33.3% was primarily due to the earnings mix and a decrease in the impact of permanent benefits.

The effective income tax rate for 2011 was 28.0%, down from 35.2% for 2010. Excluding the impact of the \$465 million U.K. bank payroll tax and the \$550 million SEC settlement, substantially all of which was non-deductible, the effective income tax rate for 2010 was 32.7%¹. The decrease from 32.7% to 28.0% was primarily due to an increase in permanent benefits as a percentage of earnings and the earnings mix.

1. We believe that presenting our effective income tax rate for 2010 excluding the impact of the U.K. bank payroll tax and the SEC settlement, substantially all of which was non-deductible, is meaningful as excluding these items increases the comparability of period-to-period results. The effective income tax rate excluding the impact of these items is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. The table below presents the calculation of the effective income tax rate excluding the impact of these amounts.

	Year Ended December 2010		
	Pre-tax earnings	Provision for taxes	Effective income tax rate
<i>\$ in millions</i>			
As reported	\$12,892	\$4,538	35.2%
Add back:			
Impact of the U.K. bank payroll tax	465		
Impact of the SEC settlement	550	6	
As adjusted	\$13,907	\$4,544	32.7%

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis**Segment Operating Results**

The table below presents the net revenues, operating expenses and pre-tax earnings of our segments.

<i>in millions</i>		Year Ended December		
		2012	2011	2010
Investment Banking	Net revenues	\$ 4,926	\$ 4,355	\$ 4,810
	Operating expenses	3,330	2,995	3,459
	Pre-tax earnings	\$ 1,596	\$ 1,360	\$ 1,351
Institutional Client Services	Net revenues	\$18,124	\$17,280	\$21,796
	Operating expenses	12,480	12,837	14,994
	Pre-tax earnings	\$ 5,644	\$ 4,443	\$ 6,802
Investing & Lending	Net revenues	\$ 5,891	\$ 2,142	\$ 7,541
	Operating expenses	2,666	2,673	3,361
	Pre-tax earnings/(loss)	\$ 3,225	\$ (531)	\$ 4,180
Investment Management	Net revenues	\$ 5,222	\$ 5,034	\$ 5,014
	Operating expenses	4,294	4,020	4,082
	Pre-tax earnings	\$ 928	\$ 1,014	\$ 932
Total	Net revenues	\$34,163	\$28,811	\$39,161
	Operating expenses	22,956	22,642	26,269
	Pre-tax earnings	\$11,207	\$ 6,169	\$12,892

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

charitable contributions of \$169 million, \$103 million and \$345 million for the years ended December 2012, December 2011 and December 2010, respectively; and

real estate-related exit costs of \$17 million, \$14 million and \$28 million for the years ended December 2012, December 2011 and December 2010, respectively. Real estate-related exit costs are included in Depreciation and amortization and Occupancy in the consolidated statements of earnings.

Operating expenses related to net provisions for litigation and regulatory proceedings, previously not allocated to our segments, have now been allocated. This allocation is consistent with the manner in which management currently views the performance of our segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

Net revenues in our segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. See Note 25 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our business segments.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis**Investment Banking**

Our Investment Banking segment is comprised of:

Financial Advisory. Includes strategic advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings and spin-offs, and derivative transactions directly related to these client advisory assignments.

Underwriting. Includes public offerings and private placements, including domestic and cross-border transactions, of a wide range of securities, loans and other financial instruments, and derivative transactions directly related to these client underwriting activities.

The table below presents the operating results of our Investment Banking segment.

<i>in millions</i>	Year Ended December		
	2012	2011	2010
Financial Advisory	\$1,975	\$1,987	\$2,062
Equity underwriting	987	1,085	1,462
Debt underwriting	1,964	1,283	1,286
Total Underwriting	2,951	2,368	2,748
Total net revenues	4,926	4,355	4,810
Operating expenses	3,330	2,995	3,459
Pre-tax earnings	\$1,596	\$1,360	\$1,351

The table below presents our financial advisory and underwriting transaction volumes.¹

<i>in billions</i>	Year Ended December		
	2012	2011	2010
Announced mergers and acquisitions	\$707	\$634	\$500
Completed mergers and acquisitions	574	652	441
Equity and equity-related offerings ²	57	55	67
Debt offerings ³	236	206	234

1. Source: Thomson Reuters. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or a change in the value of a transaction.

2. Includes Rule 144A and public common stock offerings, convertible offerings and rights offerings.

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3. Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues. Excludes leveraged loans.

2012 versus 2011. Net revenues in Investment Banking were \$4.93 billion for 2012, 13% higher than 2011.

Net revenues in Financial Advisory were \$1.98 billion, essentially unchanged compared with 2011. Net revenues in our Underwriting business were \$2.95 billion, 25% higher than 2011, due to strong net revenues in debt underwriting. Net revenues in debt underwriting were significantly higher compared with 2011, primarily reflecting higher net revenues from investment-grade and leveraged finance activity. Net revenues in equity underwriting were lower compared with 2011, primarily reflecting a decline in industry-wide initial public offerings.

During 2012, Investment Banking operated in an environment generally characterized by continued concerns about the outlook for the global economy and political uncertainty. These concerns weighed on investment banking activity, as completed mergers and acquisitions activity declined compared with 2011, and equity and equity-related underwriting activity remained low, particularly in initial public offerings. However, industry-wide debt underwriting activity improved compared with 2011, as credit spreads tightened and interest rates remained low. If macroeconomic concerns continue and result in lower levels of client activity, net revenues in Investment Banking would likely be negatively impacted.

Our investment banking transaction backlog increased compared with the end of 2011. The increase compared with the end of 2011 was due to an increase in potential debt underwriting transactions, primarily reflecting an increase in leveraged finance transactions, and an increase in potential advisory transactions. These increases were partially offset by a decrease in potential equity underwriting transactions compared with the end of 2011, reflecting uncertainty in market conditions.

Our investment banking transaction backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not. We believe changes in our investment banking transaction backlog may be a useful indicator of client activity levels which, over the long term, impact our net revenues. However, the time frame for completion and corresponding revenue recognition of transactions in our backlog varies based on the nature of the assignment, as certain transactions may remain in our backlog for longer periods of time and others may enter and leave within the same reporting period. In addition, our transaction backlog is subject to certain limitations, such as assumptions about the likelihood that individual client transactions will occur in the future. Transactions may be cancelled or modified, and transactions not included in the estimate may also occur.

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Operating expenses were \$3.33 billion for 2012, 11% higher than 2011, due to increased compensation and benefits expenses, primarily resulting from higher net revenues. Pre-tax earnings were \$1.60 billion in 2012, 17% higher than 2011.

2011 versus 2010. Net revenues in Investment Banking were \$4.36 billion for 2011, 9% lower than 2010.

Net revenues in Financial Advisory were \$1.99 billion, 4% lower than 2010. Net revenues in our Underwriting business were \$2.37 billion, 14% lower than 2010, reflecting significantly lower net revenues in equity underwriting, principally due to a decline in industry-wide activity. Net revenues in debt underwriting were essentially unchanged compared with 2010.

Investment Banking operated in an environment generally characterized by significant declines in industry-wide underwriting and mergers and acquisitions activity levels during the second half of 2011. These declines reflected increased concerns regarding the weakened state of global economies, including heightened European sovereign debt risk, which contributed to a significant widening in credit spreads, a sharp increase in volatility levels and a significant decline in global equity markets during the second half of 2011.

Our investment banking transaction backlog increased compared with the end of 2010. The increase compared with the end of 2010 was due to an increase in potential equity underwriting transactions, primarily reflecting an increase in client mandates to underwrite initial public offerings. Estimated net revenues from potential debt underwriting transactions decreased slightly compared with the end of 2010. Estimated net revenues from potential advisory transactions were essentially unchanged compared with the end of 2010.

Operating expenses were \$3.00 billion for 2011, 13% lower than 2010, due to decreased compensation and benefits expenses, primarily resulting from lower net revenues. Pre-tax earnings were \$1.36 billion in 2011, essentially unchanged compared with 2010.

Institutional Client Services

Our Institutional Client Services segment is comprised of:

Fixed Income, Currency and Commodities Client Execution. Includes client execution activities related to making markets in interest rate products, credit products, mortgages, currencies and commodities.

We generate market-making revenues in these activities, in three ways:

In large, highly liquid markets (such as markets for U.S. Treasury bills or certain mortgage pass-through certificates), we execute a high volume of transactions for our clients for modest spreads and fees.

In less liquid markets (such as mid-cap corporate bonds, growth market currencies or certain non-agency mortgage-backed securities), we execute transactions for our clients for spreads and fees that are generally somewhat larger.

We also structure and execute transactions involving customized or tailor-made products that address our clients' risk exposures, investment objectives or other complex needs (such as a jet fuel hedge for an airline).
Given the focus on the mortgage market, our mortgage activities are further described below.

Our activities in mortgages include commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives (including U.S. government agency-issued collateralized mortgage obligations, other prime, subprime and Alt-A securities and loans), and other asset-backed securities, loans and derivatives.

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We buy, hold and sell long and short mortgage positions, primarily for market making for our clients. Our inventory therefore changes based on client demands and is generally held for short-term periods.

See Notes 18 and 27 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information about exposure to mortgage repurchase requests, mortgage rescissions and mortgage-related litigation.

Equities. Includes client execution activities related to making markets in equity products, as well as commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide. Equities also includes our securities services business, which provides financing, securities lending and other prime brokerage services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and generates revenues primarily in the form of interest rate spreads or fees, and revenues related to our reinsurance activities.

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Management's Discussion and Analysis

The table below presents the operating results of our Institutional Client Services segment.

<i>in millions</i>	Year Ended December		
	2012	2011	2010
Fixed Income, Currency and Commodities Client Execution	\$ 9,914	\$ 9,018	\$13,707
Equities client execution ¹	3,171	3,031	3,231
Commissions and fees	3,053	3,633	3,426
Securities services	1,986	1,598	1,432
Total Equities	8,210	8,262	8,089
Total net revenues	18,124	17,280	21,796
Operating expenses	12,480	12,837	14,994
Pre-tax earnings	\$ 5,644	\$ 4,443	\$ 6,802

1. Includes net revenues related to reinsurance of \$1.08 billion, \$880 million and \$827 million for the years ended December 2012, December 2011 and December 2010, respectively.

2012 versus 2011. Net revenues in Institutional Client Services were \$18.12 billion for 2012, 5% higher than 2011.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$9.91 billion for 2012, 10% higher than 2011. These results reflected strong net revenues in mortgages, which were significantly higher compared with 2011. In addition, net revenues in credit products and interest rate products were solid and higher compared with 2011. These increases were partially offset by significantly lower net revenues in commodities and slightly lower net revenues in currencies. Although broad market concerns persisted during 2012, Fixed Income, Currency and Commodities Client Execution operated in a generally improved environment characterized by tighter credit spreads and less challenging market-making conditions compared with 2011.

Net revenues in Equities were \$8.21 billion for 2012, essentially unchanged compared with 2011. Net revenues in securities services were significantly higher compared with 2011, reflecting a gain of approximately \$500 million on the sale of our hedge fund administration business. In addition, equities client execution net revenues were higher than 2011, primarily reflecting significantly higher results in cash products, principally due to increased levels of client activity. These increases were offset by lower commissions and fees, reflecting lower market volumes. During 2012, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels.

The net loss attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$714 million (\$433 million and \$281 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2012, compared with a net gain of \$596 million (\$399 million and \$197 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2011.

During 2012, Institutional Client Services operated in an environment generally characterized by continued broad market concerns and uncertainties, although positive developments helped to improve market conditions. These developments included certain central bank actions to ease monetary policy and address funding risks for European financial institutions. In addition, the U.S. economy posted stable to improving economic data, including favorable developments in unemployment and housing. These improvements resulted in tighter credit spreads, higher global equity prices and lower levels of volatility. However, concerns about the outlook for the global economy and continued political uncertainty, particularly the political debate in the United States surrounding the fiscal cliff, generally resulted in client risk aversion and lower activity levels. Also, uncertainty over financial regulatory reform persisted. If these concerns and uncertainties continue over the long term, net

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revenues in Fixed Income, Currency and Commodities Client Execution and Equities would likely be negatively impacted.

Operating expenses were \$12.48 billion for 2012, 3% lower than 2011, primarily due to lower brokerage, clearing, exchange and distribution fees, and lower impairment charges, partially offset by higher net provisions for litigation and regulatory proceedings. Pre-tax earnings were \$5.64 billion in 2012, 27% higher than 2011.

2011 versus 2010. Net revenues in Institutional Client Services were \$17.28 billion for 2011, 21% lower than 2010.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$9.02 billion for 2011, 34% lower than 2010. Although activity levels during 2011 were generally consistent with 2010 levels, and results were solid during the first quarter of 2011, the environment during the remainder of 2011 was characterized by broad market concerns and uncertainty, resulting in volatile markets and significantly wider credit spreads, which contributed to difficult market-making conditions and led to reductions in risk by us and our clients. As a result of these conditions, net revenues across the franchise were lower, including significant declines in mortgages and credit products, compared with 2010.

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Net revenues in Equities were \$8.26 billion for 2011, 2% higher than 2010. During 2011, average volatility levels increased and equity prices in Europe and Asia declined significantly, particularly during the third quarter. The increase in net revenues reflected higher commissions and fees, primarily due to higher market volumes, particularly during the third quarter of 2011. In addition, net revenues in securities services increased compared with 2010, reflecting the impact of higher average customer balances. Equities client execution net revenues were lower than 2010, primarily reflecting significantly lower net revenues in shares.

The net gain attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$596 million (\$399 million and \$197 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2011, compared with a net gain of \$198 million (\$188 million and \$10 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2010.

Institutional Client Services operated in an environment generally characterized by increased concerns regarding the weakened state of global economies, including heightened European sovereign debt risk, and its impact on the European banking system and global financial institutions. These conditions also impacted expectations for economic prospects in the United States and were reflected in equity and debt markets more broadly. In addition, the downgrade in credit ratings of the U.S. government and federal agencies and many financial institutions during the second half of 2011 contributed to further uncertainty in the markets. These concerns, as well as other broad market concerns, such as uncertainty over financial regulatory reform, continued to have a negative impact on our net revenues during 2011.

Operating expenses were \$12.84 billion for 2011, 14% lower than 2010, due to decreased compensation and benefits expenses, primarily resulting from lower net revenues, lower net provisions for litigation and regulatory proceedings (2010 included \$550 million related to a settlement with the SEC), the impact of the U.K. bank payroll tax during 2010, as well as an impairment of our NYSE DMM rights of \$305 million during 2010. These decreases were partially offset by higher brokerage, clearing, exchange and distribution fees, principally reflecting higher transaction volumes in Equities. Pre-tax earnings were \$4.44 billion in 2011, 35% lower than 2010.

Investing & Lending

Investing & Lending includes our investing activities and the origination of loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds that we manage, in debt securities and loans, public and private equity securities, real estate, consolidated investment entities and power generation facilities.

The table below presents the operating results of our Investing & Lending segment.

<i>in millions</i>	Year Ended December		
	2012	2011	2010
ICBC	\$ 408	\$ (517)	\$ 747
Equity securities (excluding ICBC)	2,392	1,120	2,692
Debt securities and loans	1,850	96	2,597
Other	1,241	1,443	1,505
Total net revenues	5,891	2,142	7,541
Operating expenses	2,666	2,673	3,361
Pre-tax earnings/(loss)	\$3,225	\$ (531)	\$4,180

2012 versus 2011. Net revenues in Investing & Lending were \$5.89 billion and \$2.14 billion for 2012 and 2011, respectively. During 2012, Investing & Lending net revenues were positively impacted by tighter credit spreads and an increase in global equity prices. Results for 2012 included a gain of \$408 million from our investment in the ordinary shares of ICBC, net gains of \$2.39 billion from other investments in

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equities, primarily in private equities, net gains and net interest income of \$1.85 billion from debt securities and loans, and other net revenues of \$1.24 billion, principally related to our consolidated investment entities. If equity markets decline or credit spreads widen, net revenues in Investing & Lending would likely be negatively impacted.

Operating expenses were \$2.67 billion for 2012, essentially unchanged compared with 2011. Pre-tax earnings were \$3.23 billion in 2012, compared with a pre-tax loss of \$531 million in 2011.

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2011 versus 2010. Net revenues in Investing & Lending were \$2.14 billion and \$7.54 billion for 2011 and 2010, respectively. During 2011, Investing & Lending results reflected an operating environment characterized by a significant decline in equity markets in Europe and Asia, and unfavorable credit markets that were negatively impacted by increased concerns regarding the weakened state of global economies, including heightened European sovereign debt risk. Results for 2011 included a loss of \$517 million from our investment in the ordinary shares of ICBC and net gains of \$1.12 billion from other investments in equities, primarily in private equities, partially offset by losses from public equities. In addition, Investing & Lending included net revenues of \$96 million from debt securities and loans. This amount includes approximately \$1 billion of unrealized losses related to relationship lending activities, including the effect of hedges, offset by net interest income and net gains from other debt securities and loans. Results for 2011 also included other net revenues of \$1.44 billion, principally related to our consolidated investment entities.

Results for 2010 included a gain of \$747 million from our investment in the ordinary shares of ICBC, a net gain of \$2.69 billion from other investments in equities, a net gain of \$2.60 billion from debt securities and loans and other net revenues of \$1.51 billion, principally related to our consolidated investment entities. The net gain from other investments in equities was primarily driven by an increase in global equity markets, which resulted in appreciation of both our public and private equity positions and provided favorable conditions for initial public offerings. The net gains and net interest from debt securities and loans primarily reflected the impact of tighter credit spreads and favorable credit markets during the year, which provided favorable conditions for borrowers to refinance.

Operating expenses were \$2.67 billion for 2011, 20% lower than 2010, due to decreased compensation and benefits expenses, primarily resulting from lower net revenues. This decrease was partially offset by the impact of impairment charges related to consolidated investments during 2011. Pre-tax loss was \$531 million in 2011, compared with pre-tax earnings of \$4.18 billion in 2010.

Investment Management

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

Assets under supervision include assets under management and other client assets. Assets under management include client assets where we earn a fee for managing assets on a discretionary basis. This includes net assets in our mutual funds, hedge funds, credit funds and private equity funds (including real estate funds), and separately managed accounts for institutional and individual investors. Other client assets include client assets invested with third-party managers, private bank deposits and assets related to advisory relationships where we earn a fee for advisory and other services, but do not have discretion over the assets. Assets under supervision do not include the self-directed brokerage accounts of our clients.

Assets under management and other client assets typically generate fees as a percentage of net asset value, which vary by asset class and are affected by investment performance as well as asset inflows and redemptions.

In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund's return or when the return exceeds a specified benchmark or other performance targets. Incentive fees are recognized only when all material contingencies are resolved.

The table below presents the operating results of our Investment Management segment.

<i>in millions</i>	Year Ended December		
	2012	2011	2010
Management and other fees	\$4,105	\$4,188	\$3,956

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Incentive fees	701	323	527
Transaction revenues	416	523	531
Total net revenues	5,222	5,034	5,014
Operating expenses	4,294	4,020	4,082
Pre-tax earnings	\$ 928	\$1,014	\$ 932

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The tables below present our assets under supervision, including assets under management by asset class and other client assets, as well as a summary of the changes in our assets under supervision.

<i>in billions</i>	2012	As of December 31,	
		2011	2010
Alternative investments ¹	\$133	\$142	\$148
Equity	133	126	144
Fixed income	370	340	340
Total non-money market assets	636	608	632
Money markets	218	220	208
Total assets under management (AUM)	854	828	840
Other client assets	111	67	77
Total assets under supervision (AUS)	\$965	\$895	\$917

1. Primarily includes hedge funds, credit funds, private equity, real estate, currencies, commodities and asset allocation strategies.

<i>in billions</i>	Year Ended December 31,		
	2012	2011	2010
Balance, beginning of year	\$895	\$917	\$955
Net inflows/(outflows)			
Alternative investments	(11)	(5)	(1)
Equity	(13)	(9)	(21)
Fixed income	8	(15)	7
Total non-money market net inflows/(outflows)	(16)	(29)	(15)
Money markets	(2)	12	(56)
Total AUM net inflows/(outflows)	(18)	(17) ²	(71)
Other client assets net inflows/(outflows)	39	(10)	(7)
Total AUS net inflows/(outflows)	21¹	(27)	(78)
Net market appreciation/(depreciation)			
AUM	44	5	40
Other client assets	5		
Total AUS net market appreciation/(depreciation)	49	5	40
Balance, end of year	\$965	\$895	\$917

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1. Includes \$34 billion of fixed income asset inflows in connection with our acquisition of Dwight Asset Management, including \$17 billion in assets under management and \$17 billion in other client assets, and \$5 billion of fixed income and equity asset outflows in connection with our liquidation of Goldman Sachs Asset Management Korea, all related to assets under management.

2. Includes \$6 billion of asset inflows across all asset classes in connection with our acquisitions of Goldman Sachs Australia Pty Ltd and Benchmark Asset Management Company Private Limited.

2012 versus 2011. Net revenues in Investment Management were \$5.22 billion for 2012, 4% higher than 2011, due to significantly higher incentive fees, partially offset by lower transaction revenues and slightly lower management and other fees. During the year, assets under supervision increased \$70 billion to \$965 billion. Assets under management increased \$26 billion to \$854 billion, reflecting net market appreciation of \$44 billion, primarily in fixed income and equity assets, partially offset by net outflows of \$18 billion. Net outflows in assets under management included outflows in equity, alternative investment and money market assets, partially offset by inflows in fixed income assets. Other client assets increased \$44 billion to \$111 billion, primarily due to net inflows, principally in client assets invested with third-party managers and assets related to advisory relationships.

During 2012, Investment Management operated in an environment generally characterized by improved asset prices, resulting in appreciation in the value of client assets. However, the mix of assets under supervision has shifted slightly from asset classes that typically generate higher fees to asset classes that typically generate lower fees compared with 2011. In the future, if asset prices were to decline, or investors continue to favor asset classes that typically generate lower fees or investors continue to withdraw their assets, net revenues in Investment Management would likely be negatively impacted. In addition, continued concerns about the global economic outlook could result in downward pressure on assets under supervision.

Operating expenses were \$4.29 billion for 2012, 7% higher than 2011, due to increased compensation and benefits expenses. Pre-tax earnings were \$928 million in 2012, 8% lower than 2011.

2011 versus 2010. Net revenues in Investment Management were \$5.03 billion for 2011, essentially unchanged compared with 2010, primarily due to higher management and other fees, reflecting favorable changes in the mix of assets under management, offset by lower incentive fees. During 2011, assets under supervision decreased \$22 billion to \$895 billion. Assets under management decreased \$12 billion to \$828 billion, reflecting net outflows of \$17 billion, partially offset by net market appreciation of \$5 billion. Net outflows in assets under management primarily reflected outflows in fixed income and equity assets, partially offset by inflows in money market assets. Other client assets decreased \$10 billion to \$67 billion, primarily due to net outflows, principally in client assets invested with third-party managers in money market funds.

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During the first half of 2011, Investment Management operated in an environment generally characterized by improved asset prices and a shift in investor assets away from money markets in favor of asset classes with potentially higher risk and returns. However, during the second half of 2011, asset prices declined, particularly in equities, in part driven by increased uncertainty regarding the global economic outlook. Declining asset prices and economic uncertainty contributed to investors shifting assets away from asset classes with potentially higher risk and returns to asset classes with lower risk and returns.

Operating expenses were \$4.02 billion for 2011, 2% lower than 2010. Pre-tax earnings were \$1.01 billion in 2011, 9% higher than 2010.

Geographic Data

See Note 25 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for a summary of our total net revenues, pre-tax earnings and net earnings by geographic region.

Regulatory Developments

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted in July 2010, significantly altered the financial regulatory regime within which we operate. The implications of the Dodd-Frank Act for our businesses will depend to a large extent on the rules that will be adopted by the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC), the SEC, the U.S. Commodity Futures Trading Commission (CFTC) and other agencies to implement the legislation, as well as the development of market practices and structures under the regime established by the legislation and the implementing rules. Other reforms have been adopted or are being considered by other regulators and policy makers worldwide and these reforms may affect our businesses. We expect that the principal areas of impact from regulatory reform for us will be:

the Dodd-Frank prohibition on proprietary trading and the limitation on the sponsorship of, and investment in, hedge funds and private equity funds by banking entities, including bank holding companies, referred to as the Volcker Rule ;

increased regulation of and restrictions on over-the-counter (OTC) derivatives markets and transactions; and

increased regulatory capital requirements.

In October 2011, the proposed rules to implement the Volcker Rule were issued and included an extensive request for comments on the proposal. The proposed rules are highly complex, and many aspects of the Volcker Rule remain unclear. The full impact of the rule on us will depend upon the detailed scope of the prohibitions, permitted activities, exceptions and exclusions, and will not be known with certainty until the rules are finalized and market practices and structures develop under the final rules. Currently, companies are expected to be required to be in compliance by July 2014 (subject to possible extensions).

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While many aspects of the Volcker Rule remain unclear, we evaluated the prohibition on proprietary trading and determined that businesses that engage in bright line proprietary trading are most likely to be prohibited. In 2011 and 2010, we liquidated substantially all of our Principal Strategies and Global Macro Proprietary trading positions.

In addition, we have evaluated the limitations on sponsorship of, and investments in, hedge funds and private equity funds. The firm earns management fees and incentive fees for investment management services from hedge funds and private equity funds, which are included in our Investment Management segment. The firm also makes investments in funds, and the gains and losses from these investments are included in our Investing & Lending segment; these gains and losses will be impacted by the Volcker Rule. The Volcker Rule limitation on investments in hedge funds and private equity funds requires the firm to reduce its investment in each hedge fund and private equity fund to 3% or less of the fund's net asset value, and to reduce the firm's aggregate investment in all such funds to 3% or less of the firm's Tier 1 capital. The firm's aggregate net revenues from its investments in hedge funds and private equity funds were not material to the firm's aggregate total net revenues over the period from 1999 through 2012. We continue to manage our existing private equity funds, taking into account the transition periods under the Volcker Rule. With respect to our hedge funds, we currently plan to comply with the Volcker Rule by redeeming certain of our interests in the funds. Since March 2012, we have been redeeming up to approximately 10% of certain hedge funds' total redeemable units per quarter, and expect to continue to do so through June 2014. We redeemed approximately \$1.06 billion of these interests in hedge funds during the year ended December 2012. In addition, we have limited the firm's initial investment to 3% for certain new investments in hedge funds and private equity funds.

As required by the Dodd-Frank Act, the Federal Reserve Board and FDIC have jointly issued a rule requiring each bank holding company with over \$50 billion in assets and each designated systemically important financial institution to provide to regulators an annual plan for its rapid and orderly resolution in the event of material financial distress or failure (resolution plan). Our resolution plan must,

among other things, demonstrate that Goldman Sachs Bank USA (GS Bank USA) is adequately protected from risks arising from our other entities. The regulators' joint rule sets specific standards for the resolution plans, including requiring a detailed resolution strategy and analyses of the company's material entities, organizational structure, interconnections and interdependencies, and management information systems, among other elements. We submitted our resolution plan to the regulators on June 29, 2012. GS Bank USA also submitted its resolution plan on June 29, 2012, as required by the FDIC.

In September 2011, the SEC proposed rules to implement the Dodd-Frank Act's prohibition against securitization participants engaging in any transaction that would involve or result in any material conflict of interest with an investor in a securitization transaction. The proposed rules would except bona fide market-making activities and risk-mitigating hedging activities in connection with securitization activities from the general prohibition. We will also be affected by rules to be adopted by federal agencies pursuant to the Dodd-Frank Act that require any person who organizes or initiates an asset-backed security transaction to retain a portion (generally, at least five percent) of any credit risk that the person conveys to a third party.

In December 2011, the Federal Reserve Board proposed regulations designed to strengthen the regulation and supervision of large bank holding companies and systemically important nonbank financial institutions. These proposals address, among other things, risk-based capital and leverage requirements, liquidity requirements, overall risk management requirements, single counterparty limits and early remediation requirements that are designed to address financial weakness at an early stage. Although many of the proposals mirror initiatives to which bank holding companies are already subject, their full impact on the firm will not be known with certainty until the rules are finalized and market practices and structures develop under the final rules. In addition, in October 2012, the Federal Reserve Board issued final rules for stress testing requirements for certain bank holding companies, including the firm. See Equity Capital below for further information about our Comprehensive Capital Analysis and Review (CCAR).

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The Dodd-Frank Act also contains provisions that include (i) requiring the registration of all swap dealers and major swap participants with the CFTC and of security-based swap dealers and major security-based swap participants with the SEC, the clearing and execution of certain swaps and security-based swaps through central counterparties, regulated exchanges or electronic facilities and real-time public and regulatory reporting of trade information, (ii) placing new business conduct standards and other requirements on swap dealers, major swap participants, security-based swap dealers and major security-based swap participants, covering their relationships with counterparties, their internal oversight and compliance structures, conflict of interest rules, internal information barriers, general and trade-specific record-keeping and risk management, (iii) establishing mandatory margin requirements for trades that are not cleared through a central counterparty, (iv) position limits that cap exposure to derivatives on certain physical commodities and (v) entity-level capital requirements for swap dealers, major swap participants, security-based swap dealers and major security-based swap participants.

The CFTC is responsible for issuing rules relating to swaps, swap dealers and major swap participants, and the SEC is responsible for issuing rules relating to security-based swaps, security-based swap dealers and major security-based swap participants. Although the CFTC has not yet finalized its capital regulations, certain of the requirements, including registration of swap dealers and real-time public trade reporting, have taken effect already under CFTC rules, and the SEC and the CFTC have finalized the definitions of a number of key terms. The CFTC has finalized a number of other implementing rules and laid out a series of implementation deadlines in 2013, covering rules for business conduct standards for swap dealers and clearing requirements.

The SEC has proposed rules to impose margin, capital and segregation requirements for security-based swap dealers and major security-based swap participants. The SEC has also proposed rules relating to registration of security-based swap dealers and major security-based swap participants, trade reporting and real-time reporting, and business conduct requirements for security-based swap dealers and major security-based swap participants.

We have registered certain subsidiaries as swap dealers under the CFTC rules, including Goldman, Sachs & Co. (GS&Co.), GS Bank USA, Goldman Sachs International (GSI) and J. Aron & Company. We expect that these entities, and our businesses more broadly, will be subject to significant and developing regulation and regulatory oversight in connection with swap-related activities. Similar regulations have been proposed or adopted in jurisdictions outside the United States and, in July 2012 and February 2013, the Basel Committee and the International Organization of Securities Commissions released consultative documents proposing margin requirements for non-centrally-cleared derivatives. The full impact of the various U.S. and non-U.S. regulatory developments in this area will not be known with certainty until the rules are implemented and market practices and structures develop under the final rules.

The Dodd-Frank Act also establishes the Consumer Financial Protection Bureau, which has broad authority to regulate providers of credit, payment and other consumer financial products and services, and has oversight over certain of our products and services.

See Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for additional information about regulatory developments as they relate to our regulatory capital ratios.

See Business Regulation in Part I, Item 1 of this Form 10-K for more information on the laws, rules and regulations and proposed laws, rules and regulations that apply to us and our operations.

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Balance Sheet and Funding Sources

Balance Sheet Management

One of our most important risk management disciplines is our ability to manage the size and composition of our balance sheet. While our asset base changes due to client activity, market fluctuations and business opportunities, the size and composition of our balance sheet reflect (i) our overall risk tolerance, (ii) our ability to access stable funding sources and (iii) the amount of equity capital we hold.

Although our balance sheet fluctuates on a day-to-day basis, our total assets and adjusted assets at quarterly and year-end dates are generally not materially different from those occurring within our reporting periods.

In order to ensure appropriate risk management, we seek to maintain a liquid balance sheet and have processes in place to dynamically manage our assets and liabilities which include:

quarterly planning;

business-specific limits;

monitoring of key metrics; and

scenario analyses.

Quarterly Planning. We prepare a quarterly balance sheet plan that combines our projected total assets and composition of assets with our expected funding sources and capital levels for the upcoming quarter. The objectives of this quarterly planning process are:

to develop our near-term balance sheet projections, taking into account the general state of the financial markets and expected business activity levels;

to ensure that our projected assets are supported by an adequate amount and tenor of funding and that our projected capital and liquidity metrics are within management guidelines and regulatory requirements; and

to allow business risk managers and managers from our independent control and support functions to objectively evaluate balance sheet limit requests from business managers in the context of the firm's overall balance sheet constraints. These constraints include the firm's liability profile and equity capital levels, maturities and plans for new debt and equity issuances, share repurchases, deposit trends and secured funding transactions.

To prepare our quarterly balance sheet plan, business risk managers and managers from our independent control and support functions meet with business managers to review current and prior period metrics and discuss expectations for the upcoming quarter. The specific metrics reviewed include asset and liability size and composition, aged inventory, limit utilization, risk and performance measures, and capital usage.

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Our consolidated quarterly plan, including our balance sheet plans by business, funding and capital projections, and projected capital and liquidity metrics, is reviewed by the Firmwide Finance Committee. See [Overview and Structure of Risk Management](#) for an overview of our risk management structure.

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Business-Specific Limits. The Firmwide Finance Committee sets asset and liability limits for each business and aged inventory limits for certain financial instruments as a disincentive to hold inventory over longer periods of time. These limits are set at levels which are close to actual operating levels in order to ensure prompt escalation and discussion among business managers and managers in our independent control and support functions on a routine basis. The Firmwide Finance Committee reviews and approves balance sheet limits on a quarterly basis and may also approve changes in limits on an ad hoc basis in response to changing business needs or market conditions.

Monitoring of Key Metrics. We monitor key balance sheet metrics daily both by business and on a consolidated basis, including asset and liability size and composition, aged inventory, limit utilization, risk measures and capital usage. We allocate assets to businesses and review and analyze movements resulting from new business activity as well as market fluctuations.

Scenario Analyses. We conduct scenario analyses to determine how we would manage the size and composition of our balance sheet and maintain appropriate funding, liquidity and capital positions in a variety of situations:

These scenarios cover short-term and long-term time horizons using various macro-economic and firm-specific assumptions. We use these analyses to assist us in developing longer-term funding plans, including the level of unsecured debt issuances, the size of our secured funding program and the amount and composition of our equity capital. We also consider any potential future constraints, such as limits on our ability to grow our asset base in the absence of appropriate funding.

Through our Internal Capital Adequacy Assessment Process (ICAAP), CCAR, the stress tests we are required to conduct under the Dodd-Frank Act, and our resolution and recovery planning, we further analyze how we would manage our balance sheet and risks through the duration of a severe crisis and we develop plans to access funding, generate liquidity, and/or redeploy or issue equity capital, as appropriate.

Balance Sheet Allocation

In addition to preparing our consolidated statements of financial condition in accordance with U.S. GAAP, we prepare a balance sheet that generally allocates assets to our businesses, which is a non-GAAP presentation and may not be comparable to similar non-GAAP presentations used by other companies. We believe that presenting our assets on this basis is meaningful because it is consistent with the way management views and manages risks associated with the firm's assets and better enables investors to assess the liquidity of the firm's assets. The table below presents a summary of this balance sheet allocation.

<i>in millions</i>	As of December	
	2012	2011
Excess liquidity (Global Core Excess)	\$174,622	\$171,581
Other cash	6,839	7,888
Excess liquidity and cash	181,461	179,469
Secured client financing	229,442	283,707
Inventory	318,323	273,640
Secured financing agreements	76,277	71,103
Receivables	36,273	35,769
Institutional Client Services	430,873	380,512

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ICBC ¹	2,082	4,713
Equity (excluding ICBC)	21,267	23,041
Debt	25,386	23,311
Receivables and other	8,421	5,320
Investing & Lending	57,156	56,385
Total inventory and related assets	488,029	436,897
Other assets ²	39,623	23,152
Total assets	\$938,555	\$923,225

1. In January 2013, we sold approximately 45% of our ordinary shares of ICBC.

2. Includes assets related to our reinsurance business classified as held for sale as of December 2012. See Note 12 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information.

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The following is a description of the captions in the table above.

Excess Liquidity and Cash. We maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in the event of a stressed environment. See "Liquidity Risk Management" below for details on the composition and sizing of our excess liquidity pool or "Global Core Excess" (GCE). In addition to our excess liquidity, we maintain other operating cash balances, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.

Secured Client Financing. We provide collateralized financing for client positions, including margin loans secured by client collateral, securities borrowed, and resale agreements primarily collateralized by government obligations. As a result of client activities, we are required to segregate cash and securities to satisfy regulatory requirements. Our secured client financing arrangements, which are generally short-term, are accounted for at fair value or at amounts that approximate fair value, and include daily margin requirements to mitigate counterparty credit risk.

Institutional Client Services. In Institutional Client Services, we maintain inventory positions to facilitate market-making in fixed income, equity, currency and commodity products. Additionally, as part of client market-making activities, we enter into resale or securities borrowing arrangements to obtain securities which we can use to cover transactions in which we or our clients have sold securities that have not yet been purchased. The receivables in Institutional Client Services primarily relate to securities transactions.

Investing & Lending. In Investing & Lending, we make investments and originate loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds that we manage, in debt securities, loans, public and private equity securities, real estate and other investments.

Other Assets. Other assets are generally less liquid, non-financial assets, including property, leasehold improvements and equipment, goodwill and identifiable intangible assets, income tax-related receivables, equity-method investments, assets classified as held for sale and miscellaneous receivables.

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The tables below present the reconciliation of this balance sheet allocation to our U.S. GAAP balance sheet. In the tables below, total assets for Institutional Client Services and Investing & Lending represent the inventory and related assets. These amounts differ from total assets by

business segment disclosed in Note 25 to the consolidated financial statements in Part II, Item 8 of this Form 10-K because total assets disclosed in Note 25 include allocations of our excess liquidity and cash, secured client financing and other assets.

<i>in millions</i>	As of December 2012					Total Assets
	Excess Liquidity and Cash ¹	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	
Cash and cash equivalents	\$ 72,669	\$	\$	\$	\$	\$ 72,669
Cash and securities segregated for regulatory and other purposes		49,671				49,671
Securities purchased under agreements to resell and federal funds sold	28,018	84,064	28,960	292		141,334
Securities borrowed	41,699	47,877	47,317			136,893
Receivables from brokers, dealers and clearing organizations		4,400	14,044	36		18,480
Receivables from customers and counterparties		43,430	22,229	7,215		72,874
Financial instruments owned, at fair value	39,075		318,323	49,613		407,011
Other assets					39,623	39,623
Total assets	\$181,461	\$229,442	\$430,873	\$57,156	\$39,623	\$938,555

<i>in millions</i>	As of December 2011					Total Assets
	Excess Liquidity and Cash ¹	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	
Cash and cash equivalents	\$ 56,008	\$	\$	\$	\$	\$ 56,008
Cash and securities segregated for regulatory and other purposes		64,264				64,264
Securities purchased under agreements to resell and federal funds sold	70,220	98,445	18,671	453		187,789
Securities borrowed	14,919	85,990	52,432			153,341
Receivables from brokers, dealers and clearing organizations		3,252	10,612	340		14,204
Receivables from customers and counterparties		31,756	25,157	3,348		60,261

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Financial instruments owned, at fair value	38,322	273,640	52,244	364,206
Other assets			23,152	23,152
Total assets	\$179,469	\$283,707	\$380,512	\$56,385

1. Includes unencumbered cash, U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), and German, French, Japanese and United Kingdom government obligations.

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Management's Discussion and Analysis**Balance Sheet Analysis and Metrics**

As of December 2012, total assets on our consolidated statements of financial condition were \$938.56 billion, an increase of \$15.33 billion from December 2011. This increase was primarily due to (i) an increase in financial instruments owned, at fair value of \$42.81 billion, due to increases in equities and convertible debentures and non-U.S. government and agency obligations and (ii) an increase in cash and cash equivalents of \$16.66 billion, primarily due to increases in interest-bearing deposits with banks. These increases were partially offset by decreases in securities purchased under agreements to resell and federal funds sold of \$46.46 billion, primarily due to firm and client activities.

As of December 2012, total liabilities on our consolidated statements of financial condition were \$862.84 billion, an increase of \$9.99 billion from December 2011. This increase was primarily due to an increase in deposits of \$24.02 billion, primarily due to increases in client activity. This increase was partially offset by a decrease in financial instruments sold, but not yet purchased, at fair value of \$18.37 billion, primarily due to decreases in derivatives and U.S. government and federal agency obligations.

As of December 2012, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were \$171.81 billion, which was essentially unchanged and 3% higher than the daily average amount of repurchase agreements during the quarter ended and year ended December 2012, respectively. As of December 2012, the increase in our repurchase agreements relative to the daily average during the year was primarily due to an increase in firm financing activities. As of December 2011, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were \$164.50 billion, which was 7% higher and 3% higher than the daily average amount of repurchase agreements during the quarter ended and year ended December 2011, respectively. As of December 2011, the increase in our repurchase agreements relative to the daily average during the quarter and year was primarily due to increases in client activity at the end of the year. The level of our repurchase agreements fluctuates between and within periods, primarily due to providing clients with access to highly liquid collateral, such as U.S. government and federal agency, and investment-grade sovereign obligations through collateralized financing activities.

The table below presents information on our assets, unsecured long-term borrowings, shareholders' equity and leverage ratios.

<i>\$ in millions</i>	As of December	
	2012	2011
Total assets	\$938,555	\$923,225
Adjusted assets	\$686,874	\$604,391
Unsecured long-term borrowings	\$167,305	\$173,545
Total shareholders' equity	\$ 75,716	\$ 70,379
Leverage ratio	12.4x	13.1x
Adjusted leverage ratio	9.1x	8.6x
Debt to equity ratio	2.2x	2.5x

Adjusted assets. Adjusted assets equals total assets less (i) low-risk collateralized assets generally associated with our secured client financing transactions, federal funds sold and excess liquidity (which includes financial instruments sold, but not yet purchased, at fair value, less derivative liabilities) and (ii) cash and securities we segregate for regulatory and other purposes. Adjusted assets is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

The table below presents the reconciliation of total assets to adjusted assets.

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<i>in millions</i>	As of December	
	2012	2011
Total assets	\$ 938,555	\$ 923,225
Deduct: Securities borrowed	(136,893)	(153,341)
Securities purchased under agreements to resell and federal funds sold	(141,334)	(187,789)
Add: Financial instruments sold, but not yet purchased, at fair value	126,644	145,013
Less derivative liabilities	(50,427)	(58,453)
Subtotal	(202,010)	(254,570)
Deduct: Cash and securities segregated for regulatory and other purposes	(49,671)	(64,264)
Adjusted assets	\$ 686,874	\$ 604,391

Leverage ratio. The leverage ratio equals total assets divided by total shareholders' equity and measures the proportion of equity and debt the firm is using to finance assets. This ratio is different from the Tier 1 leverage ratio included in Equity Capital Consolidated Regulatory Capital Ratios below, and further described in Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

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Adjusted leverage ratio. The adjusted leverage ratio equals adjusted assets divided by total shareholders' equity. We believe that the adjusted leverage ratio is a more meaningful measure of our capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital. The adjusted leverage ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Our adjusted leverage ratio increased to 9.1x as of December 2012 from 8.6x as of December 2011 as our adjusted assets increased.

Debt to equity ratio. The debt to equity ratio equals unsecured long-term borrowings divided by total shareholders' equity.

Funding Sources

Our primary sources of funding are secured financings, unsecured long-term and short-term borrowings, and deposits. We seek to maintain broad and diversified funding sources globally.

We raise funding through a number of different products, including:

collateralized financings, such as repurchase agreements, securities loaned and other secured financings;

long-term unsecured debt (including structured notes) through syndicated U.S. registered offerings, U.S. registered and 144A medium-term note programs, offshore medium-term note offerings and other debt offerings;

savings and demand deposits through deposit sweep programs and time deposits through internal and third-party broker-dealers; and

short-term unsecured debt through U.S. and non-U.S. commercial paper and promissory note issuances and other methods.

We generally distribute our funding products through our own sales force and third-party distributors, to a large, diverse creditor base in a variety of markets in the Americas, Europe and Asia. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies, mutual funds and individuals. We have imposed various internal guidelines to monitor creditor concentration across our funding programs.

Secured Funding. We fund a significant amount of inventory on a secured basis. Secured funding is less sensitive to changes in our credit quality than unsecured funding, due to our posting of collateral to our lenders. Nonetheless, we continually analyze the refinancing risk of our secured funding activities, taking into account trade tenors, maturity profiles, counterparty concentrations, collateral eligibility and counterparty rollover probabilities. We seek to mitigate our refinancing risk by executing term trades with staggered maturities, diversifying counterparties, raising excess secured funding, and pre-funding residual risk through our GCE.

We seek to raise secured funding with a term appropriate for the liquidity of the assets that are being financed, and we seek longer maturities for secured funding collateralized by asset classes that may be harder to fund on a secured basis especially during times of market stress. Substantially all of our secured funding is executed for tenors of one month or greater. Assets that may be harder to fund on a secured basis during times of market stress include certain financial instruments in the following categories: mortgage and other asset-backed loans and securities, non-investment grade corporate debt securities, equities and convertible debentures and emerging market securities. Assets that are classified as level 3 in the fair value hierarchy are generally funded on an unsecured basis. See Note 6 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about the classification of financial instruments in the fair value hierarchy and see

Unsecured Long-Term Borrowings below for further information about the use of unsecured long-term borrowings as a source of funding.

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The weighted average maturity of our secured funding, excluding funding collateralized by highly liquid securities eligible for inclusion in our GCE, exceeded 100 days as of December 2012.

A majority of our secured funding for securities not eligible for inclusion in the GCE is executed through term repurchase agreements and securities lending contracts. We also raise financing through other types of collateralized financings, such as secured loans and notes.

GS Bank USA has access to funding through the Federal Reserve Bank discount window. While we do not rely on this funding in our liquidity planning and stress testing, we maintain policies and procedures necessary to access this funding and test discount window borrowing procedures.

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Unsecured Long-Term Borrowings. We issue unsecured long-term borrowings as a source of funding for inventory and other assets and to finance a portion of our GCE. We issue in different tenors, currencies, and products to

maximize the diversification of our investor base. The table below presents our quarterly unsecured long-term borrowings maturity profile through 2018 as of December 2012.

The weighted average maturity of our unsecured long-term borrowings as of December 2012 was approximately eight years. To mitigate refinancing risk, we seek to limit the principal amount of debt maturing on any one day or during any week or year. We enter into interest rate swaps to convert a substantial portion of our long-term borrowings into floating-rate obligations in order to manage our exposure to interest rates. See Note 16 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our unsecured long-term borrowings.

Temporary Liquidity Guarantee Program (TLGP). The remaining portion of our senior unsecured short-term debt guaranteed by the FDIC under the TLGP matured during the second quarter of 2012. As of December 2012, no borrowings guaranteed by the FDIC under the TLGP were outstanding and the program had expired for new issuances.

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Deposits. As part of our efforts to diversify our funding base, deposits have become a more meaningful share of our funding activities. GS Bank USA has been actively growing its deposit base with an emphasis on issuance of long-term certificates of deposit and on expanding our deposit sweep program, which involves long-term contractual agreements with several U.S. broker-dealers who sweep client cash to FDIC-insured deposits. We utilize deposits to finance activities in our bank subsidiaries. The table below presents the sourcing of our deposits.

<i>in millions</i>	As of December 2012	
	Type of Deposit	
	Savings and Demand ¹	Time ²
Private bank deposits ³	\$30,460	\$
Certificates of deposit		21,507
Deposit sweep programs	15,998	
Institutional	51	2,108
Total ⁴	\$46,509	\$23,615

1. Represents deposits with no stated maturity.

2. Weighted average maturity in excess of three years.

3. Substantially all were from overnight deposit sweep programs related to private wealth management clients.

4. Deposits insured by the FDIC as of December 2012 were approximately \$42.77 billion.

Unsecured Short-Term Borrowings. A significant portion of our short-term borrowings was originally long-term debt that is scheduled to mature within one year of the reporting date. We use short-term borrowings to finance liquid assets and for other cash management purposes. We primarily issue commercial paper, promissory notes, and other hybrid instruments.

As of December 2012, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were \$44.30 billion. See Note 15 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our unsecured short-term borrowings.

Equity Capital

Capital adequacy is of critical importance to us. Our objective is to be conservatively capitalized in terms of the amount and composition of our equity base. Accordingly, we have in place a comprehensive capital management policy that serves as a guide to determine the amount and composition of equity capital we maintain.

The level and composition of our equity capital are determined by multiple factors including our current and future consolidated regulatory capital requirements, our ICAAP, CCAR and results of stress tests, and may also be influenced by other factors such as rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments. In addition, we maintain a capital plan which projects sources and uses of capital

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given a range of business environments, and a contingency capital plan which provides a framework for analyzing and responding to an actual or perceived capital shortfall.

As part of the Federal Reserve Board's annual CCAR, U.S. bank holding companies with total consolidated assets of \$50 billion or greater are required to submit annual capital plans for review by the Federal Reserve Board. The purpose of the Federal Reserve Board's review is to ensure that these institutions have robust, forward-looking capital planning processes that account for their unique risks and that permit continued operations during times of economic and financial stress. The Federal Reserve Board will evaluate a bank holding company based on whether it has the capital necessary to continue operating under the baseline and stressed scenarios provided by the Federal Reserve. As part of the capital plan review, the Federal Reserve Board evaluates an institution's plan to make capital distributions, such as increasing dividend payments or repurchasing or redeeming stock, across a range of macro-economic and firm-specific assumptions. In addition, the rules adopted by the Federal Reserve Board under the Dodd-Frank Act, require us to conduct stress tests on a semi-annual basis and publish a summary of certain results, beginning in March 2013. The Federal Reserve Board will conduct its own annual stress tests and is expected to publish a summary of certain results in March 2013.

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As part of our 2012 CCAR submission, the Federal Reserve informed us that it did not object to our proposed capital actions through the first quarter of 2013, including the repurchase of outstanding common stock and increases in the quarterly common stock dividend. We submitted our 2013 CCAR to the Federal Reserve on January 7, 2013 and expect to publish a summary of our results in March 2013.

Our consolidated regulatory capital requirements are determined by the Federal Reserve Board, as described below. Our ICAAP incorporates an internal risk-based capital assessment designed to identify and measure material risks associated with our business activities, including market risk, credit risk and operational risk, in a manner that is closely aligned with our risk management practices. Our internal risk-based capital assessment is supplemented with the results of stress tests.

As of December 2012, our total shareholders' equity was \$75.72 billion (consisting of common shareholders' equity of \$69.52 billion and preferred stock of \$6.20 billion). As of December 2011, our total shareholders' equity was \$70.38 billion (consisting of common shareholders' equity of \$67.28 billion and preferred stock of \$3.10 billion). In addition, as of December 2012 and December 2011, \$2.73 billion and \$5.00 billion, respectively, of our junior subordinated debt issued to trusts qualified as equity capital for regulatory and certain rating agency purposes. See Consolidated Regulatory Capital Ratios below for information regarding the impact of regulatory developments.

Consolidated Regulatory Capital

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, we are subject to consolidated regulatory capital requirements that are computed in accordance with the Federal Reserve Board's risk-based capital requirements (which are based on the Basel 1 Capital Accord of the Basel Committee). These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). See Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for additional information regarding the firm's RWAs. The firm's capital levels are also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

Federal Reserve Board regulations require bank holding companies to maintain a minimum Tier 1 capital ratio of 4% and a minimum total capital ratio of 8%. The required minimum Tier 1 capital ratio and total capital ratio in order to be considered a well-capitalized bank holding company under the Federal Reserve Board guidelines are 6% and 10%, respectively. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending on their particular condition, risk profile and growth plans. The minimum Tier 1 leverage ratio is 3% for bank holding companies that have received the highest supervisory rating under Federal Reserve Board guidelines or that have implemented the Federal Reserve Board's risk-based capital measure for market risk. Other bank holding companies must have a minimum Tier 1 leverage ratio of 4%.

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Management's Discussion and Analysis**Consolidated Regulatory Capital Ratios**

The table below presents information about our regulatory capital ratios, which are based on Basel 1, as implemented by the Federal Reserve Board.

<i>\$ in millions</i>	As of December	
	2012	2011
Common shareholders' equity	\$ 69,516	\$ 67,279
Less: Goodwill	(3,702)	(3,802)
Less: Intangible assets	(1,397)	(1,666)
Less: Equity investments in certain entities ¹	(4,805)	(4,556)
Less: Disallowed deferred tax assets	(1,261)	(1,073)
Less: Debt valuation adjustment ²	(180)	(664)
Less: Other adjustments ³	(124)	(356)
Tier 1 Common Capital	58,047	55,162
Non-cumulative preferred stock	6,200	3,100
Junior subordinated debt issued to trusts ⁴	2,730	5,000
Tier 1 Capital	66,977	63,262
Qualifying subordinated debt ⁵	13,342	13,828
Other adjustments	87	53
Tier 2 Capital	13,429	13,881
Total Capital	\$ 80,406	\$ 77,143
Risk-Weighted Assets	\$399,928	\$457,027
Tier 1 Capital Ratio	16.7%	13.8%
Total Capital Ratio	20.1%	16.9%
Tier 1 Leverage Ratio⁶	7.3%	7.0%
Tier 1 Common Ratio⁷	14.5%	12.1%

1. Primarily represents a portion of our equity investments in non-financial companies.

2. Represents the cumulative change in the fair value of our unsecured borrowings attributable to the impact of changes in our own credit spreads, (net of tax at the applicable tax rate).

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3. Includes net unrealized gains/(losses) on available-for-sale securities (net of tax at the applicable tax rate), the cumulative change in our pension and postretirement liabilities (net of tax at the applicable tax rate) and investments in certain nonconsolidated entities.
4. See Note 16 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for additional information about the junior subordinated debt issued to trusts.
5. Substantially all of our subordinated debt qualifies as Tier 2 capital for Basel 1 purposes.
6. See Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for additional information about the firm's Tier 1 leverage ratio.
7. The Tier 1 common ratio equals Tier 1 common capital divided by RWAs. We believe that the Tier 1 common ratio is meaningful because it is one of the measures that we and investors use to assess capital adequacy and, while not currently a formal regulatory capital ratio, this measure is of increasing importance to regulators. The Tier 1 common ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. Our Tier 1 capital ratio increased to 16.7% as of December 2012 from 13.8% as of December 2011 primarily reflecting an increase in common shareholders' equity and a reduction in market RWAs. The reduction in

market RWAs was primarily driven by lower volatilities, a decrease in derivative exposure and capital efficiency initiatives that, while driven by future Basel 3 rules, also reduced market RWAs as measured under the current rules.

Changes to the market risk capital rules of the U.S. federal bank regulatory agencies became effective on January 1, 2013. These changes require the addition of several new model-based capital requirements, as well as an increase in capital requirements for securitization positions and are designed to implement the new market risk framework of the Basel Committee, as well as the prohibition on the use of external credit ratings, as required by the Dodd-Frank Act. This revised market risk framework is a significant part of the regulatory capital changes that will ultimately be included in our Basel 3 capital ratios. The firm's estimated Tier 1 common ratio under Basel 1 reflecting these revised market risk regulatory capital requirements would have been approximately 350 basis points lower than the firm's reported Basel 1 Tier 1 common ratio as of December 2012.

See **Business Regulation** in Part I, Item 1 of this Form 10-K and Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for additional information about our regulatory capital ratios and the related regulatory requirements, including pending and proposed regulatory changes.

Risk-Weighted Assets

RWAs under the Federal Reserve Board's risk-based capital requirements are calculated based on the amount of credit risk and market risk.

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

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RWAs for market risk are comprised of modeled and non-modeled risk requirements. Modeled risk requirements are determined by reference to the firm's Value-at-Risk (VaR) model. VaR is the potential loss in value of inventory positions due to adverse market movements over a defined time horizon with a specified confidence level. We use a single VaR model which captures risks including interest rates, equity prices, currency rates and commodity prices. For certain portfolios of debt and equity positions, the modeled RWAs also reflect requirements for specific risk, which is the risk of loss on a position that could result from changes in risk factors unique to that position. Regulatory VaR used for capital requirements will differ from risk management VaR, due to different time horizons (10-day vs. 1-day), confidence levels (99% vs. 95%), as well as other factors. Non-modeled risk requirements reflect specific risk for other debt and equity positions. The standardized measurement method is used to determine non-modeled risk by applying supervisory defined risk-weighting factors to positions after applicable netting is performed.

The table below presents information on the components of RWAs within our consolidated regulatory capital ratios.

<i>in millions</i>	As of December	
	2012	2011
Credit RWAs		
OTC derivatives	\$107,269	\$119,848
Commitments and guarantees ¹	46,007	37,648
Securities financing transactions ²	47,069	53,236
Other ³	87,181	84,039
Total Credit RWAs	\$287,526	\$294,771
Market RWAs		
Modeled requirements	\$ 23,302	\$ 57,784
Non-modeled requirements	89,100	104,472
Total Market RWAs	112,402	162,256
Total RWAs ⁴	\$399,928	\$457,027

1. Principally includes certain commitments to extend credit and letters of credit.

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

3. Principally includes receivables from customers, other assets, cash and cash equivalents and available-for-sale securities.

4. Under the current regulatory capital framework, there is no explicit requirement for Operational Risk.

As outlined above, changes to the market risk capital rules that became effective on January 1, 2013, require the addition of several new model-based capital requirements, as well as an increase in capital requirements for securitization positions.

Internal Capital Adequacy Assessment Process

We perform an ICAAP with the objective of ensuring that the firm is appropriately capitalized relative to the risks in our business.

As part of our ICAAP, we perform an internal risk-based capital assessment. This assessment incorporates market risk, credit risk and operational risk. Market risk is calculated by using VaR calculations supplemented by risk-based add-ons which include risks related to rare events (tail risks). Credit risk utilizes assumptions about our counterparties' probability of default, the size of our losses in the event of a default and the maturity of our counterparties' contractual obligations to us. Operational risk is calculated based on scenarios incorporating multiple types of operational failures. Backtesting is used to gauge the effectiveness of models at capturing and measuring relevant risks.

We evaluate capital adequacy based on the result of our internal risk-based capital assessment, supplemented with the results of stress tests which measure the firm's estimated performance under various market conditions. Our goal is to hold sufficient capital, under our internal risk-based capital framework, to ensure we remain adequately capitalized after experiencing a severe stress event. Our assessment of capital adequacy is viewed in tandem with our assessment of liquidity adequacy and is integrated into the overall risk management structure, governance and policy framework of the firm.

We attribute capital usage to each of our businesses based upon our internal risk-based capital and regulatory frameworks and manage the levels of usage based upon the balance sheet and risk limits established.

Rating Agency Guidelines

The credit rating agencies assign credit ratings to the obligations of Group Inc., which directly issues or guarantees substantially all of the firm's senior unsecured obligations. GS&Co. and GSI have been assigned long- and short-term issuer ratings by certain credit rating agencies. GS Bank USA has also been assigned long-term issuer ratings as well as ratings on its long-term and short-term bank deposits. In addition, credit rating agencies have assigned ratings to debt obligations of certain other subsidiaries of Group Inc.

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The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See [Liquidity Risk Management](#) [Credit Ratings](#) for further information about credit ratings of Group Inc., GS&Co., GSI and GS Bank USA.

Subsidiary Capital Requirements

Many of our subsidiaries, including GS Bank USA and our broker-dealer subsidiaries, are subject to separate regulation and capital requirements of the jurisdictions in which they operate.

GS Bank USA is subject to minimum capital requirements that are calculated in a manner similar to those applicable to bank holding companies and computes its capital ratios in accordance with the regulatory capital requirements currently applicable to state member banks, which are based on Basel 1, as implemented by the Federal Reserve Board. As of December 2012, GS Bank USA's Tier 1 Capital ratio under Basel 1 as implemented by the Federal Reserve Board was 18.9%. See Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about GS Bank USA's regulatory capital ratios under Basel 1, as implemented by the Federal Reserve Board. Effective January 1, 2013, GS Bank USA also implemented the revised market risk framework outlined above. This revised market risk framework is a significant part of the regulatory capital changes that will ultimately be included in GS Bank USA's Basel 3 capital ratios.

For purposes of assessing the adequacy of its capital, GS Bank USA has established an ICAAP which is similar to that used by Group Inc. In addition, the rules adopted by the Federal Reserve Board under the Dodd-Frank Act require GS Bank USA to conduct stress tests on an annual basis and publish a summary of certain results, beginning in March 2013. GS Bank USA submitted its annual stress results to the Federal Reserve on January 7, 2013 and expects to publish a summary of its results in March 2013. GS Bank USA's capital levels and prompt corrective action classification are subject to qualitative judgments by its regulators about components, risk weightings and other factors.

We expect that the capital requirements of several of our subsidiaries are likely to increase in the future due to the various developments arising from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators. See Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information about the capital requirements of our other regulated subsidiaries and the potential impact of regulatory reform.

Subsidiaries not subject to separate regulatory capital requirements may hold capital to satisfy local tax and legal guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. In certain instances, Group Inc. may be limited in its ability to access capital held at certain subsidiaries as a result of regulatory, tax or other constraints. As of December 2012 and December 2011, Group Inc.'s equity investment in subsidiaries was \$73.32 billion and \$67.70 billion, respectively, compared with its total shareholders' equity of \$75.72 billion and \$70.38 billion, respectively.

Group Inc. has guaranteed the payment obligations of GS&Co., GS Bank USA, and Goldman Sachs Execution & Clearing, L.P. (GSEC) subject to certain exceptions. In November 2008, Group Inc. contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee certain losses, including credit-related losses, relating to assets held by the contributed entities. In connection with this guarantee, Group Inc. also agreed to pledge to GS Bank USA certain collateral, including interests in subsidiaries and other illiquid assets.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is managed through a combination of derivatives and non-U.S. denominated debt.

Contingency Capital Plan

Our contingency capital plan provides a framework for analyzing and responding to a perceived or actual capital deficiency, including, but not limited to, identification of drivers of a capital deficiency, as well as mitigants and potential actions. It outlines the appropriate communication procedures to follow during a crisis period, including internal dissemination of information as well as ensuring timely communication with external stakeholders.

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Management's Discussion and Analysis**Equity Capital Management**

Our objective is to maintain a sufficient level and optimal composition of equity capital. We principally manage our capital through issuances and repurchases of our common stock. We may also, from time to time, issue or repurchase our preferred stock, junior subordinated debt issued to trusts and other subordinated debt or other forms of capital as business conditions warrant and subject to approval of the Federal Reserve Board. We manage our capital requirements principally by setting limits on balance sheet assets and/or limits on risk, in each case both at the consolidated and business levels. We attribute capital usage to each of our businesses based upon our internal risk-based capital and regulatory frameworks and manage the levels of usage based upon the balance sheet and risk limits established.

See Notes 16 and 19 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

Berkshire Hathaway Warrant. In October 2008, we issued Berkshire Hathaway a warrant, which grants Berkshire Hathaway the option to purchase up to 43.5 million shares of common stock at an exercise price of \$115.00 per share on or before October 1, 2013. See Note 19 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information about the Series G Preferred Stock.

Share Repurchase Program. We seek to use our share repurchase program to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our current and projected capital positions (i.e., comparisons of our desired level and composition of capital to our actual level and composition of capital), but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock.

As of December 2012, under the share repurchase program approved by the Board of Directors of Group Inc. (Board), we can repurchase up to 21.5 million additional shares of common stock; however, any such repurchases are subject to the approval of the Federal Reserve Board.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in Part II, Item 5 and Note 19 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for additional information on our repurchase program and see above for information about the annual CCAR.

Other Capital Metrics

The table below presents information on our shareholders' equity and book value per common share.

<i>in millions, except per share amounts</i>	As of December	
	2012	2011
Total shareholders' equity	\$75,716	\$70,379
Common shareholders' equity	69,516	67,279
Tangible common shareholders' equity	64,417	61,811
Book value per common share	144.67	130.31
Tangible book value per common share	134.06	119.72

Tangible common shareholders' equity Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and identifiable intangible assets. We believe that tangible common shareholders' equity is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible common shareholders' equity is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

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The table below presents the reconciliation of total shareholders' equity to tangible common shareholders' equity.

<i>in millions</i>	As of December	
	2012	2011
Total shareholders' equity	\$75,716	\$70,379
Deduct: Preferred stock	(6,200)	(3,100)
Common shareholders' equity	69,516	67,279
Deduct: Goodwill and identifiable intangible assets	(5,099)	(5,468)
Tangible common shareholders' equity	\$64,417	\$61,811

Book value and tangible book value per common share. Book value and tangible book value per common share are based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 480.5 million and 516.3 million as of December 2012 and December 2011, respectively. We believe that tangible book value per common share (tangible common shareholders' equity divided by common shares outstanding) is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

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Management's Discussion and Analysis

Off-Balance-Sheet Arrangements and Contractual Obligations

Off-Balance-Sheet Arrangements

We have various types of off-balance-sheet arrangements that we enter into in the ordinary course of business. Our involvement in these arrangements can take many different forms, including:

purchasing or retaining residual and other interests in special purpose entities such as mortgage-backed and other asset-backed securitization vehicles;

holding senior and subordinated debt, interests in limited and general partnerships, and preferred and common stock in other nonconsolidated vehicles;

entering into interest rate, foreign currency, equity, commodity and credit derivatives, including total return swaps;

entering into operating leases; and

providing guarantees, indemnifications, loan commitments, letters of credit and representations and warranties.

We enter into these arrangements for a variety of business purposes, including securitizations. The securitization vehicles that purchase mortgages, corporate bonds, and other types of financial assets are critical to the functioning of several significant investor markets, including the mortgage-backed and other asset-backed securities markets, since they offer investors access to specific cash flows and risks created through the securitization process.

We also enter into these arrangements to underwrite client securitization transactions; provide secondary market liquidity; make investments in performing and nonperforming debt, equity, real estate and other assets; provide investors with credit-linked and asset-repackaged notes; and receive or provide letters of credit to satisfy margin requirements and to facilitate the clearance and settlement process.

Our financial interests in, and derivative transactions with, such nonconsolidated entities are generally accounted for at fair value, in the same manner as our other financial instruments, except in cases where we apply the equity method of accounting.

The table below presents where a discussion of our various off-balance-sheet arrangements may be found in Part II, Items 7 and 8 of this Form 10-K. In addition, see Note 3 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for a discussion of our consolidation policies.

Type of Off-Balance-Sheet Arrangement	Disclosure in Form 10-K
Variable interests and other obligations, including contingent obligations, arising from variable interests in nonconsolidated VIEs	See Note 11 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

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Leases, letters of credit, and lending and other commitments

See Contractual Obligations below and Note 18 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

Guarantees

See Contractual Obligations below and Note 18 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

Derivatives

See Notes 4, 5, 7 and 18 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

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Management's Discussion and Analysis**Contractual Obligations**

We have certain contractual obligations which require us to make future cash payments. These contractual obligations include our unsecured long-term borrowings, secured long-term financings, time deposits, contractual interest payments and insurance agreements, all of which are included in our consolidated statements of financial condition. Our obligations to make future cash payments

also include certain off-balance-sheet contractual obligations such as purchase obligations, minimum rental payments under noncancelable leases and commitments and guarantees.

The table below presents our contractual obligations, commitments and guarantees as of December 2012.

<i>in millions</i>	2013	2014-2015	2016-2017	2018- Thereafter	Total
Amounts related to on-balance-sheet obligations					
Time deposits ¹	\$	\$ 7,151	\$ 4,064	\$ 5,069	\$ 16,284
Secured long-term financings ²		6,403	1,140	1,422	8,965
Unsecured long-term borrowings ³		43,920	42,601	80,784	167,305
Contractual interest payments ⁴	7,489	13,518	10,182	33,332	64,521
Insurance liabilities ⁵	477	959	934	13,740	16,110
Subordinated liabilities issued by consolidated VIEs	59	62	84	1,155	1,360
Amounts related to off-balance-sheet arrangements					
Commitments to extend credit	10,435	16,322	43,453	5,412	75,622
Contingent and forward starting resale and securities borrowing agreements	47,599				47,599
Forward starting repurchase and secured lending agreements	6,144				6,144
Letters of credit	614	160		15	789
Investment commitments	1,378	2,174	258	3,529	7,339
Other commitments	4,471	53	31	69	4,624
Minimum rental payments	439	752	623	1,375	3,189
Derivative guarantees	339,460	213,012	49,413	61,264	663,149
Securities lending indemnifications	27,123				27,123

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Other financial guarantees	904	442	1,195	938	3,479
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1. Excludes \$7.33 billion of time deposits maturing within one year.

2. The aggregate contractual principal amount of secured long-term financings for which the fair value option was elected, primarily consisting of transfers of financial assets accounted for as financings rather than sales and certain other nonrecourse financings, exceeded their related fair value by \$115 million.

3. Includes \$10.51 billion related to interest rate hedges on certain unsecured long-term borrowings. In addition, the fair value of unsecured long-term borrowings (principal and non-principal-protected) for which the fair value option was elected exceeded the related aggregate contractual principal amount by \$379 million. Excludes \$77 million of unsecured long-term borrowings related to our reinsurance business classified as held for sale as of December 2012. See Note 17 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information.

4. Represents estimated future interest payments related to unsecured long-term borrowings, secured long-term financings and time deposits based on applicable interest rates as of December 2012. Includes stated coupons, if any, on structured notes.

5. Represents estimated undiscounted payments related to future benefits and unpaid claims arising from policies associated with our insurance activities, excluding separate accounts and estimated recoveries under reinsurance contracts. Excludes \$13.08 billion of insurance liabilities related to our reinsurance business classified as held for sale as of December 2012. See Note 17 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information.

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In the table above:

Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holder are excluded and are treated as short-term obligations.

Obligations that are repayable prior to maturity at our option are reflected at their contractual maturity dates and obligations that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.

Amounts included in the table do not necessarily reflect the actual future cash flow requirements for these arrangements because commitments and guarantees represent notional amounts and may expire unused or be reduced or cancelled at the counterparty's request.

Due to the uncertainty of the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded. See Note 24 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our unrecognized tax benefits.

See Notes 15 and 18 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our short-term borrowings, and commitments and guarantees.

As of December 2012, our unsecured long-term borrowings were \$167.31 billion, with maturities extending to 2061, and consisted principally of senior borrowings. See Note 16 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our unsecured long-term borrowings.

As of December 2012, our future minimum rental payments net of minimum sublease rentals under noncancelable leases were \$3.19 billion. These lease commitments, principally for office space, expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 18 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. For the year ended December 2012, total occupancy expenses for space held in excess of our current requirements were not material. In addition, for the year ended December 2012, we incurred exit costs of \$17 million related to our office space. We may incur exit costs (included in Depreciation and amortization and Occupancy) in the future to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

Overview and Structure of Risk Management

Overview

We believe that effective risk management is of primary importance to the success of the firm. Accordingly, we have comprehensive risk management processes through which we monitor, evaluate and manage the risks we assume in conducting our activities. These include market, credit, liquidity, operational, legal, regulatory and reputational risk exposures. Our risk management framework is built around three core components: governance, processes and people.

Governance. Risk management governance starts with our Board, which plays an important role in reviewing and approving risk management policies and practices, both directly and through its Risk Committee, which consists of all of our independent directors. The Board also receives regular briefings on firmwide risks, including market risk, liquidity risk, credit risk and operational risk from our independent control and support functions, including the chief risk officer. The chief risk officer, as part of the review of the firmwide risk package, regularly advises the Risk Committee of the Board of relevant risk metrics and material exposures. Next, at the most senior levels of the firm, our leaders are experienced risk managers, with a sophisticated and detailed understanding of the risks we take. Our senior managers lead and participate in risk-oriented committees, as do the leaders of our independent control and support functions including those in internal audit, compliance, controllers, credit risk management, human capital management, legal, market risk management, operations, operational risk management, tax, technology and treasury.

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The firm's governance structure provides the protocol and responsibility for decision-making on risk management issues and ensures implementation of those decisions. We make extensive use of risk-related committees that meet regularly and serve as an important means to facilitate and foster ongoing discussions to identify, manage and mitigate risks.

We maintain strong communication about risk and we have a culture of collaboration in decision-making among the revenue-producing units, independent control and support functions, committees and senior management. While we believe that the first line of defense in managing risk rests with the managers in our revenue-producing units, we dedicate extensive resources to independent control and support functions in order to ensure a strong oversight structure and an appropriate segregation of duties. We regularly reinforce the firm's strong culture of escalation and accountability across all divisions and functions.

Processes. We maintain various processes and procedures that are critical components of our risk management. First and foremost is our daily discipline of marking substantially all of the firm's inventory to current market levels. Goldman Sachs carries its inventory at fair value, with changes in valuation reflected immediately in our risk management systems and in net revenues. We do so because we believe this discipline is one of the most effective tools for assessing and managing risk and that it provides transparent and realistic insight into our financial exposures.

We also apply a rigorous framework of limits to control risk across multiple transactions, products, businesses and markets. This includes setting credit and market risk limits at a variety of levels and monitoring these limits on a daily basis. Limits are typically set at levels that will be periodically exceeded, rather than at levels which reflect our maximum risk appetite. This fosters an ongoing dialogue on risk among revenue-producing units, independent control and support functions, committees and senior management, as well as rapid escalation of risk-related matters. See [Market Risk Management](#) and [Credit Risk Management](#) for further information on our risk limits.

Active management of our positions is another important process. Proactive mitigation of our market and credit exposures minimizes the risk that we will be required to take outsized actions during periods of stress.

We also focus on the rigor and effectiveness of the firm's risk systems. The goal of our risk management technology is to get the right information to the right people at the right

time, which requires systems that are comprehensive, reliable and timely. We devote significant time and resources to our risk management technology to ensure that it consistently provides us with complete, accurate and timely information.

People. Even the best technology serves only as a tool for helping to make informed decisions in real time about the risks we are taking. Ultimately, effective risk management requires our people to interpret our risk data on an ongoing and timely basis and adjust risk positions accordingly. In both our revenue-producing units and our independent control and support functions, the experience of our professionals, and their understanding of the nuances and limitations of each risk measure, guide the firm in assessing exposures and maintaining them within prudent levels.

Structure

Ultimate oversight of risk is the responsibility of the firm's Board. The Board oversees risk both directly and through its Risk Committee. Within the firm, a series of committees with specific risk management mandates have oversight or decision-making responsibilities for risk management activities. Committee membership generally consists of senior managers from both our revenue-producing units and our independent control and support functions. We have established procedures for these committees to ensure that appropriate information barriers are in place. Our primary risk committees, most of which also have additional sub-committees or working groups, are described below. In addition to these committees, we have other risk-oriented committees which provide oversight for different businesses, activities, products, regions and legal entities.

Membership of the firm's risk committees is reviewed regularly and updated to reflect changes in the responsibilities of the committee members. Accordingly, the length of time that members serve on the respective committees varies as determined by the committee chairs and based on the responsibilities of the members within the firm.

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In addition, independent control and support functions, which report to the chief financial officer, the general counsel and the chief administrative officer, or in the case of Internal Audit, to the Audit Committee of the Board, are responsible for day-to-day oversight or monitoring of risk, as discussed in greater detail in the following sections. Internal Audit, which includes professionals with a broad range of audit and industry experience, including risk management expertise, is responsible for independently assessing and validating key controls within the risk management framework.

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The chart below presents an overview of our risk management governance structure, highlighting the oversight of our Board, our key risk-related committees and the independence of our control and support functions.

Management Committee. The Management Committee oversees the global activities of the firm, including all of the firm's independent control and support functions. It provides this oversight directly and through authority delegated to committees it has established. This committee is comprised of the most senior leaders of the firm, and is chaired by the firm's chief executive officer. The Management Committee has established various committees with delegated authority and the chairperson of the Management Committee appoints the chairpersons of these committees. Most members of the Management Committee are also members of other firmwide, divisional and regional committees. The following are the committees that are principally involved in firmwide risk management.

Firmwide Client and Business Standards Committee. The Firmwide Client and Business Standards Committee assesses and makes determinations regarding business standards and practices, reputational risk management, client relationships and client service, is chaired by the firm's president and chief operating officer, and reports to the Management Committee. This committee also has responsibility for overseeing the implementation of the recommendations of the Business Standards Committee. This committee has established the following two risk-related committees that report to it:

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Firmwide New Activity Committee. The Firmwide New Activity Committee is responsible for reviewing new activities and for establishing a process to identify and review previously approved activities that are significant and that have changed in complexity and/or structure or present different reputational and suitability concerns over time to consider whether these activities remain appropriate. This committee is co-chaired by the firm's head of operations/chief operating officer for Europe, Middle East and Africa and the chief administrative officer of our Investment Management Division who are appointed by the Firmwide Client and Business Standards Committee chairperson.

Firmwide Suitability Committee. The Firmwide Suitability Committee is responsible for setting standards and policies for product, transaction and client suitability and providing a forum for consistency across divisions, regions and products on suitability assessments. This committee also reviews suitability matters escalated from other firm committees. This committee is co-chaired by the firm's international general counsel and the co-head of our Investment Management Division who are appointed by the Firmwide Client and Business Standards Committee chairperson.

Firmwide Risk Committee. The Firmwide Risk Committee is globally responsible for the ongoing monitoring and control of the firm's financial risks. Through both direct and delegated authority, the Firmwide Risk Committee approves firmwide, product, divisional and business-level limits for both market and credit risks, approves sovereign credit risk limits and reviews results of stress tests and scenario analyses. This committee is co-chaired by the firm's chief financial officer and a senior managing director from the firm's executive office, and reports to the Management Committee. The following four committees report to the Firmwide Risk Committee. The chairperson of the Securities Division Risk Committee is appointed by the chairpersons of the Firmwide Risk Committee; the chairpersons of the Credit Policy and Firmwide Operational Risk Committees are appointed by the firm's chief risk officer; and the chairpersons of the Firmwide Finance Committee are appointed by the Firmwide Risk Committee.

Securities Division Risk Committee. The Securities Division Risk Committee sets market risk limits, subject to overall firmwide risk limits, for the Securities Division based on a number of risk measures, including but not limited to VaR, stress tests, scenario analyses and balance sheet levels. This committee is chaired by the chief risk officer of our Securities Division.

Credit Policy Committee. The Credit Policy Committee establishes and reviews broad firmwide credit policies and parameters that are implemented by our Credit Risk Management department (Credit Risk Management). This committee is chaired by the firm's chief credit officer.

Firmwide Operational Risk Committee. The Firmwide Operational Risk Committee provides oversight of the ongoing development and implementation of our operational risk policies, framework and methodologies, and monitors the effectiveness of operational risk management. This committee is chaired by a managing director in Credit Risk Management.

Firmwide Finance Committee. The Firmwide Finance Committee has oversight of firmwide liquidity, the size and composition of our balance sheet and capital base, and our credit ratings. This committee regularly reviews and discusses our liquidity, balance sheet, funding position and capitalization in the context of current events, risks and exposures, and regulatory requirements. This committee is also responsible for reviewing and approving balance sheet limits and the size of our GCE. This committee is co-chaired by the firm's chief financial officer and the firm's global treasurer.

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The following committees report jointly to the Firmwide Risk Committee and the Firmwide Client and Business Standards Committee:

Firmwide Commitments Committee. The Firmwide Commitments Committee reviews the firm's underwriting and distribution activities with respect to equity and equity-related product offerings, and sets and maintains policies and procedures designed to ensure that legal, reputational, regulatory and business standards are maintained on a global basis. In addition to reviewing specific transactions, this committee periodically conducts general strategic reviews of sectors and products and establishes policies in connection with transaction practices. This committee is co-chaired by the firm's senior strategy officer and the co-head of Global Mergers & Acquisitions who are appointed by the Firmwide Client and Business Standards Committee chairperson.

Firmwide Capital Committee. The Firmwide Capital Committee provides approval and oversight of debt-related transactions, including principal commitments of the firm's capital. This committee aims to ensure that business and reputational standards for underwritings and capital commitments are maintained on a global basis. This committee is co-chaired by the firm's global treasurer and the head of credit finance for Europe, Middle East and Africa who are appointed by the Firmwide Risk Committee chairpersons.

Investment Management Division Risk Committee. The Investment Management Division Risk Committee is responsible for the ongoing monitoring and control of global market, counterparty credit and liquidity risks associated with the activities of our investment management businesses. The head of Investment Management Division risk management is the chair of this committee. The Investment Management Division Risk Committee reports to the firm's chief risk officer.

Conflicts Management

Conflicts of interest and the firm's approach to dealing with them are fundamental to our client relationships, our reputation and our long-term success. The term "conflict of interest" does not have a universally accepted meaning, and conflicts can arise in many forms within a business or between businesses. The responsibility for identifying potential conflicts, as well as complying with the firm's policies and procedures, is shared by the entire firm.

We have a multilayered approach to resolving conflicts and addressing reputational risk. The firm's senior management oversees policies related to conflicts resolution. The firm's senior management, the Business Selection and Conflicts Resolution Group, the Legal Department and Compliance Division, the Firmwide Client and Business Standards Committee and other internal committees all play roles in the formulation of policies, standards and principles and assist in making judgments regarding the appropriate resolution of particular conflicts. Resolving potential conflicts necessarily depends on the facts and circumstances of a particular situation and the application of experienced and informed judgment.

At the transaction level, various people and groups have roles. As a general matter, the Business Selection and Conflicts Resolution Group reviews all financing and advisory assignments in Investment Banking and investing, lending and other activities of the firm. Various transaction oversight committees, such as the Firmwide Capital, Commitments and Suitability Committees and other committees across the firm, also review new underwritings, loans, investments and structured products. These committees work with internal and external lawyers and the Compliance Division to evaluate and address any actual or potential conflicts.

We regularly assess our policies and procedures that address conflicts of interest in an effort to conduct our business in accordance with the highest ethical standards and in compliance with all applicable laws, rules, and regulations.

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Management's Discussion and Analysis**Liquidity Risk Management**

Liquidity is of critical importance to financial institutions. Most of the recent failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the firm has in place a comprehensive and conservative set of liquidity and funding policies to address both firm-specific and broader industry or market liquidity events. Our principal objective is to be able to fund the firm and to enable our core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

We manage liquidity risk according to the following principles:

Excess Liquidity. We maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment.

Asset-Liability Management. We assess anticipated holding periods for our assets and their expected liquidity in a stressed environment. We manage the maturities and diversity of our funding across markets, products and counterparties, and seek to maintain liabilities of appropriate tenor relative to our asset base.

Contingency Funding Plan. We maintain a contingency funding plan to provide a framework for analyzing and responding to a liquidity crisis situation or periods of market stress. This framework sets forth the plan of action to fund normal business activity in emergency and stress situations. These principles are discussed in more detail below.

Excess Liquidity

Our most important liquidity policy is to pre-fund our estimated potential cash and collateral needs during a liquidity crisis and hold this excess liquidity in the form of unencumbered, highly liquid securities and cash. We believe that the securities held in our global core excess would be readily convertible to cash in a matter of days, through liquidation, by entering into repurchase agreements or from maturities of reverse repurchase agreements, and that this cash would allow us to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets.

As of December 2012 and December 2011, the fair value of the securities and certain overnight cash deposits included in our GCE totaled \$174.62 billion and \$171.58 billion, respectively. Based on the results of our internal liquidity risk model, discussed below, as well as our consideration of other factors including, but not limited to, a qualitative assessment of the condition of the financial markets and the firm, we believe our liquidity position as of December 2012 was appropriate.

The table below presents the fair value of the securities and certain overnight cash deposits that are included in our GCE.

<i>in millions</i>	Average for the	
	Year Ended December	
	2012	2011
U.S. dollar-denominated	\$125,111	\$125,668
Non-U.S. dollar-denominated	46,984	40,291
Total	\$172,095	\$165,959

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The U.S. dollar-denominated excess is composed of (i) unencumbered U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), all of which are eligible as collateral in Federal Reserve open market operations and (ii) certain overnight U.S. dollar cash deposits. The non-U.S. dollar-denominated excess is composed of only unencumbered German, French, Japanese and United Kingdom government obligations and certain overnight cash deposits in highly liquid currencies. We strictly limit our excess liquidity to this narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. We do not include other potential sources of excess liquidity, such as less liquid unencumbered securities or committed credit facilities, in our GCE.

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The table below presents the fair value of our GCE by asset class.

<i>in millions</i>	Average for the	
	Year Ended December	
	2012	2011
Overnight cash deposits	\$ 52,233	\$ 34,622
U.S. government obligations	72,379	88,528
U.S. federal agency obligations, including highly liquid U.S. federal agency mortgage-backed obligations	2,313	5,018
German, French, Japanese and United Kingdom government obligations	45,170	37,791
Total	\$172,095	\$165,959

The GCE is held at Group Inc. and our major broker-dealer and bank subsidiaries, as presented in the table below.

<i>in millions</i>	Average for the	
	Year Ended December	
	2012	2011
Group Inc.	\$ 37,405	\$ 49,548
Major broker-dealer subsidiaries	78,229	75,086
Major bank subsidiaries	56,461	41,325
Total	\$172,095	\$165,959

Our GCE reflects the following principles:

The first days or weeks of a liquidity crisis are the most critical to a company's survival.

Focus must be maintained on all potential cash and collateral outflows, not just disruptions to financing flows. Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment.

During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change.

As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and have larger debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater balances of highly

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liquid unencumbered securities, even though it increases our total assets and our funding costs. We believe that our GCE provides us with a resilient source of funds that would be available in advance of potential cash and collateral outflows and gives us significant flexibility in managing through a difficult funding environment.

In order to determine the appropriate size of our GCE, we use an internal liquidity model, referred to as the Modeled Liquidity Outflow, which captures and quantifies the firm's liquidity risks. We also consider other factors including, but not limited to, an assessment of our potential intraday liquidity needs and a qualitative assessment of the condition of the financial markets and the firm.

We distribute our GCE across entities, asset types, and clearing agents to provide us with sufficient operating liquidity to ensure timely settlement in all major markets, even in a difficult funding environment.

We maintain our GCE to enable us to meet current and potential liquidity requirements of our parent company, Group Inc., and our major broker-dealer and bank subsidiaries. The Modeled Liquidity Outflow incorporates a consolidated requirement as well as a standalone requirement for each of our major broker-dealer and bank subsidiaries. Liquidity held directly in each of these subsidiaries is intended for use only by that subsidiary to meet its liquidity requirements and is assumed not to be available to Group Inc. unless (i) legally provided for and (ii) there are no additional regulatory, tax or other restrictions. We hold a portion of our GCE directly at Group Inc. to support consolidated requirements not accounted for in the major subsidiaries. In addition to the GCE, we maintain operating cash balances in several of our other operating entities, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.

In addition to our GCE, we have a significant amount of other unencumbered cash and financial instruments, including other government obligations, high-grade money market securities, corporate obligations, marginable equities, loans and cash deposits not included in our GCE. The fair value of these assets averaged \$87.09 billion and \$83.32 billion for the years ended December 2012 and December 2011, respectively. We do not consider these assets liquid enough to be eligible for our GCE liquidity pool and therefore conservatively do not assume we will generate liquidity from these assets in our Modeled Liquidity Outflow.

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Modeled Liquidity Outflow. Our Modeled Liquidity Outflow is based on a scenario that includes both a market-wide stress and a firm-specific stress, characterized by the following qualitative elements:

Severely challenged market environments, including low consumer and corporate confidence, financial and political instability, adverse changes in market values, including potential declines in equity markets and widening of credit spreads.

A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

The following are the critical modeling parameters of the Modeled Liquidity Outflow:

Liquidity needs over a 30-day scenario.

A two-notch downgrade of the firm's long-term senior unsecured credit ratings.

A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis.

No issuance of equity or unsecured debt.

No support from government funding facilities. Although we have access to various central bank funding programs, we do not assume reliance on them as a source of funding in a liquidity crisis.

Maintenance of our normal business levels. We do not assume asset liquidation, other than the GCE.

The Modeled Liquidity Outflow is calculated and reported to senior management on a daily basis. We regularly refine our model to reflect changes in market or economic conditions and the firm's business mix.

The potential contractual and contingent cash and collateral outflows covered in our Modeled Liquidity Outflow include:

Unsecured Funding

Contractual: All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products. We assume that we will be unable to issue new unsecured debt or rollover any maturing debt.

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Contingent: Repurchases of our outstanding long-term debt, commercial paper and hybrid financial instruments in the ordinary course of business as a market maker.

Deposits

Contractual: All upcoming maturities of term deposits. We assume that we will be unable to raise new term deposits or rollover any maturing term deposits.

Contingent: Withdrawals of bank deposits that have no contractual maturity. The withdrawal assumptions reflect, among other factors, the type of deposit, whether the deposit is insured or uninsured, and the firm's relationship with the depositor.

Secured Funding

Contractual: A portion of upcoming contractual maturities of secured funding due to either the inability to refinance or the ability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral, counterparty roll probabilities (our assessment of the counterparty's likelihood of continuing to provide funding on a secured basis at the maturity of the trade) and counterparty concentration.

Contingent: A decline in value of financial assets pledged as collateral for financing transactions, which would necessitate additional collateral postings under those transactions.

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OTC Derivatives

Contingent: Collateral postings to counterparties due to adverse changes in the value of our OTC derivatives.

Contingent: Other outflows of cash or collateral related to OTC derivatives, including the impact of trade terminations, collateral substitutions, collateral disputes, collateral calls or termination payments required by a two-notch downgrade in our credit ratings, and collateral that has not been called by counterparties, but is available to them.

Exchange-Traded Derivatives

Contingent: Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded derivatives.

Contingent: An increase in initial margin and guaranty fund requirements by derivative clearing houses.

Customer Cash and Securities

Contingent: Liquidity outflows associated with our prime brokerage business, including withdrawals of customer credit balances, and a reduction in customer short positions, which serve as a funding source for long positions.

Unfunded Commitments

Contingent: Draws on our unfunded commitments. Draw assumptions reflect, among other things, the type of commitment and counterparty.

Other

Other upcoming large cash outflows, such as tax payments.

Asset-Liability Management

Our liquidity risk management policies are designed to ensure we have a sufficient amount of financing, even when funding markets experience persistent stress. We seek to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of our assets.

Our approach to asset-liability management includes:

Conservatively managing the overall characteristics of our funding book, with a focus on maintaining long-term, diversified sources of funding in excess of our current requirements. See [Balance Sheet and Funding Sources](#) [Funding Sources](#) for additional details. Actively managing and monitoring our asset base, with particular focus on the liquidity, holding period and our ability to fund assets on a secured basis. This enables us to determine the most appropriate funding products and tenors. See [Balance Sheet and Funding Sources](#) [Balance Sheet Management](#) for more detail on our balance sheet management process and [Funding Sources](#) [Secured Funding](#) for more detail on asset classes that may be harder to fund on a secured basis.

Raising secured and unsecured financing that has a long tenor relative to the liquidity profile of our assets. This reduces the risk that our liabilities will come due in advance of our ability to generate liquidity from the sale of our assets. Because we maintain a highly liquid balance sheet, the holding period of certain of our assets may be materially shorter than their contractual maturity dates. Our goal is to ensure that the firm maintains sufficient liquidity to fund its assets and meet its contractual and contingent obligations in normal times as well as during periods of market stress. Through our dynamic balance sheet management process (see [Balance Sheet and Funding Sources](#) [Balance Sheet Management](#)), we use actual and projected asset balances to determine secured and unsecured funding requirements.

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Funding plans are reviewed and approved by the Firmwide Finance Committee on a quarterly basis. In addition, senior managers in our independent control and support functions regularly analyze, and the Firmwide Finance Committee reviews, our consolidated total capital position (unsecured long-term borrowings plus total shareholders' equity) so that we maintain a level of long-term funding that is sufficient to meet our long-term financing requirements. In a liquidity crisis, we would first use our GCE in order to avoid reliance on asset sales (other than our GCE). However, we recognize that orderly asset sales may be prudent or necessary in a severe or persistent liquidity crisis.

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Subsidiary Funding Policies. The majority of our unsecured funding is raised by Group Inc. which lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing, liquidity and capital requirements. In addition, Group Inc. provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of our subsidiaries. Funding is also raised at the subsidiary level through a variety of products, including secured funding, unsecured borrowings and deposits.

Our intercompany funding policies assume that, unless legally provided for, a subsidiary's funds or securities are not freely available to its parent company or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Group Inc. Regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on its obligations. Accordingly, we assume that the capital provided to our regulated subsidiaries is not available to Group Inc. or other subsidiaries and any other financing provided to our regulated subsidiaries is not available until the maturity of such financing.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries. For example, as of December 2012, Group Inc. had \$29.52 billion of equity and subordinated indebtedness invested in GS&Co., its principal U.S. registered broker-dealer; \$29.45 billion invested in GSI, a regulated U.K. broker-dealer; \$2.62 billion invested in GSEC, a U.S. registered broker-dealer; \$3.78 billion invested in Goldman Sachs Japan Co., Ltd., a regulated Japanese broker-dealer; and \$20.67 billion invested in GS Bank USA, a regulated New York State-chartered bank. Group Inc. also provided, directly or indirectly, \$68.44 billion of unsubordinated loans and \$11.37 billion of collateral to these entities, substantially all of which was to GS&Co., GSI and GS Bank USA, as of December 2012. In addition, as of December 2012, Group Inc. had significant amounts of capital invested in and loans to its other regulated subsidiaries.

Contingency Funding Plan

The Goldman Sachs contingency funding plan sets out the plan of action we would use to fund business activity in crisis situations and periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and/or market dislocation. The contingency funding plan also describes in detail the firm's potential responses if our assessments indicate that the firm has entered a liquidity crisis, which include pre-funding for what we estimate will be our potential cash and collateral needs as well as utilizing secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

The contingency funding plan identifies key groups of individuals to foster effective coordination, control and distribution of information, all of which are critical in the management of a crisis or period of market stress. The contingency funding plan also details the responsibilities of these groups and individuals, which include making and disseminating key decisions, coordinating all contingency activities throughout the duration of the crisis or period of market stress, implementing liquidity maintenance activities and managing internal and external communication.

Proposed Liquidity Framework

The Basel Committee on Banking Supervision's international framework for liquidity risk measurement, standards and monitoring calls for imposition of a liquidity coverage ratio, designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets based on expected cash outflows under an acute liquidity stress scenario, and a net stable funding ratio, designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. While the principles behind the new framework are broadly consistent with our current liquidity management framework, it is possible that the implementation of these standards could impact our liquidity and funding requirements and practices. Under the Basel Committee framework, the liquidity coverage ratio would be introduced on January 1, 2015; however there would be a phase-in period whereby firms would have a 60% minimum in 2015 which would be raised 10% per year until it reaches 100% in 2019. The net stable funding ratio is not expected to be introduced as a requirement until January 1, 2018.

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Management's Discussion and Analysis**Credit Ratings**

The table below presents the unsecured credit ratings and outlook of Group Inc.

	As of December 2012					Ratings
	Short-Term	Long-Term	Subordinated	Trust Preferred ¹	Preferred	
	Debt	Debt	Debt	Trust Preferred ¹	Stock	Outlook
DBRS, Inc.	R-1 (middle)	A (high)	A	A	BBB ³	Stable
Fitch, Inc.	F1	A ²	A-	BBB-	BB+ ³	Stable
Moody's Investors Service (Moody's)	P-2	A3 ²	Baa1	Baa3	Ba2 ³	Negative ⁴
Standard & Poor's Ratings Services (S&P)	A-2	A- ²	BBB+	BB+	BB+ ³	Negative
Rating and Investment Information, Inc.	a-1	A+	A	N/A	N/A	Negative

1. Trust preferred securities issued by Goldman Sachs Capital I.

2. Includes the senior guaranteed trust securities issued by Murray Street Investment Trust I and Vesey Street Investment Trust I.

3. Includes Group Inc.'s non-cumulative preferred stock and the APEX issued by Goldman Sachs Capital II and Goldman Sachs Capital III.

4. The ratings outlook for trust preferred and preferred stock is stable.

The table below presents the unsecured credit ratings of GS Bank USA, GS&Co. and GSI.

	As of December 2012			
	Short-Term	Long-Term	Short-Term	Long-Term
	Debt	Debt	Bank Deposits	Bank Deposits
Fitch, Inc.				
GS Bank USA	F1	A	F1	A+
GS&Co.	F1	A	N/A	N/A
Moody's				
GS Bank USA	P-1	A2	P-1	A2

S&P

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GS Bank USA	A-1	A	N/A	N/A
GS&Co.	A-1	A	N/A	N/A
GSI	A-1	A	N/A	N/A

On January 24, 2013, Fitch, Inc. assigned GSI a rating of F1 for short-term debt and A for long-term debt.

We rely on the short-term and long-term debt capital markets to fund a significant portion of our day-to-day operations and the cost and availability of debt financing is influenced by our credit ratings. Credit ratings are also

important when we are competing in certain markets, such as OTC derivatives, and when we seek to engage in longer-term transactions. See

Certain Risk Factors That May Affect Our Businesses below and Risk Factors in Part I, Item 1A of this Form 10-K for a discussion of the risks associated with a reduction in our credit ratings.

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We believe our credit ratings are primarily based on the credit rating agencies' assessment of:

our liquidity, market, credit and operational risk management practices;

the level and variability of our earnings;

our capital base;

our franchise, reputation and management;

our corporate governance; and

the external operating environment, including the assumed level of government support.

Certain of the firm's derivatives have been transacted under bilateral agreements with counterparties who may require us to post collateral or terminate the transactions based on changes in our credit ratings. We assess the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of the firm at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. We allocate a portion of our GCE to ensure we would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. The table below presents the additional collateral or termination payments that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in our credit ratings.

<i>in millions</i>	As of December	
	2012	2011
Additional collateral or termination payments for a one-notch downgrade	\$1,534	\$1,303
Additional collateral or termination payments for a two-notch downgrade	2,500	2,183

Cash Flows

As a global financial institution, our cash flows are complex and bear little relation to our net earnings and net assets. Consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the excess liquidity and asset-liability management policies described above. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our businesses.

Year Ended December 2012. Our cash and cash equivalents increased by \$16.66 billion to \$72.67 billion at the end of 2012. We generated \$9.14 billion in net cash from operating and investing activities. We generated \$7.52 billion in net cash from financing activities from an increase in bank deposits, partially offset by net repayments of unsecured and secured long-term borrowings.

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Year Ended December 2011. Our cash and cash equivalents increased by \$16.22 billion to \$56.01 billion at the end of 2011. We generated \$23.13 billion in net cash from operating and investing activities. We used net cash of \$6.91 billion for financing activities, primarily for repurchases of our Series G Preferred Stock and common stock, partially offset by an increase in bank deposits.

Year Ended December 2010. Our cash and cash equivalents increased by \$1.50 billion to \$39.79 billion at the end of 2010. We generated \$7.84 billion in net cash from financing activities primarily from net proceeds from issuances of short-term secured financings. We used net cash of \$6.34 billion for operating and investing activities, primarily to fund an increase in securities purchased under agreements to resell and an increase in cash and securities segregated for regulatory and other purposes, partially offset by cash generated from a decrease in securities borrowed.

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Market Risk Management

Overview

Market risk is the risk of loss in the value of our inventory due to changes in market prices. We hold inventory primarily for market making for our clients and for our investing and lending activities. Our inventory therefore changes based on client demands and our investment opportunities. Our inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in Market making, and Other principal transactions. Categories of market risk include the following:

Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads.

Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices.

Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates.

Commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

Market Risk Management Process

We manage our market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This includes:

accurate and timely exposure information incorporating multiple risk metrics;

a dynamic limit setting framework; and

constant communication among revenue-producing units, risk managers and senior management.

Market Risk Management, which is independent of the revenue-producing units and reports to the firm's chief risk officer, has primary responsibility for assessing, monitoring and managing market risk at the firm. We monitor and control risks through strong firmwide oversight and independent control and support functions across the firm's global businesses.

Managers in revenue-producing units are accountable for managing risk within prescribed limits. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

Managers in revenue-producing units and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

Risk Measures

Market Risk Management produces risk measures and monitors them against market risk limits set by our firm's risk committees. These measures reflect an extensive range of scenarios and the results are aggregated at trading desk, business and firmwide levels.

We use a variety of risk measures to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Risk measures used for shorter-term periods include VaR and sensitivity metrics. For longer-term horizons, our primary risk measures are stress tests. Our risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both our revenue-producing units and our independent control and support functions.

Systems

We have made a significant investment in technology to monitor market risk including:

an independent calculation of VaR and stress measures;

risk measures calculated at individual position levels;

attribution of risk measures to individual risk factors of each position;

the ability to report many different views of the risk measures (e.g., by desk, business, product type or legal entity); and

the ability to produce ad hoc analyses in a timely manner.

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Management's Discussion and Analysis

Value-at-Risk

VaR is the potential loss in value of inventory positions due to adverse market movements over a defined time horizon with a specified confidence level. We typically employ a one-day time horizon with a 95% confidence level. We use a single VaR model which captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk at the firmwide level.

We are aware of the inherent limitations to VaR and therefore use a variety of risk measures in our market risk management process. Inherent limitations to VaR include:

VaR does not estimate potential losses over longer time horizons where moves may be extreme.

VaR does not take account of the relative liquidity of different risk positions.

Previous moves in market risk factors may not produce accurate predictions of all future market moves.

When calculating VaR, we use historical simulations with full valuation of approximately 70,000 market factors. VaR is calculated at a position level based on simultaneously shocking the relevant market risk factors for that position. We sample from 5 years of historical data to generate the scenarios for our VaR calculation. The historical data is weighted so that the relative importance of the data reduces over time. This gives greater importance to more recent observations and reflects current asset volatilities, which improves the accuracy of our estimates of potential loss. As a result, even if our inventory positions were unchanged, our VaR would increase with increasing market volatility and vice versa.

Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions.

Our VaR measure does not include:

positions that are best measured and monitored using sensitivity measures; and

the impact of changes in counterparty and our own credit spreads on derivatives, as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected.

Model Review and Validation

Our VaR model is subject to review and validation by our independent model validation group at least annually. This review includes:

a critical evaluation of the model, its theoretical soundness and adequacy for intended use;

verification of the testing strategy utilized by the model developers to ensure that the model functions as intended; and

verification of the suitability of the calculation techniques incorporated in the model. Our VaR model is regularly reviewed and enhanced in order to incorporate changes in the composition of inventory positions, as well as variations in market conditions. Prior to implementing significant changes to our assumptions and/or model, we perform model validation and test runs. Significant changes to our VaR model are reviewed with the firm's chief risk officer and chief financial officer, and approved by the Firmwide Risk Committee.

We evaluate the accuracy of our VaR model through daily backtesting (i.e., comparing daily trading net revenues to the VaR measure calculated as of the prior business day) at the firmwide level and for each of our businesses and major regulated subsidiaries.

Stress Testing

We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the firm. We use a variety of stress testing techniques to calculate the potential loss from a wide range of market moves on the firm's portfolios, including sensitivity analysis, scenario analysis and firmwide stress tests. The results of our various stress tests are analyzed together for risk management purposes.

Sensitivity analysis is used to quantify the impact of a market move in a single risk factor across all positions (e.g., equity prices or credit spreads) using a variety of defined market shocks, ranging from those that could be expected over a one-day time horizon up to those that could take many months to occur. We also use sensitivity analysis to quantify the impact of the default of a single corporate entity, which captures the risk of large or concentrated exposures.

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Management's Discussion and Analysis

Scenario analysis is used to quantify the impact of a specified event, including how the event impacts multiple risk factors simultaneously. For example, for sovereign stress testing we calculate potential direct exposure associated with our sovereign inventory as well as the corresponding debt, equity and currency exposures associated with our non-sovereign inventory that may be impacted by the sovereign distress. When conducting scenario analysis, we typically consider a number of possible outcomes for each scenario, ranging from moderate to severely adverse market impacts. In addition, these stress tests are constructed using both historical events and forward-looking hypothetical scenarios.

Firmwide stress testing combines market, credit, operational and liquidity risks into a single combined scenario. Firmwide stress tests are primarily used to assess capital adequacy as part of the ICAAP process; however, we also ensure that firmwide stress testing is integrated into our risk governance framework. This includes selecting appropriate scenarios to use for the ICAAP process. See [Equity Capital](#) [Internal Capital Adequacy Assessment Process](#) above for further information about our ICAAP process.

Unlike VaR measures, which have an implied probability because they are calculated at a specified confidence level, there is generally no implied probability that our stress test scenarios will occur. Instead, stress tests are used to model both moderate and more extreme moves in underlying market factors. When estimating potential loss, we generally assume that our positions cannot be reduced or hedged (although experience demonstrates that we are generally able to do so).

Stress test scenarios are conducted on a regular basis as part of the firm's routine risk management process and on an ad hoc basis in response to market events or concerns. Stress testing is an important part of the firm's risk management process because it allows us to quantify our exposure to tail risks, highlight potential loss concentrations, undertake risk/reward analysis, and assess and mitigate our risk positions.

Limits

We use risk limits at various levels in the firm (including firmwide, product and business) to govern risk appetite by controlling the size of our exposures to market risk. Limits are set based on VaR and on a range of stress tests relevant to the firm's exposures. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The Firmwide Risk Committee sets market risk limits at firmwide and product levels and our Securities Division Risk Committee sets sub-limits for market-making and investing activities at a business level. The purpose of the firmwide limits is to assist senior management in controlling the firm's overall risk profile. Sub-limits set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day trading decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Our market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. The business-level limits that are set by the Securities Division Risk Committee are subject to the same scrutiny and limit escalation policy as the firmwide limits.

When a risk limit has been exceeded (e.g., due to changes in market conditions, such as increased volatilities or changes in correlations), it is reported to the appropriate risk committee and a discussion takes place with the relevant desk managers, after which either the risk position is reduced or the risk limit is temporarily or permanently increased.

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Management's Discussion and Analysis**Metrics**

We analyze VaR at the firmwide level and a variety of more detailed levels, including by risk category, business, and region. The tables below present, by risk category, average daily VaR and period-end VaR, as well as the high and low VaR for the period. Diversification effect in the tables below represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

Average Daily VaR*in millions*

Year Ended December

Risk Categories	2012	2011	2010
Interest rates	\$ 78	\$ 94	\$ 93
Equity prices	26	33	68
Currency rates	14	20	32
Commodity prices	22	32	33
Diversification effect	(54)	(66)	(92)
Total	\$ 86	\$113	\$134

Our average daily VaR decreased to \$86 million in 2012 from \$113 million in 2011, reflecting a decrease in the interest rates category due to lower levels of volatility, decreases in the commodity prices and currency rates categories due to reduced exposures and lower levels of volatility, and a decrease in the equity prices category due to reduced exposures. These decreases were partially offset by a decrease in the diversification benefit across risk categories.

Our average daily VaR decreased to \$113 million in 2011 from \$134 million in 2010, primarily reflecting decreases in the equity prices and currency rates categories, principally due to reduced exposures. These decreases were partially offset by a decrease in the diversification benefit across risk categories.

Year-End VaR and High and Low VaR*in millions*

Year Ended

As of December

December 2012

Risk Categories	2012	2011	High	Low
Interest rates	\$ 64	\$100	\$103	\$61
Equity prices	22	31	92	14

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Currency rates	9	14	22	9
Commodity prices	18	23	32	15
Diversification effect	(42)	(69)		
Total	\$ 71	\$ 99	\$122	\$67

Our daily VaR decreased to \$71 million as of December 2012 from \$99 million as of December 2011, primarily reflecting decreases in the interest rates and equity prices categories due to lower levels of volatility. These decreases were partially offset by a decrease in the diversification benefit across risk categories.

During the year ended December 2012, the firmwide VaR risk limit was not exceeded and was reduced on one occasion due to lower levels of volatility.

During the year ended December 2011, the firmwide VaR risk limit was exceeded on one occasion. It was resolved by a temporary increase in the firmwide VaR risk limit, which was subsequently made permanent due to higher levels of volatility. The firmwide VaR risk limit had previously been reduced on one occasion in 2011, reflecting lower risk utilization and the market environment.

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Management's Discussion and Analysis

The chart below reflects the VaR over the last four quarters.

The chart below presents the frequency distribution of our daily trading net revenues for substantially all inventory positions included in VaR for the year ended December 2012.

Daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during 2012. Trading losses incurred on a single day exceeded our 95% one-day VaR (i.e., a VaR exception) on three occasions during 2011.

During periods in which the firm has significantly more positive net revenue days than net revenue loss days, we

expect to have fewer VaR exceptions because, under normal conditions, our business model generally produces positive net revenues. In periods in which our franchise revenues are adversely affected, we generally have more loss days, resulting in more VaR exceptions. In addition, VaR backtesting is performed against total daily market-making revenues, including bid/offer net revenues, which are more likely than not to be positive by their nature.

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Management's Discussion and Analysis**Sensitivity Measures**

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure. The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the underlying asset value.

The table below presents market risk for positions that are not included in VaR. These measures do not reflect diversification benefits across asset categories and therefore have not been aggregated.

Asset Categories <i>in millions</i>	10% Sensitivity Amount as of December	
	2012	2011
ICBC	\$ 208	\$ 212
Equity (excluding ICBC) ¹	2,263	2,458
Debt ²	1,676	1,521

1. Relates to private and restricted public equity securities, including interests in firm-sponsored funds that invest in corporate equities and real estate and interests in firm-sponsored hedge funds.

2. Primarily relates to interests in our firm-sponsored funds that invest in corporate mezzanine and senior debt instruments. Also includes loans backed by commercial and residential real estate, corporate bank loans and other corporate debt, including acquired portfolios of distressed loans.

VaR excludes the impact of changes in counterparty and our own credit spreads on derivatives as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected. The estimated sensitivity to a one basis point increase in credit spreads (counterparty and our own) on derivatives was a \$3 million gain (including hedges) as of December 2012. In addition, the estimated sensitivity to a one basis point increase in our own credit spreads on unsecured borrowings for which the fair value option was elected was a \$7 million gain (including hedges) as of December 2012. However, the actual net impact of a change in our own credit spreads is also affected by the liquidity, duration and convexity (as the sensitivity is not linear to changes in yields) of those unsecured borrowings for which the fair value option was elected, as well as the relative performance of any hedges undertaken.

The firm engages in insurance activities where we reinsure and purchase portfolios of insurance risk and pension liabilities. The risks associated with these activities include, but are not limited to: equity price, interest rate, reinvestment and mortality risk. The firm mitigates risks associated with insurance activities through the use of reinsurance and hedging. Certain of the assets associated with the firm's insurance activities are included in VaR. In addition to the positions included in VaR, we held \$9.07 billion of securities accounted for as available-for-sale as of December 2012, which support the firm's

reinsurance business. As of December 2012, our available-for-sale securities primarily consisted of \$3.63 billion of corporate debt securities with an average yield of 4%, the majority of which will mature after five years, \$3.38 billion of mortgage and other asset-backed loans and securities with an average yield of 6%, the majority of which will mature after ten years, and \$856 million of U.S. government and federal agency obligations with an average yield of 3%, the majority of which will mature after five years. As of December 2012, such assets were classified as held for sale and were included in Other assets. See Note 12 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about assets held for sale. As of December 2011, we held \$4.86 billion of securities accounted for as available-for-sale, primarily consisting of \$1.81 billion of corporate debt securities with an average yield of 5%, the majority of which will mature after five years, \$1.42 billion of mortgage and other asset-backed loans and securities with an average yield of 10%, the majority of which will mature after ten years, and \$662 million of U.S. government and federal agency obligations with an average yield of 3%, the majority of which will mature after ten years.

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In addition, as of December 2012 and December 2011, we had commitments and held loans for which we have obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 18 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about such lending commitments. As of December 2012, the firm also had \$6.50 billion of loans held for investment which were accounted for at amortized cost and included in Receivables from customers and counterparties, substantially all of which had floating interest rates. The estimated sensitivity to a 100 basis point increase in interest rates on such loans was \$62 million of additional interest income over a 12-month period, which does not take into account the potential impact of an increase in costs to fund such loans. See Note 8 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for further information about loans held for investment.

Additionally, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in Other assets in the consolidated statements of financial condition. Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 12 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information on Other assets.

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Management's Discussion and Analysis

Credit Risk Management

Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold. Our exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and receivables from brokers, dealers, clearing organizations, customers and counterparties.

Credit Risk Management, which is independent of the revenue-producing units and reports to the firm's chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk at the firm. The Credit Policy Committee and the Firmwide Risk Committee establish and review credit policies and parameters. In addition, we hold other positions that give rise to credit risk (e.g., bonds held in our inventory and secondary bank loans). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions.

Policies authorized by the Firmwide Risk Committee and the Credit Policy Committee prescribe the level of formal approval required for the firm to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants.

Credit Risk Management Process

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. Our process for managing credit risk includes:

approving transactions and setting and communicating credit exposure limits;

monitoring compliance with established credit exposure limits;

assessing the likelihood that a counterparty will default on its payment obligations;

measuring the firm's current and potential credit exposure and losses resulting from counterparty default;

reporting of credit exposures to senior management, the Board and regulators;

use of credit risk mitigants, including collateral and hedging; and

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communication and collaboration with other independent control and support functions such as operations, legal and compliance. As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of our counterparties. A credit review is an independent judgment about the capacity and willingness of a counterparty to meet its financial obligations. For substantially all of our credit exposures, the core of our process is an annual counterparty review. A counterparty review is a written analysis of a counterparty's business profile and financial strength resulting in an internal credit rating which represents the probability of default on financial obligations to the firm. The determination of internal credit ratings incorporates assumptions with respect to the counterparty's future business performance, the nature and outlook for the counterparty's industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

Our global credit risk management systems capture credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive information on our aggregate credit risk by product, internal credit rating, industry, country and region.

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Management's Discussion and Analysis

Risk Measures and Limits

We measure our credit risk based on the potential loss in an event of non-payment by a counterparty. For derivatives and securities financing transactions, the primary measure is potential exposure, which is our estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure takes into account netting and collateral arrangements. For loans and lending commitments, the primary measure is a function of the notional amount of the position. We also monitor credit risk in terms of current exposure, which is the amount presently owed to the firm after taking into account applicable netting and collateral.

We use credit limits at various levels (counterparty, economic group, industry, country) to control the size of our credit exposures. Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing appetites for a given counterparty or group of counterparties. Limits for industries and countries are based on the firm's risk tolerance and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations.

Stress Tests/Scenario Analysis

We use regular stress tests to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e.g., currency rates, interest rates, equity prices). These shocks include a wide range of moderate and more extreme market movements. Some of our stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. In the case of sovereign default, we estimate the direct impact of the default on our sovereign credit exposures, changes to our credit exposures arising from potential market moves in response to the default, and the impact of credit market deterioration on corporate borrowers and counterparties that may result from the sovereign default. Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring.

We run stress tests on a regular basis as part of our routine risk management processes and conduct tailored stress tests on an ad hoc basis in response to market developments. Stress tests are regularly conducted jointly with the firm's market and liquidity risk functions.

Risk Mitigants

To reduce our credit exposures on derivatives and securities financing transactions, we may enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. We may also reduce credit risk with counterparties by entering into agreements that enable us to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty's credit rating falls below a specified level.

For loans and lending commitments, depending on the credit quality of the borrower and other characteristics of the transaction, we employ a variety of potential risk mitigants. Risk mitigants include: collateral provisions, guarantees, covenants, structural seniority of the bank loan claims and, for certain lending commitments, provisions in the legal documentation that allow the firm to adjust loan amounts, pricing, structure and other terms as market conditions change. The type and structure of risk mitigants employed can significantly influence the degree of credit risk involved in a loan.

When we do not have sufficient visibility into a counterparty's financial strength or when we believe a counterparty requires support from its parent company, we may obtain third-party guarantees of the counterparty's obligations. We may also mitigate our credit risk using credit derivatives or participation agreements.

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Management's Discussion and Analysis**Credit Exposures**

The firm's credit exposures are described further below.

Cash and Cash Equivalents. Cash and cash equivalents include both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, we place substantially all of our deposits with highly rated banks and central banks.

OTC Derivatives. Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement.

Derivatives are accounted for at fair value, net of cash collateral received or posted under credit support agreements. As credit risk is an essential component of fair value, the firm includes a credit valuation adjustment (CVA) in the fair value of derivatives to reflect counterparty credit risk, as described in Note 7 to the consolidated financial statements in Part II, Item 8 of this Form 10-K. CVA is a function of the present value of expected exposure, the probability of counterparty default and the assumed recovery upon default.

The tables below present the distribution of our exposure to OTC derivatives by tenor, based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives, both before and after the effect of collateral and netting agreements. Receivable and payable balances for the same counterparty across tenor categories are netted under enforceable netting agreements, and cash collateral received is netted under credit support agreements. Receivable and payable balances with the same counterparty in the same tenor category are netted within such tenor category. The categories shown reflect our internally determined public rating agency equivalents.

As of December 2012							
<i>in millions</i>							
	0 - 12	1 - 5	5 Years				Exposure
Credit Rating Equivalent	Months	Years	or Greater	Total	Netting	Exposure	Net of
AAA/Aaa	\$ 494	\$ 1,934	\$ 2,778	\$ 5,206	\$ (1,476)	\$ 3,730	\$ 3,443
AA/Aa2	4,631	7,483	20,357	32,471	(16,026)	16,445	10,467
A/A2	13,422	26,550	42,797	82,769	(57,868)	24,901	16,326
BBB/Baa2	7,032	12,173	27,676	46,881	(32,962)	13,919	4,577
BB/Ba2 or lower	2,489	5,762	7,676	15,927	(9,116)	6,811	4,544
Unrated	326	927	358	1,611	(13)	1,598	1,259
Total	\$28,394	\$54,829	\$101,642	\$184,865	\$(117,461)	\$67,404	\$40,616

As of December 2011							
<i>in millions</i>							
	0 - 12	1 - 5	5 Years	Total	Netting	Exposure	Exposure
	Months	Years	or Greater				Net of
							Collateral

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Credit Rating Equivalent

AAA/Aaa	\$ 727	\$ 786	\$ 2,297	\$ 3,810	\$ (729)	\$ 3,081	\$ 2,770
AA/Aa2	4,661	10,198	28,094	42,953	(22,972)	19,981	12,954
A/A2	17,704	36,553	50,787	105,044	(73,873)	31,171	17,109
BBB/Baa2	7,376	14,222	25,612	47,210	(36,214)	10,996	6,895
BB/Ba2 or lower	2,896	4,497	6,597	13,990	(6,729)	7,261	4,527
Unrated	752	664	391	1,807	(149)	1,658	1,064
Total	\$34,116	\$66,920	\$113,778	\$214,814	\$(140,666)	\$74,148	\$45,319

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Management's Discussion and Analysis

Lending Activities. We manage the firm's traditional credit origination activities, including funded loans and lending commitments (both fair value and held for investment loans and lending commitments), using the credit risk process, measures and limits described above. Other lending positions, including secondary trading positions, are risk-managed as a component of market risk.

Other Credit Exposures. The firm is exposed to credit risk from its receivables from brokers, dealers and clearing organizations and customers and counterparties. Receivables from brokers, dealers and clearing organizations are primarily comprised of initial margin placed with clearing organizations and receivables related to sales of securities which have traded, but not yet settled. These receivables have minimal credit risk due to the low probability of clearing organization default and the short-term nature of receivables related to securities settlements. Receivables from customers and counterparties are generally comprised of collateralized receivables related to customer securities transactions and have minimal credit risk due to both the value of the collateral received and the short-term nature of these receivables.

Credit Exposures

As of December 2012, our credit exposures increased as compared with December 2011, reflecting an increase in cash and loans and lending commitments, partially offset by a decrease in OTC derivative exposures. The percentage of our credit exposure arising from non-investment-grade counterparties (based on our internally determined public rating agency equivalents) increased from December 2011 reflecting an increase in loans and lending commitments. Counterparty defaults rose slightly during the year ended December 2012; however, the estimated losses associated with these counterparty defaults were lower as compared with the prior year.

The tables below present the firm's credit exposures related to cash, OTC derivatives, and loans and lending commitments associated with traditional credit origination activities broken down by industry, region and internal credit rating.

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Management's Discussion and Analysis**Credit Exposure by Industry**

<i>in millions</i>	Cash		OTC Derivatives		Loans and Lending Commitments ¹	
	As of December 2012	2011	As of December 2012	2011	As of December 2012	2011
Asset Managers & Funds	\$	\$ 64	\$10,552	\$10,582	\$ 1,673	\$ 1,290
Banks, Brokers & Other Financial Institutions	10,507	12,535	21,310	25,041	6,192	3,591
Consumer Products, Non-Durables & Retail		11	1,516	1,031	13,304	12,685
Government & Central Banks	62,162	43,389	14,729	16,642	1,782	1,828
Healthcare & Education			3,764	2,962	7,717	7,158
Insurance			4,214	2,828	3,199	2,891
Natural Resources & Utilities			4,383	4,803	16,360	14,795
Real Estate			381	327	3,796	2,695
Technology, Media, Telecommunications & Services		2	2,016	2,124	17,674	12,646
Transportation			1,207	1,104	6,557	5,753
Other		7	3,332	6,704	4,650	5,759
Total ²	\$72,669	\$56,008	\$67,404	\$74,148	\$82,904	\$71,091

Credit Exposure by Region

<i>in millions</i>	Cash		OTC Derivatives		Loans and Lending Commitments ¹	
	As of December 2012	2011	As of December 2012	2011	As of December 2012	2011
Americas	\$65,193	\$48,543	\$32,968	\$36,591	\$59,792	\$52,755
EMEA ³	1,683	1,800	26,739	29,549	21,104	16,989
Asia	5,793	5,665	7,697	8,008	2,008	1,347
Total ²	\$72,669	\$56,008	\$67,404	\$74,148	\$82,904	\$71,091

Credit Exposure by Credit Quality

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<i>in millions</i>	Cash As of December		OTC Derivatives As of December		Loans and Lending Commitments ¹ As of December	
	2012	2011	2012	2011	2012	2011
Credit Rating Equivalent						
AAA/Aaa	\$59,825	\$40,559	\$ 3,730	\$ 3,081	\$ 2,179	\$ 2,192
AA/Aa2	6,356	7,463	16,445	19,981	7,220	7,026
A/A2	5,068	6,464	24,901	31,171	21,901	21,055
BBB/Baa2	326	195	13,919	10,996	26,313	22,937
BB/Ba2 or lower	1,094	1,209	6,811	7,261	25,291	17,820
Unrated		118	1,598	1,658		61
Total ²	\$72,669	\$56,008	\$67,404	\$74,148	\$82,904	\$71,091

1. Includes approximately \$12 billion and \$10 billion of loans as of December 2012 and December 2011, respectively, and approximately \$71 billion and \$61 billion of lending commitments as of December 2012 and December 2011, respectively. Excludes certain bank loans and bridge loans and certain lending commitments that are risk managed as part of market risk using VaR and sensitivity measures.

2. The firm bears credit risk related to resale agreements and securities borrowed only to the extent that cash advanced or the value of securities pledged or delivered to the counterparty exceeds the value of the collateral received. The firm also has credit exposure on repurchase agreements and securities loaned to the extent that the value of securities pledged or delivered to the counterparty for these transactions exceeds the amount of cash or collateral received. We had approximately \$37 billion and \$41 billion as of December 2012 and December 2011, respectively, in credit exposure related to securities financing transactions reflecting applicable netting agreements and collateral.

3. EMEA (Europe, Middle East and Africa).

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis**Selected Country Exposures**

During 2011 and throughout 2012, there have been concerns about European sovereign debt risk and its impact on the European banking system and a number of European member states have been experiencing significant credit deterioration. The most pronounced market concerns relate to Greece, Ireland, Italy, Portugal and Spain. The tables below present our credit exposure (both gross and net of hedges) to all sovereigns, financial institutions and corporate counterparties or borrowers in these countries. Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or borrower. In addition, the tables include the market

exposure of our long and short inventory for which the issuer or underlier is located in these countries. Market exposure represents the potential for loss in value of our inventory due to changes in market prices. There is no overlap between the credit and market exposures in the tables below.

The country of risk is determined by the location of the counterparty, issuer or underlier's assets, where they generate revenue, the country in which they are headquartered, and/or the government whose policies affect their ability to repay their obligations.

<i>in millions</i>	As of December 2012												
	Credit Exposure					Total Net			Market Exposure				Total
	Loans	OTC Derivatives	Other	Gross Funded	Hedges	Funded Credit Exposure	Unfunded Credit Exposure	Total Credit Exposure	Debt	Equities and Other	Credit Derivatives	Market Exposure	
Greece													
Sovereign	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 30	\$	\$	\$ 30
Non-Sovereign		5	1	6		6		6	65	15	(5)	75	
Total Greece		5	1	6		6		6	95	15	(5)	105	
Ireland													
Sovereign		1	103	104		104		104	8		(150)	(142)	
Non-Sovereign		126	36	162		162		162	801	74	155	1,030	
Total Ireland		127	139	266		266		266	809	74	5	888	
Italy													
Sovereign		1,756	1	1,757	(1,714)	43		43	(415)		(603)	(1,018)	
Non-Sovereign	43	560	129	732	(33)	699	587	1,286	434	65	(996)	(497)	
Total Italy	43	2,316	130	2,489	(1,747)	742	587	1,329	19	65	(1,599)	(1,515)	
Portugal													
Sovereign		141	61	202		202		202	155		(226)	(71)	
Non-Sovereign		44	2	46		46		46	168	(6)	(133)	29	
Total Portugal		185	63	248		248		248	323	(6)	(359)	(42)	
Spain													
Sovereign		75		75		75		75	986		(268)	718	

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Non-Sovereign	1,048	259	23	1,330	(95)	1,235	733	1,968	1,268	83	(186)	1,165
Total Spain	1,048	334	23	1,405	(95)	1,310	733	2,043	2,254	83	(454)	1,883
Subtotal	\$1,091¹	\$2,967²	\$356	\$4,414	\$(1,842)³	\$2,572	\$1,320	\$3,892	\$3,500	\$231	\$(2,412)³	\$ 1,319

1. Principally consists of collateralized loans.

2. Includes the benefit of \$6.6 billion of cash and U.S. Treasury securities collateral and excludes non-U.S. government and agency obligations and corporate securities collateral of \$357 million.

3. Includes written and purchased credit derivative notionals reduced by the fair values of such credit derivatives.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

<i>in millions</i>	As of December 2011												
	Credit Exposure						Total Net			Market Exposure			Total Market Exposure
	Loans	OTC Derivatives	Other	Gross Funded	Hedges	Credit Exposure	Funded		Equities and Other	Debt	Credit Derivatives		
							Unfunded Credit Exposure	Total Credit Exposure					
Greece													
Sovereign	\$	\$	\$	\$	\$	\$	\$	\$	\$ 329	\$	\$ (22)	\$ 307	
Non-Sovereign	20	53		73		73		73	32	11	18	61	
Total Greece	20	53		73		73		73	361	11	(4)	368	
Ireland													
Sovereign		1	256	257		257		257	411		(352)	59	
Non-Sovereign		542	66	608	(8)	600	57	657	412	85	115	612	
Total Ireland		543	322	865	(8)	857	57	914	823	85	(237)	671	
Italy													
Sovereign		1,666	3	1,669	(1,410)	259		259	210		200	410	
Non-Sovereign	126	457		583	(25)	558	408	966	190	297	(896)	(409)	
Total Italy	126	2,123	3	2,252	(1,435)	817	408	1,225	400	297	(696)	1	
Portugal													
Sovereign		151		151		151		151	(98)		23	(75)	
Non-Sovereign		53	2	55		55		55	230	13	(179)	64	
Total Portugal		204	2	206		206		206	132	13	(156)	(11)	
Spain													
Sovereign		88		88		88		88	151		(550)	(399)	
Non-Sovereign	153	254	11	418	(141)	277	146	423	345	239	(629)	(45)	
Total Spain	153	342	11	506	(141)	365	146	511	496	239	(1,179)	(444)	
Subtotal	\$299	\$3,265 ¹	\$338	\$3,902	\$(1,584)	\$2,318	\$611	\$2,929	\$2,212	\$645	\$(2,272) ²	\$ 585	

1. Includes the benefit of \$6.5 billion of cash and U.S. Treasury securities collateral and excludes non-U.S. government and agency obligations and corporate securities collateral of \$341 million.

2. Includes written and purchased credit derivative notionals reduced by the fair values of such credit derivatives.

We economically hedge our exposure to written credit derivatives by entering into offsetting purchased credit derivatives with identical underlyings. Where possible, we endeavor to match the tenor and credit default terms of such hedges to that of our written credit derivatives. Substantially all purchased credit derivatives included above are bought from investment-grade counterparties domiciled outside of these

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countries and are collateralized with cash or U.S. Treasury securities. The gross purchased and written credit derivative notional amounts across the above countries for single-name and index credit default swaps (included in Hedges and Credit Derivatives in the tables above) were \$179.4 billion and \$168.6 billion, respectively, as of December 2012, and \$177.8 billion and \$167.3 billion, respectively, as of December 2011. Including netting under legally enforceable netting agreements, within each and across all of the countries above, the purchased and written credit derivative notional amounts for single-name and index credit default swaps

were \$26.0 billion and \$15.3 billion, respectively, as of December 2012, and \$28.2 billion and \$17.7 billion, respectively, as of December 2011. These notional amounts are not representative of our exposure because they exclude available netting under legally enforceable netting agreements on other derivatives outside of these countries and collateral received or posted under credit support agreements.

In credit exposure above, Other principally consists of deposits, secured lending transactions and other secured receivables, net of applicable collateral. As of December 2012 and December 2011, \$4.8 billion and \$7.0 billion, respectively, of secured lending transactions and other secured receivables were fully collateralized.

For information about the nature of or payout under trigger events related to written and purchased credit protection contracts see Note 7 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

We conduct stress tests intended to estimate the direct and indirect impact that might result from a variety of possible events involving the above countries, including sovereign defaults and the exit of one or more countries from the Euro area. In the stress tests, described in [Market Risk Management Stress Testing](#) and [Credit Risk Management Stress Tests/Scenario Analysis](#), we estimate the direct impact of the event on our credit and market exposures resulting from shocks to risk factors including, but not limited to, currency rates, interest rates, and equity prices. The parameters of these shocks vary based on the scenario reflected in each stress test. We also estimate the indirect impact on our exposures arising from potential market moves in response to the event, such as the impact of credit market deterioration on corporate borrowers and counterparties along with the shocks to the risk factors described above. We review estimated losses produced by the stress tests in order to understand their magnitude, highlight potential loss concentrations, and assess and mitigate our exposures where necessary.

Euro area exit scenarios include analysis of the impacts on exposure that might result from the redenomination of assets in the exiting country or countries. Constructing stress tests for these scenarios requires many assumptions about how exposures might be directly impacted and how resulting secondary market moves would indirectly impact such exposures. Given the multiple parameters involved in such scenarios, losses from such events are inherently difficult to quantify and may materially differ from our estimates. In order to prepare for any market disruption that might result from a Euro area exit, we test our operational and risk management readiness and capability to respond to a redenomination event.

See [Liquidity Risk Management Modeled Liquidity Outflow](#), [Market Risk Management Stress Testing](#) and [Credit Risk Management Stress Tests/Scenario Analysis](#) for further discussion.

Operational Risk Management

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Our exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. Potential types of loss events related to internal and external operational risk include:

clients, products and business practices;

execution, delivery and process management;

business disruption and system failures;

employment practices and workplace safety;

damage to physical assets;

internal fraud; and

external fraud.

The firm maintains a comprehensive control framework designed to provide a well-controlled environment to minimize operational risks. The Firmwide Operational Risk Committee, along with the support of regional or entity-specific working groups or committees, provides oversight of the ongoing development and implementation of our operational risk policies and framework. Our Operational Risk Management department (Operational Risk Management) is a risk management function independent of our revenue-producing units, reports to the firm's chief risk officer, and is responsible for developing and implementing policies, methodologies and a formalized framework for operational risk management with the goal of minimizing our exposure to operational risk.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Operational Risk Management Process

Managing operational risk requires timely and accurate information as well as a strong control culture. We seek to manage our operational risk through:

the training, supervision and development of our people;

the active participation of senior management in identifying and mitigating key operational risks across the firm;

independent control and support functions that monitor operational risk on a daily basis and have instituted extensive policies and procedures and implemented controls designed to prevent the occurrence of operational risk events;

proactive communication between our revenue-producing units and our independent control and support functions; and

a network of systems throughout the firm to facilitate the collection of data used to analyze and assess our operational risk exposure. We combine top-down and bottom-up approaches to manage and measure operational risk. From a top-down perspective, the firm's senior management assesses firmwide and business level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions are responsible for risk management on a day-to-day basis, including identifying, mitigating, and escalating operational risks to senior management.

Our operational risk framework is in part designed to comply with the operational risk measurement rules under Basel 2 and has evolved based on the changing needs of our businesses and regulatory guidance. Our framework comprises the following practices:

Risk identification and reporting;

Risk measurement; and

Risk monitoring.

Internal Audit performs a review of our operational risk framework, including our key controls, processes and applications, on an annual basis to assess the effectiveness of our framework.

Risk Identification and Reporting

The core of our operational risk management framework is risk identification and reporting. We have a comprehensive data collection process, including firmwide policies and procedures, for operational risk events.

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We have established policies that require managers in our revenue-producing units and our independent control and support functions to escalate operational risk events. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in the firm's systems and/or processes to further mitigate the risk of future events.

In addition, our firmwide systems capture internal operational risk event data, key metrics such as transaction volumes, and statistical information such as performance trends. We use an internally-developed operational risk management application to aggregate and organize this information. Managers from both revenue-producing units and independent control and support functions analyze the information to evaluate operational risk exposures and identify businesses, activities or products with heightened levels of operational risk. We also provide periodic operational risk reports to senior management, risk committees and the Board.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Risk Measurement

We measure the firm's operational risk exposure over a twelve-month time horizon using both statistical modeling and scenario analyses, which involve qualitative assessments of the potential frequency and extent of potential operational risk losses, for each of the firm's businesses. Operational risk measurement incorporates qualitative and quantitative assessments of factors including:

internal and external operational risk event data;

assessments of the firm's internal controls;

evaluations of the complexity of the firm's business activities;

the degree of and potential for automation in the firm's processes;

new product information;

the legal and regulatory environment;

changes in the markets for the firm's products and services, including the diversity and sophistication of the firm's customers and counterparties; and

the liquidity of the capital markets and the reliability of the infrastructure that supports the capital markets.

The results from these scenario analyses are used to monitor changes in operational risk and to determine business lines that may have heightened exposure to operational risk. These analyses ultimately are used in the determination of the appropriate level of operational risk capital to hold.

Risk Monitoring

We evaluate changes in the operational risk profile of the firm and its businesses, including changes in business mix or jurisdictions in which the firm operates, by monitoring the factors noted above at a firmwide level. The firm has both detective and preventive internal controls, which are designed to reduce the frequency and severity of operational risk losses and the probability of operational risk events. We monitor the results of assessments and independent internal audits of these internal controls.

Recent Accounting Developments

See Note 3 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information about Recent Accounting Developments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Certain Risk Factors That May Affect Our Businesses

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal, regulatory and reputational risks. For a discussion of how management seeks to manage some of these risks, see Overview and Structure of Risk Management. A summary of the more important factors that could affect our businesses follows. For a further discussion of these and other important factors that could affect our businesses, financial condition, results of operations, cash flows and liquidity, see Risk Factors in Part I, Item 1A of this Form 10-K.

Our businesses have been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.

Our businesses have been and may be adversely affected by declining asset values. This is particularly true for those businesses in which we have net long positions, receive fees based on the value of assets managed, or receive or post collateral.

Our businesses have been and may be adversely affected by disruptions in the credit markets, including reduced access to credit and higher costs of obtaining credit.

Our market-making activities have been and may be affected by changes in the levels of market volatility.

Our investment banking, client execution and investment management businesses have been adversely affected and may continue to be adversely affected by market uncertainty or lack of confidence among investors and CEOs due to general declines in economic activity and other unfavorable economic, geopolitical or market conditions.

Our investment management business may be affected by the poor investment performance of our investment products.

We may incur losses as a result of ineffective risk management processes and strategies.

Our liquidity, profitability and businesses may be adversely affected by an inability to access the debt capital markets or to sell assets or by a reduction in our credit ratings or by an increase in our credit spreads.

Conflicts of interest are increasing and a failure to appropriately identify and address conflicts of interest could adversely affect our businesses.

Group Inc. is a holding company and is dependent for liquidity on payments from its subsidiaries, many of which are subject to restrictions. Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold.

Concentration of risk increases the potential for significant losses in our market-making, underwriting, investing and lending activities.

The financial services industry is highly competitive.

We face enhanced risks as new business initiatives lead us to transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.

Derivative transactions and delayed settlements may expose us to unexpected risk and potential losses.

Our businesses may be adversely affected if we are unable to hire and retain qualified employees.

Our businesses and those of our clients are subject to extensive and pervasive regulation around the world.

We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, result in the disclosure of confidential information, damage our reputation and cause losses.

Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause us significant reputational harm, which in turn could seriously harm our business prospects.

The growth of electronic trading and the introduction of new trading technology may adversely affect our business and may increase competition.

Our commodities activities, particularly our power generation interests and our physical commodities activities, subject us to extensive regulation, potential catastrophic events and environmental, reputational and other risks that may expose us to significant liabilities and costs.

In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks that are inherent in operating in many countries.

We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events or other natural disasters.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

**Item 7A. Quantitative and Qualitative Disclosures
About Market Risk**

Quantitative and qualitative disclosures about market risk are set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations Overview and Structure of Risk Management in Part II, Item 7 of this Form 10-K.

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Management's Report on Internal Control over Financial Reporting

Management of The Goldman Sachs Group, Inc., together with its consolidated subsidiaries (the firm), is responsible for establishing and maintaining adequate internal control over financial reporting. The firm's internal control over financial reporting is a process designed under the supervision of the firm's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the firm's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2012, management conducted an assessment of the firm's internal control over financial reporting based on the framework established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the firm's internal control over financial reporting as of December 31, 2012 was effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the firm; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the firm's assets that could have a material effect on our financial statements.

The firm's internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page 116, which expresses an unqualified opinion on the effectiveness of the firm's internal control over financial reporting as of December 31, 2012.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of

The Goldman Sachs Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 115. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York

February 28, 2013

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For the fiscal year ended December 31, 2012

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

<i>in millions, except per share amounts</i>	Year Ended December		
	2012	2011	2010
Revenues			
Investment banking	\$ 4,941	\$ 4,361	\$ 4,810
Investment management	4,968	4,691	4,669
Commissions and fees	3,161	3,773	3,569
Market making	11,348	9,287	13,678
Other principal transactions	5,865	1,507	6,932
Total non-interest revenues	30,283	23,619	33,658
Interest income	11,381	13,174	12,309
Interest expense	7,501	7,982	6,806
Net interest income	3,880	5,192	5,503
Net revenues, including net interest income	34,163	28,811	39,161
Operating expenses			
Compensation and benefits	12,944	12,223	15,376
U.K. bank payroll tax			465
Brokerage, clearing, exchange and distribution fees	2,208	2,463	2,281
Market development	509	640	530
Communications and technology	782	828	758
Depreciation and amortization	1,738	1,865	1,889
Occupancy	875	1,030	1,086
Professional fees	867	992	927

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Insurance reserves	598	529	398
Other expenses	2,435	2,072	2,559
Total non-compensation expenses	10,012	10,419	10,428
Total operating expenses	22,956	22,642	26,269
Pre-tax earnings	11,207	6,169	12,892
Provision for taxes	3,732	1,727	4,538
Net earnings	7,475	4,442	8,354
Preferred stock dividends	183	1,932	641
Net earnings applicable to common shareholders	\$ 7,292	\$ 2,510	\$ 7,713
Earnings per common share			
Basic	\$ 14.63	\$ 4.71	\$ 14.15
Diluted	14.13	4.51	13.18
Average common shares outstanding			
Basic	496.2	524.6	542.0
Diluted	516.1	556.9	585.3

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

<i>in millions</i>	Year Ended December		
	2012	2011	2010
Net earnings	\$7,475	\$4,442	\$8,354
Other comprehensive income/(loss), net of tax:			
Currency translation adjustment, net of tax	(89)	(55)	(38)
Pension and postretirement liability adjustments, net of tax	168	(145)	88
Net unrealized gains/(losses) on available-for-sale securities, net of tax	244	(30)	26
Other comprehensive income/(loss)	323	(230)	76
Comprehensive income	\$7,798	\$4,212	\$8,430

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

<i>in millions, except share and per share amounts</i>	As of December	
	2012	2011
Assets		
Cash and cash equivalents	\$ 72,669	\$ 56,008
Cash and securities segregated for regulatory and other purposes (includes \$30,484 and \$42,014 at fair value as of December 2012 and December 2011, respectively)	49,671	64,264
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$141,331 and \$187,789 at fair value as of December 2012 and December 2011, respectively)	141,334	187,789
Securities borrowed (includes \$38,395 and \$47,621 at fair value as of December 2012 and December 2011, respectively)	136,893	153,341
Receivables from brokers, dealers and clearing organizations	18,480	14,204
Receivables from customers and counterparties (includes \$7,866 and \$9,682 at fair value as of December 2012 and December 2011, respectively)	72,874	60,261
Financial instruments owned, at fair value (includes \$67,177 and \$53,989 pledged as collateral as of December 2012 and December 2011, respectively)	407,011	364,206
Other assets (includes \$13,426 and \$0 at fair value as of December 2012 and December 2011, respectively)	39,623	23,152
Total assets	\$938,555	\$923,225
Liabilities and shareholders' equity		
Deposits (includes \$5,100 and \$4,526 at fair value as of December 2012 and December 2011, respectively)	\$ 70,124	\$ 46,109
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	171,807	164,502
Securities loaned (includes \$1,558 and \$107 at fair value as of December 2012 and December 2011, respectively)	13,765	7,182
Other secured financings (includes \$30,337 and \$30,019 at fair value as of December 2012 and December 2011, respectively)	32,010	37,364
Payables to brokers, dealers and clearing organizations	5,283	3,667
Payables to customers and counterparties	189,202	194,625
Financial instruments sold, but not yet purchased, at fair value	126,644	145,013
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$17,595 and \$17,854 at fair value as of December 2012 and December 2011, respectively)	44,304	49,038

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Unsecured long-term borrowings (includes \$12,593 and \$17,162 at fair value as of December 2012 and December 2011, respectively)	167,305	173,545
Other liabilities and accrued expenses (includes \$12,043 and \$9,486 at fair value as of December 2012 and December 2011, respectively)	42,395	31,801
Total liabilities	862,839	852,846

Commitments, contingencies and guarantees

Shareholders' equity

Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$6,200 and \$3,100 as of December 2012 and December 2011, respectively	6,200	3,100
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 816,807,400 and 795,555,310 shares issued as of December 2012 and December 2011, respectively, and 465,148,387 and 485,467,565 shares outstanding as of December 2012 and December 2011, respectively	8	8
Restricted stock units and employee stock options	3,298	5,681
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	48,030	45,553
Retained earnings	65,223	58,834
Accumulated other comprehensive loss	(193)	(516)
Stock held in treasury, at cost, par value \$0.01 per share; 351,659,015 and 310,087,747 shares as of December 2012 and December 2011, respectively	(46,850)	(42,281)
Total shareholders' equity	75,716	70,379
Total liabilities and shareholders' equity	\$938,555	\$923,225

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

<i>in millions</i>	Year Ended December		
	2012	2011	2010
Preferred stock			
Balance, beginning of year	\$ 3,100	\$ 6,957	\$ 6,957
Issued	3,100		
Repurchased		(3,857)	
Balance, end of year	6,200	3,100	6,957
Common stock			
Balance, beginning of year	8	8	8
Issued			
Balance, end of year	8	8	8
Restricted stock units and employee stock options			
Balance, beginning of year	5,681	7,706	6,245
Issuance and amortization of restricted stock units and employee stock options	1,368	2,863	4,137
Delivery of common stock underlying restricted stock units	(3,659)	(4,791)	(2,521)
Forfeiture of restricted stock units and employee stock options	(90)	(93)	(149)
Exercise of employee stock options	(2)	(4)	(6)
Balance, end of year	3,298	5,681	7,706
Additional paid-in capital			
Balance, beginning of year	45,553	42,103	39,770
Issuance of common stock		103	
Delivery of common stock underlying share-based awards	3,939	5,160	3,067
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(1,437)	(1,911)	(972)
Preferred stock issuance costs	(13)		
Excess net tax benefit/(provision) related to share-based awards	(11)	138	239
Cash settlement of share-based compensation	(1)	(40)	(1)
Balance, end of year	48,030	45,553	42,103
Retained earnings			
Balance, beginning of year	58,834	57,163	50,252
Net earnings	7,475	4,442	8,354

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Dividends and dividend equivalents declared on common stock and restricted stock units	(903)	(769)	(802)
Dividends on preferred stock	(183)	(2,002)	(641)
Balance, end of year	65,223	58,834	57,163
Accumulated other comprehensive loss			
Balance, beginning of year	(516)	(286)	(362)
Other comprehensive income/(loss)	323	(230)	76
Balance, end of year	(193)	(516)	(286)
Stock held in treasury, at cost			
Balance, beginning of year	(42,281)	(36,295)	(32,156)
Repurchased	(4,646)	(6,051)	(4,185)
Reissued	77	65	46
Balance, end of year	(46,850)	(42,281)	(36,295)
Total shareholders equity	\$ 75,716	\$ 70,379	\$ 77,356

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

<i>in millions</i>	Year Ended December		
	2012	2011	2010
Cash flows from operating activities			
Net earnings	\$ 7,475	\$ 4,442	\$ 8,354
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities			
Depreciation and amortization	1,738	1,869	1,904
Deferred income taxes	(356)	726	1,339
Share-based compensation	1,319	2,849	4,035
Gain on sale of hedge fund administration business	(494)		
Changes in operating assets and liabilities			
Cash and securities segregated for regulatory and other purposes	10,817	(10,532)	(17,094)
Net receivables from brokers, dealers and clearing organizations	(2,838)	(3,780)	201
Net payables to customers and counterparties	(17,661)	13,883	(4,637)
Securities borrowed, net of securities loaned	23,031	8,940	19,638
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	53,527	122	(10,092)
Financial instruments owned, at fair value	(48,783)	5,085	(9,231)
Financial instruments sold, but not yet purchased, at fair value	(18,867)	4,243	11,602
Other, net	3,971	(5,346)	(11,376)
Net cash provided by/(used for) operating activities	12,879	22,501	(5,357)
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	(961)	(1,184)	(1,227)
Proceeds from sales of property, leasehold improvements and equipment	49	78	72
Business acquisitions, net of cash acquired	(593)	(431)	(804)
Proceeds from sales of investments	1,195	2,645	1,371
Purchase of available-for-sale securities	(5,220)	(2,752)	(1,885)
Proceeds from sales of available-for-sale securities	4,537	3,129	2,288
Loans held for investment, net	(2,741)	(856)	(800)
Net cash provided by/(used for) investing activities	(3,734)	629	(985)

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Cash flows from financing activities			
Unsecured short-term borrowings, net	(1,952)	(3,780)	1,196
Other secured financings (short-term), net	1,540	(1,195)	12,689
Proceeds from issuance of other secured financings (long-term)	4,687	9,809	5,500
Repayment of other secured financings (long-term), including the current portion	(11,576)	(8,878)	(4,849)
Proceeds from issuance of unsecured long-term borrowings	27,734	29,169	20,231
Repayment of unsecured long-term borrowings, including the current portion	(36,435)	(29,187)	(22,607)
Derivative contracts with a financing element, net	1,696	1,602	1,222
Deposits, net	24,015	7,540	(849)
Preferred stock repurchased		(3,857)	
Common stock repurchased	(4,640)	(6,048)	(4,183)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(1,086)	(2,771)	(1,443)
Proceeds from issuance of preferred stock, net of issuance costs	3,087		
Proceeds from issuance of common stock, including stock option exercises	317	368	581
Excess tax benefit related to share-based compensation	130	358	352
Cash settlement of share-based compensation	(1)	(40)	(1)
Net cash provided by/(used for) financing activities	7,516	(6,910)	7,839
Net increase in cash and cash equivalents	16,661	16,220	1,497
Cash and cash equivalents, beginning of year	56,008	39,788	38,291
Cash and cash equivalents, end of year	\$ 72,669	\$ 56,008	\$ 39,788

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were \$9.25 billion, \$8.05 billion and \$6.74 billion for the years ended December 2012, December 2011 and December 2010, respectively.

Cash payments for income taxes, net of refunds, were \$1.88 billion, \$1.78 billion and \$4.48 billion for the years ended December 2012, December 2011 and December 2010, respectively.

Non-cash activities:

During the year ended December 2012, the firm assumed \$77 million of debt in connection with business acquisitions. During the year ended December 2011, the firm assumed \$2.09 billion of debt and issued \$103 million of common stock in connection with the acquisition of Goldman Sachs Australia Pty Ltd (GS Australia), formerly Goldman Sachs & Partners Australia Group Holdings Pty Ltd. During the year ended December 2010, the firm assumed \$90 million of debt in connection with business acquisitions. In addition, in the first quarter of 2010, the firm recorded an increase of approximately \$3 billion in both assets (primarily financial instruments owned, at fair value) and liabilities (primarily unsecured short-term borrowings and other liabilities) upon adoption of Accounting Standards Update (ASU) No. 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1. Description of Business

Note 1.

Description of Business

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

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

Investment Banking

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

Institutional Client Services

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

Investing & Lending

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

Investment Management

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

Note 2. Basis of Presentation

Note 2.

Basis of Presentation

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

All references to 2012, 2011 and 2010 refer to the firm's years ended, or the dates, as the context requires, December 31, 2012, December 31, 2011 and December 31, 2010, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 3. Significant Accounting Policies

Note 3.**Significant Accounting Policies**

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

Financial Instruments Owned, at Fair Value and	
Financial Instruments Sold, But Not Yet Purchased, at	
Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Collateralized Agreements and Financings	Note 9
Securitization Activities	Note 10
Variable Interest Entities	Note 11
Other Assets	Note 12
Goodwill and Identifiable Intangible Assets	Note 13
Deposits	Note 14
Short-Term Borrowings	Note 15
Long-Term Borrowings	Note 16
Other Liabilities and Accrued Expenses	Note 17
Commitments, Contingencies and Guarantees	Note 18
Shareholders' Equity	Note 19
Regulation and Capital Adequacy	Note 20
Earnings Per Common Share	Note 21
Transactions with Affiliated Funds	Note 22

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Interest Income and Interest Expense	Note 23
Income Taxes	Note 24
Business Segments	Note 25
Credit Concentrations	Note 26
Legal Proceedings	Note 27
Employee Benefit Plans	Note 28
Employee Incentive Plans	Note 29
Parent Company	Note 30
Consolidation	

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

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

Variable Interest Entities. A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The firm has a controlling financial interest in a VIE when the firm has 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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

Use of Estimates

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

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market

participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are generally included in Market making for positions in Institutional Client Services and Other principal transactions for positions in Investing & Lending. See Notes 5 through 8 for further information about fair value measurements.

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements**Transfers of Assets**

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

Receivables from Customers and Counterparties

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

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm's prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these receivables and payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012.

Insurance Activities

Certain of the firm's insurance and reinsurance contracts are accounted for at fair value under the fair value option, with changes in fair value included in Market making revenues. See Note 8 for further information about the fair values of these insurance and reinsurance contracts. See Note 12 for further information about the firm's reinsurance business classified as held for sale as of December 2012.

Revenues from variable annuity and life insurance and reinsurance contracts not accounted for at fair value generally consist of fees assessed on contract holder account balances for mortality charges, policy administration fees and surrender charges. These revenues are recognized in earnings over the period that services are provided and are included in Market making revenues. Changes in reserves, including interest credited to policyholder account balances, are recognized in Insurance reserves.

Premiums earned for underwriting property catastrophe reinsurance are recognized in earnings over the coverage period, net of premiums ceded for the cost of reinsurance, and are included in Market making revenues. Expenses for liabilities related to property catastrophe reinsurance claims, including estimates of losses that have been incurred but not reported, are included in Insurance reserves.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Foreign Currency Translation

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

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of December 2012 and December 2011, Cash and cash equivalents included \$6.75 billion and \$7.95 billion, respectively, of cash and due from banks, and \$65.92 billion and \$48.05 billion, respectively, of interest-bearing deposits with banks.

Recent Accounting Developments

Reconsideration of Effective Control for Repurchase Agreements (ASC 860). In April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860) Reconsideration of Effective Control for Repurchase Agreements*. ASU No. 2011-03 changes the assessment of effective control by removing (i) the criterion that requires the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 was effective for periods beginning after December 15, 2011. The firm adopted the standard on January 1, 2012. Adoption of ASU No. 2011-03 did not affect the firm's financial condition, results of operations or cash flows.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASC 820). In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurements and Disclosures (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04

clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 was effective for periods beginning after December 15, 2011. The firm adopted the standard on January 1, 2012. Adoption of ASU No. 2011-04 did not materially affect the firm's financial condition, results of operations or cash flows.

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

Disclosures about Offsetting Assets and Liabilities (ASC 210). In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities*. ASU No. 2011-11, as amended by ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, requires disclosure of the effect or potential effect of offsetting arrangements on the firm's financial position as well as enhanced disclosure of the rights of setoff associated with the firm's recognized derivative instruments, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions. ASU No. 2011-11 is effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the firm's financial condition, results of operations or cash flows.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements**Note 4. Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value****Note 4.****Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value**

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about the fair value option. The table below presents the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value. The firm held \$9.07 billion and \$4.86 billion as of

December 2012 and December 2011, respectively, of securities accounted for as available-for-sale related to the firm's reinsurance business. As of December 2012, such assets were classified as held for sale and were included in Other assets. See Note 12 for further information about assets held for sale. As of December 2011, all available-for-sale securities were included in Financial instruments owned, at fair value.

	As of December 2012		As of December 2011	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
<i>in millions</i>				
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 6,057	\$	\$ 13,440	\$
U.S. government and federal agency obligations	93,241	15,905	87,040	21,006
Non-U.S. government and agency obligations	62,250	32,361	49,205	34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	9,805		6,699	27
Loans and securities backed by residential real estate	8,216	4	7,592	3

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Bank loans and bridge loans	22,407	1,779 ³	19,745	2,756 ³
Corporate debt securities	20,981	5,761	22,131	6,553
State and municipal obligations	2,477	1	3,089	3
Other debt obligations	2,251		4,362	
Equities and convertible debentures	96,454	20,406	65,113	21,326
Commodities ¹	11,696		5,762	
Derivatives ²	71,176	50,427	80,028	58,453
Total	\$407,011	\$126,644	\$364,206	\$145,013

1. Includes commodities that have been transferred to third parties, which were accounted for as collateralized financings rather than sales, of \$4.29 billion and \$2.49 billion as of December 2012 and December 2011, respectively.

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

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

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Notes to Consolidated Financial Statements**Gains and Losses from Market Making and Other Principal Transactions**

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

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

<i>in millions</i>	Year Ended December		
	2012	2011	2010
Interest rates	\$ 4,366	\$ 1,557	\$ (2,042)
Credit	5,506	2,715	8,679
Currencies	(1,004)	901	3,219
Equities	5,802	2,788	6,862
Commodities	575	1,588	1,567
Other	1,968 ¹	1,245	2,325
Total	\$17,213	\$10,794	\$20,610

1. Includes a gain of approximately \$500 million on the sale of the firm's hedge fund administration business, which is included in Market making revenues.

Note 5. Fair Value Measurements**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).

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

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

The fair value hierarchy is as follows:

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

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

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

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

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

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

<i>\$ in millions</i>	As of December	
	2012	2011
Total level 1 financial assets	\$ 190,737	\$ 136,780
Total level 2 financial assets	502,293	587,416
Total level 3 financial assets	47,095	47,937
Cash collateral and counterparty netting ¹	(101,612)	(120,821)
Total financial assets at fair value	\$ 638,513	\$ 651,312
Total assets	\$ 938,555	\$ 923,225
Total level 3 financial assets as a percentage of Total assets	5.0%	5.2%
Total level 3 financial assets as a percentage of Total financial assets at fair value	7.4%	7.4%
Total level 1 financial liabilities	\$ 65,994	\$ 75,557
Total level 2 financial liabilities	318,764	319,160
Total level 3 financial liabilities	25,679	25,498
Cash collateral and counterparty netting ¹	(32,760)	(31,546)
Total financial liabilities at fair value	\$ 377,677	\$ 388,669
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	6.8%	6.6%

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

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Level 3 financial assets as of December 2012 decreased compared with December 2011, primarily reflecting a decrease in derivative assets, partially offset by an increase in private equity investments. The decrease in derivative assets primarily reflected a decline in credit derivative assets, principally due to settlements, unrealized losses and sales, partially offset by net transfers from level 2. Level 3 currency derivative assets also declined compared with December 2011, principally due to unrealized losses and net transfers to level 2. The increase in private equity investments primarily reflected purchases and unrealized gains, partially offset by settlements and net transfers to level 2.

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

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Notes to Consolidated Financial Statements

Note 6. Cash Instruments

Note 6.

Cash Instruments

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

Level 1 Cash Instruments

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

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

Level 2 Cash Instruments

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

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

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

Level 3 Cash Instruments

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

corroborated by substantive observable evidence, including values realized on sales of financial assets.

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The table below presents the valuation techniques and the nature of significant inputs generally used to determine the fair values of each type of level 3 cash instrument.

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
<p>Loans and securities backed by commercial real estate</p> <p>Collateralized by a single commercial real estate property or a portfolio of properties</p> <p>May include tranches of varying levels of subordination</p>	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.</p> <p>Significant inputs are generally determined based on relative value analyses and include:</p> <p>Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices</p> <p>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)</p> <p>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</p> <p>Timing of expected future cash flows (duration)</p>
<p>Loans and securities backed by residential real estate</p> <p>Collateralized by portfolios of residential real estate</p> <p>May include tranches of varying levels of subordination</p>	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.</p> <p>Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles, including relevant indices such as the ABX (an index that tracks the performance of subprime residential mortgage bonds). Significant inputs include:</p> <p>Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral</p> <p>Market yields implied by transactions of similar or related assets</p>

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Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs

Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines

Bank loans and bridge loans

Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.

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

Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively)

Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation

Duration

Non-U.S. government and
agency obligations

Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.

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

Corporate debt securities

Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX, LCDX and MCDX (an index that tracks the performance of municipal obligations)

State and municipal obligations

Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation

Other debt obligations

Duration

Equities and convertible debentures
(including private equity investments and
investments in real estate entities)

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

Industry multiples (primarily EBITDA multiples) and public comparables

Transactions in similar instruments

Discounted cash flow techniques

Third-party appraisals

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

Market and transaction multiples

Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates

For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

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Notes to Consolidated Financial Statements**Significant Unobservable Inputs**

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest multiple presented in

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

Level 3 Cash Instruments	Level 3 Assets as of December 2012 <i>(in millions)</i>	Significant Unobservable Inputs by Valuation Technique	Range of Significant Unobservable Inputs (Weighted Average ¹) as of December 2012
		Discounted cash flows:	
Loans and securities backed by commercial real estate	\$3,389	Yield	4.0% to 43.3% (9.8%)
Collateralized by a single commercial real estate property or a portfolio of properties		Recovery rate ²	37.0% to 96.2% (81.7%)
May include tranches of varying levels of subordination		Duration (years) ³	0.1 to 7.0 (2.6)
		Basis	(13) points to 18 points (2 points)
Loans and securities backed by residential real estate	\$1,619	Discounted cash flows:	
Collateralized by portfolios of residential real estate		Yield	3.1% to 17.0% (9.7%)

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May include tranches of varying levels of subordination		Cumulative loss rate	0.0% to 61.6% (31.6%)
		Duration (years) [†]	1.3 to 5.9 (3.7)

Bank loans and bridge loans	\$11,235	Discounted cash flows:	
		Yield	0.3% to 34.5% (8.3%)
		Recovery rate [‡]	16.5% to 85.0% (56.0%)
		Duration (years) [†]	0.2 to 4.4 (1.9)

Non-U.S. government and agency obligations	\$4,651	Discounted cash flows:	
		Yield	0.6% to 33.7% (8.6%)
Corporate debt securities		Recovery rate [‡]	0.0% to 70.0% (53.4%)
State and municipal obligations		Duration (years) [†]	0.5 to 15.5 (4.0)

Other debt obligations			
Equities and convertible debentures (including private equity investments and investments in real estate entities)	\$14,855²	Comparable multiples:	
		Multiples	0.7x to 21.0x (7.2x)
		Discounted cash flows:	
		Discount rate	10.0% to 25.0% (14.3%)
		Long-term growth rate/compound annual growth rate	0.7% to 25.0% (9.3%)
		Capitalization rate	3.9% to 11.4% (7.3%)

1. Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.
2. 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.
3. Recovery rate is a measure of expected future cash flows in a default scenario, expressed as a percentage of notional or face value of the instrument, and reflects the benefit of credit enhancement on certain instruments.
4. Duration is an estimate of the timing of future cash flows and, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

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

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

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Notes to Consolidated Financial Statements**Fair Value of Cash Instruments by Level**

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

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

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

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of December 2012			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 15,475	\$ 430	\$	\$ 15,905
Non-U.S. government and agency obligations	31,011	1,350		32,361
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by residential real estate		4		4

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Bank loans and bridge loans		1,143	636	1,779
Corporate debt securities	28	5,731	2	5,761
State and municipal obligations		1		1
Equities and convertible debentures	19,416	986	4	20,406
Total	\$ 65,930	\$ 9,645	\$ 642	\$ 76,217

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

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

3. Includes \$12.67 billion of private equity investments, \$1.58 billion of investments in real estate entities and \$600 million of convertible debentures.

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<i>in millions</i>	Cash Instrument Assets at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 3,255	\$ 10,185	\$	\$ 13,440
U.S. government and federal agency obligations	29,263	57,777		87,040
Non-U.S. government and agency obligations	42,854	6,203	148	49,205
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		3,353	3,346	6,699
Loans and securities backed by residential real estate		5,883	1,709	7,592
Bank loans and bridge loans		8,460	11,285	19,745
Corporate debt securities ²	133	19,518	2,480	22,131
State and municipal obligations		2,490	599	3,089
Other debt obligations ²		2,911	1,451	4,362
Equities and convertible debentures	39,955	11,491	13,667 ³	65,113
Commodities		5,762		5,762
Total	\$115,460	\$134,033	\$34,685	\$284,178

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 20,940	\$ 66	\$	\$ 21,006
Non-U.S. government and agency obligations	34,339	547		34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate		27		27
Loans and securities backed by residential real estate		3		3
Bank loans and bridge loans		1,891	865	2,756
Corporate debt securities ⁴		6,522	31	6,553
State and municipal obligations		3		3
Equities and convertible debentures	20,069	1,248	9	21,326
Total	\$ 75,348	\$ 10,307	\$ 905	\$ 86,560

1. Includes \$213 million and \$595 million of CDOs backed by real estate in level 2 and level 3, respectively.

2. Includes \$403 million and \$1.19 billion of CDOs and CLOs backed by corporate obligations in level 2 and level 3, respectively.

3. Includes \$12.07 billion of private equity investments, \$1.10 billion of investments in real estate entities and \$497 million of convertible debentures.

4. Includes \$27 million of CDOs and CLOs backed by corporate obligations in level 3.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. During the year ended December 2012, transfers into level 2 from level 1 of cash instruments were \$1.85 billion, including transfers of non-U.S. government obligations of \$1.05 billion, reflecting the level of market activity in these instruments, and transfers of equity

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

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Notes to Consolidated Financial Statements**Level 3 Rollforward**

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

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

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

The tables below present changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the year.

Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2012									
<i>in millions</i>	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Non-U.S. government and agency obligations	\$ 148	\$ 2	\$ (52)	\$ 16	\$ (40)	\$ (45)	\$ 1	\$ (4)	\$ 26
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,346	238	232	1,613	(910)	(1,389)	337	(78)	3,389
Loans and securities backed by residential real estate	1,709	146	276	703	(844)	(380)	65	(56)	1,619
Bank loans and bridge loans	11,285	592	322	4,595	(2,794)	(2,738)	1,178	(1,205)	11,235
Corporate debt securities	2,480	331	266	1,143	(961)	(438)	197	(197)	2,821
State and municipal obligations	599	26	2	96	(90)	(22)	8		619
Other debt obligations	1,451	64	(25)	759	(355)	(125)	39	(623) ²	1,185

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Equities and convertible debentures	13,667	292	992	3,071	(702)	(1,278)	965	(2,152)	14,855
Total	\$34,685	\$1,691³	\$2,013³	\$11,996	\$(6,696)	\$(6,415)	\$2,790	\$(4,315)	\$35,749

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

<i>in millions</i>	Balance, beginning of year	Net realized (gains)/losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases ¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Total	\$ 905	\$ (19)	\$ (54)	\$ (530)	\$ 366	\$ 45	\$ 63	\$ (134)	\$ 642

1. Includes both originations and secondary market purchases.

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

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

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

Transfers into level 3 during the year ended December 2012 primarily reflected transfers from level 2 of certain bank loans and bridge loans, and private equity investments,

principally due to a lack of market transactions in these instruments.

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

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Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2011								
<i>in millions</i>	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases ¹	Sales	Settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Non-U.S. government obligations	\$	\$ 25	\$ (63)	\$ 27	\$ (123)	\$ (8)	\$ 290	\$ 148
Mortgage and other asset-backed loans and securities:								
Loans and securities backed by commercial real estate	3,976	222	80	1,099	(1,124)	(831)	(76)	3,346
Loans and securities backed by residential real estate	2,501	253	(81)	768	(702)	(456)	(574)	1,709
Bank loans and bridge loans	9,905	540	(216)	6,725	(2,329)	(1,554)	(1,786)	11,285
Corporate debt securities	2,737	391	(132)	1,319	(1,137)	(697)	(1)	2,480
State and municipal obligations	754	12	(1)	448	(591)	(13)	(10)	599
Other debt obligations	1,274	124	(17)	560	(388)	(212)	110	1,451
Equities and convertible debentures	11,060	240	338	2,731	(1,196)	(855)	1,349	13,667
Total	\$32,207	\$1,807 ²	\$ (92) ²	\$13,677	\$(7,590)	\$(4,626)	\$ (698)	\$34,685

Level 3 Cash Instrument Liabilities at Fair Value for the Year Ended December 2011								
<i>in millions</i>	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases ¹	Sales	Settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Total	\$ 446	\$ (27)	\$ 218	\$ (491)	\$ 475	\$ 272	\$ 12	\$ 905

1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately \$(202) million, \$623 million and \$1.29 billion reported in Market making, Other principal transactions and Interest income, respectively.

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The net unrealized loss on level 3 cash instruments of \$310 million (reflecting losses of \$92 million on cash instrument assets and \$218 million on cash instrument liabilities) for the year ended December 2011 primarily consisted of losses on bank loans and bridge loans and corporate debt securities, primarily reflecting the impact of unfavorable credit markets and losses on relationship lending. These losses were partially offset by gains in private equity investments, where prices were generally corroborated through market transactions in similar financial instruments during the year.

Significant transfers in or out of level 3 during the year ended December 2011 included:

Bank loans and bridge loans: net transfer out of level 3 of \$1.79 billion, primarily due to transfers to level 2 of certain loans due to improved transparency of market prices as a result of market transactions in these or similar loans, partially offset by transfers to level 3 of other loans primarily due to reduced transparency of market prices as a result of less market activity in these loans.

Equities and convertible debentures: net transfer into level 3 of \$1.35 billion, primarily due to transfers to level 3 of certain private equity investments due to reduced transparency of market prices as a result of less market activity in these financial instruments, partially offset by transfers to level 2 of other private equity investments due to improved transparency of market prices as a result of market transactions in these financial instruments.

Loans and securities backed by residential real estate: net transfer out of level 3 of \$574 million, principally due to transfers to level 2 of certain loans due to improved transparency of market prices used to value these loans, as well as unobservable inputs no longer being significant to the valuation of these loans.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements**Investments in Funds That Calculate Net Asset Value Per Share**

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

The firm's investments in funds that calculate NAV primarily consist of investments in firm-sponsored funds where the firm co-invests with third-party investors. The private equity, credit and real estate funds are primarily closed-end funds in which the firm's investments are not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated and it is estimated that substantially all of the underlying assets of

existing funds will be liquidated over the next seven years. The firm continues to manage its existing funds taking into account the transition periods under the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), although the rules have not yet been finalized.

The firm's investments in hedge funds are generally redeemable on a quarterly basis with 91 days' notice, subject to a maximum redemption level of 25% of the firm's initial investments at any quarter-end. The firm currently plans to comply with the Volcker Rule by redeeming certain of its interests in hedge funds. The firm redeemed approximately \$1.06 billion of these interests in hedge funds during the year ended December 2012.

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

<i>in millions</i>	As of December 2012		As of December 2011	
	Fair Value of Investments	Unfunded Commitments	Fair Value of Investments	Unfunded Commitments
Private equity funds ¹	\$ 7,680	\$2,778	\$ 8,074	\$3,514
Credit funds ²	3,927	2,843	3,596	3,568
Hedge funds ³	2,167		3,165	
Real estate funds ⁴	2,006	870	1,531	1,613
Total	\$15,780	\$6,491	\$16,366	\$8,695

1. These funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations and growth investments.

2. These funds generally invest in loans and other fixed income instruments and are focused on providing private high-yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.

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3. These funds are primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage.

4. These funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and direct property.

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Notes to Consolidated Financial Statements

Note 7. Derivatives and Hedging Activities

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 privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives, or they may be listed and traded on an exchange (exchange-traded).

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

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

The firm enters into various types of derivatives, including:

Futures and Forwards. Contracts that commit counterparties to purchase or sell financial instruments, commodities or currencies in the future.

Swaps. Contracts that require counterparties to exchange cash flows such as currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, commodities, currencies or indices.

Options. Contracts in which the option purchaser has the right, but not the obligation, to purchase from or sell to the option writer financial instruments, commodities or currencies within a defined time period for a specified price.

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

Substantially all gains and losses on derivatives not designated as hedges under ASC 815 are included in Market making and Other principal transactions.

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

<i>in millions</i>	As of December 2012		As of December 2011	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 3,772	\$ 2,937	\$ 5,880	\$ 3,172
Over-the-counter	67,404	47,490	74,148	55,281
Total	\$71,176	\$50,427	\$80,028	\$58,453

The table below presents the fair value and the notional amount of derivative contracts by major product type on a gross basis. Gross fair values in the table below exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash collateral received or posted under credit support

agreements, and therefore are not representative of the firm's exposure. 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; however, they do not represent anticipated losses.

<i>in millions</i>	As of December 2012			As of December 2011		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives not accounted for as hedges						
Interest rates	\$ 584,584	\$ 545,605	\$34,891,763	\$ 624,189	\$ 582,608	\$38,111,097
Credit	85,816	74,927	3,615,757	150,816	130,659	4,032,330
Currencies	72,128	60,808	3,833,114	88,654	71,736	3,919,525
Commodities	23,320	24,350	774,115	35,966	38,050	799,925
Equities	49,483	43,681	1,202,181	64,135	51,928	1,433,087
Subtotal	815,331	749,371	44,316,930	963,760	874,981	48,295,964
Derivatives accounted for as hedges						
Interest rates	23,772	66	128,302	21,981	13	109,860
Currencies	21	86	8,452	124	21	8,307
Subtotal	23,793	152	136,754	22,105	34	118,167
Gross fair value/notional amount of derivatives	\$ 839,124	\$ 749,523	\$44,453,684	\$ 985,865	\$ 875,015	\$48,414,131
	(668,460)	(668,460)		(787,733)	(787,733)	

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Counterparty netting ¹

Cash collateral netting ²	(99,488)	(30,636)	(118,104)	(28,829)
Fair value included in financial instruments owned	\$ 71,176		\$ 80,028	
Fair value included in financial instruments sold, but not yet purchased		\$ 50,427		\$ 58,453

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

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

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Notes to Consolidated Financial Statements

Valuation Techniques for Derivatives

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

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

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

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

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

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

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

Level 1 Derivatives

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

Level 2 Derivatives

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

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.

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Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. Inputs to the valuations of level 2 derivatives can be verified to market transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Level 3 Derivatives

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

For the majority of the firm's interest rate and currency derivatives classified within level 3, significant unobservable inputs include correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates) and specific interest rate volatilities.

For level 3 credit derivatives, significant level 3 inputs include illiquid credit spreads, which are unique to specific reference obligations and reference entities, recovery rates and certain correlations required to value credit and mortgage derivatives (e.g., the likelihood of default of the underlying reference obligation relative to one another).

For level 3 equity derivatives, significant level 3 inputs generally include equity volatility inputs for options that are very long-dated and/or have strike prices that differ significantly from current market prices. In addition, the valuation of certain structured trades requires the use of level 3 inputs for the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class such as commodities.

For level 3 commodity derivatives, significant level 3 inputs include volatilities for options with strike prices that differ significantly from current market prices and prices or spreads for certain products for which the product quality or physical location of the commodity is not aligned with benchmark indices.

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

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivatives 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 (CVA) and funding valuation adjustments, which account for the credit and funding risk inherent in derivative portfolios. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

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

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Notes to Consolidated Financial Statements**Significant Unobservable Inputs**

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 derivatives. These ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative.

For example, the highest correlation presented in the table for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 derivatives.

Level 3 Derivative	Net Level 3 Assets/(Liabilities)		Range of Significant Unobservable
	as of December 2012	Significant Unobservable Inputs	Inputs (Average / Median) ¹
Product Type	(in millions)	of Derivative Pricing Models	as of December 2012
Interest rates	\$ (355)	Correlation ²	22% to 97% (67% / 68%)
		Volatility	37 basis points per annum (bpa) to 59 bpa (48 bpa / 47 bpa)
Credit	\$6,228	Correlation ²	5% to 95% (50% / 50%)
		Credit spreads	9 bps to 2,341 bps (225 bps / 140 bps) ³
		Recovery rates	15% to 85% (54% / 53%)

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Currencies	\$35	Correlation ²	65% to 87% (76% / 79%)
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Commodities	\$(304)	Volatility	13% to 53% (30% / 29%)
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Spread per million British Thermal units (MMBTU) of natural gas

\$(0.61) to \$6.07 (\$0.02 / \$0.00)

Price per megawatt hour of power

\$17.30 to \$57.39 (\$33.17 / \$32.80)

Price per barrel of oil

\$86.64 to \$98.43 (\$92.76 / \$93.62)

Equities	\$(1,248)	Correlation ²	48% to 98% (68% / 67%)
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Volatility

15% to 73% (31% / 30%)

1. Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average.

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

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

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Notes to Consolidated Financial Statements

Range of Significant Unobservable Inputs

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

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

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

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

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

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

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

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

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

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

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Notes to Consolidated Financial Statements**Fair Value of Derivatives by Level**

The tables below present the fair value of derivatives on a gross basis by level and major product type. Gross fair values in the tables below exclude the effects of both netting of receivable balances with payable balances under

enforceable netting agreements, and netting of cash received or posted under credit support agreements both in and across levels of the fair value hierarchy, and therefore are not representative of the firm's exposure.

Derivative Assets at Fair Value as of December 2012**Cross-Level**

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

Derivative Liabilities at Fair Value as of December 2012**Cross-Level**

<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$14	\$ 545,110	\$ 547	\$	\$ 545,671
Credit		70,246	4,681		74,927
Currencies		59,937	957		60,894
Commodities		23,423	927		24,350
Equities	50	41,641	1,990		43,681
Gross fair value of derivative liabilities	64	740,357	9,102		749,523

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Counterparty netting ¹		(662,798)	(3,538)	(2,124) ³	(668,460)
Subtotal	\$64	\$ 77,559	\$ 5,564	\$(2,124)	\$ 81,063
Cash collateral netting ²					(30,636)
Fair value included in financial instruments sold, but not yet purchased					\$ 50,427

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

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

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

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Notes to Consolidated Financial Statements

Derivative Assets at Fair Value as of December 2011					
Cross-Level					
<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$ 33	\$ 645,923	\$ 214	\$	\$ 646,170
Credit		137,110	13,706		150,816
Currencies		86,752	2,026		88,778
Commodities		35,062	904		35,966
Equities	24	62,684	1,427		64,135
Gross fair value of derivative assets	57	967,531	18,277		985,865
Counterparty netting ¹		(778,639)	(6,377)	(2,717) ³	(787,733)
Subtotal	\$ 57	\$ 188,892	\$ 11,900	\$ (2,717)	\$ 198,132
Cash collateral netting ²					(118,104)
Fair value included in financial instruments owned					\$ 80,028

Derivative Liabilities at Fair Value as of December 2011					
Cross-Level					
<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$ 24	\$ 582,012	\$ 585	\$	\$ 582,621
Credit		123,253	7,406		130,659
Currencies		70,573	1,184		71,757
Commodities		36,541	1,509		38,050
Equities	185	49,884	1,859		51,928
Gross fair value of derivative liabilities	209	862,263	12,543		875,015
Counterparty netting ¹		(778,639)	(6,377)	(2,717) ³	(787,733)
Subtotal	\$ 209	\$ 83,624	\$ 6,166	\$ (2,717)	\$ 87,282
Cash collateral netting ²					(28,829)
Fair value included in financial instruments sold, but not yet purchased					\$ 58,453

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

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

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

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Notes to Consolidated Financial Statements**Level 3 Rollforward**

If a derivative was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are reported at the beginning of the reporting period in which they occur.

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

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

If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified as level 3.

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

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

		Asset/ (liability) balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of year
<i>in millions</i>										
Interest rates	net	\$ (371)	\$ (60)	\$ 19	\$ 7	\$ (28)	\$ 71	\$ 68	\$ (61)	\$ (355)
Credit	net	6,300	246	(701)	138	(270)	(1,597)	2,503	(391)	6,228
Currencies	net	842	(17)	(502)	17	(5)	(144)	65	(221)	35
Commodities	net	(605)	(11)	228	63	(410)	307	(41) ³	165 ⁴	(304)
Equities	net	(432)	(80)	(276)	123	(724)	267	(50) ³	(76)	(1,248)
Total derivatives	net	\$5,734	\$ 78¹	\$(1,232)^{1,2}	\$348	\$(1,437)	\$(1,096)	\$2,545	\$(584)	\$4,356

1. The aggregate amounts include approximately \$(903) million and \$(251) million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

3. Reflects a net transfer to level 3 of derivative liabilities.

4. Reflects a net transfer to level 2 of derivative liabilities.

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Level 3 Derivative Assets and Liabilities at Fair Value for the Year Ended December 2011

		Asset/ (liability) balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Settlements	Net transfers in and/or (out) of level 3	Asset/ (liability) balance, end of year
<i>in millions</i>									
Interest rates	net	\$ 194	\$ (38)	\$ (305)	\$ 23	\$ (29)	\$ 84	\$(300)	\$ (371)
Credit	net	7,040	46	2,525	348	(1,310)	(1,713)	(636)	6,300
Currencies	net	1,098	(26)	(351)	29	(25)	(54)	171	842
Commodities	net	220	(35)	259	125	(835)	150	(489)	(605)
Equities	net	(990)	184	151	382	(683)	159	365	(432)
Total derivatives	net	\$7,562	\$131 ¹	\$2,279 ^{1,2}	\$907	\$(2,882)	\$(1,374)	\$(889)	\$5,734

1. The aggregate amounts include approximately \$2.35 billion and \$62 million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

The net unrealized gain on level 3 derivatives of \$2.28 billion for the year ended December 2011 was primarily attributable to the impact of changes in interest rates and exchange rates underlying certain credit derivatives. Unrealized gains on level 3 derivatives were substantially offset by unrealized losses on derivatives classified within level 2 which economically hedge derivatives classified within level 3.

Significant transfers in or out of level 3 derivatives during the year ended December 2011 included:

Credit net: net transfer out of level 3 of \$636 million, primarily reflecting transfers to level 2 of certain credit derivative assets principally due to unobservable inputs no longer being significant to the valuation of these derivatives, and transfers into level 3 of certain credit derivative liabilities due to reduced transparency of the correlation inputs used to value these derivatives. The impact of these transfers was partially offset by transfers into level 3 of certain credit and mortgage derivative assets, primarily due to reduced transparency of the correlation inputs used to value these derivatives.

Commodities net: net transfer out of level 3 of \$489 million, primarily reflecting transfers to level 2, due to increased transparency of market prices used to value certain commodity derivative assets as a result of market activity in similar instruments, and unobservable inputs becoming less significant to the valuation of other commodity derivative assets. In addition, certain commodity derivative liabilities were transferred into level 3 due to reduced transparency of volatility inputs used to value these derivatives.

Impact of Credit Spreads on Derivatives

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

The net gain/(loss), including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was \$(735) million, \$573 million and \$68 million for the years ended December 2012, December 2011 and December 2010, respectively.

Bifurcated Embedded Derivatives

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

<i>in millions</i>	As of December	
	2012	2011
Fair value of assets	\$ 320	\$ 422
Fair value of liabilities	398	304
Net asset/(liability)	\$ (78)	\$ 118
Notional amount	\$10,567	\$9,530

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements**OTC Derivatives**

The tables below present the fair values of OTC derivative assets and liabilities by tenor and by product type. Tenor is based on expected duration for mortgage-related credit

derivatives and generally on remaining contractual maturity for other derivatives.

<i>in millions</i>	OTC Derivatives as of December 2012			
	0 -12	1 - 5	5 Years or	
Assets				
Product Type	Months	Years	Greater	Total
Interest rates	\$10,318	\$28,445	\$ 80,449	\$119,212
Credit	2,190	12,244	7,970	22,404
Currencies	11,100	8,379	11,044	30,523
Commodities	3,840	3,862	304	8,006
Equities	3,757	7,730	6,957	18,444
Netting across product types ¹	(2,811)	(5,831)	(5,082)	(13,724)
Subtotal	\$28,394	\$54,829	\$101,642	184,865
Cross maturity netting ²				(17,973)
Cash collateral netting ³				(99,488)
Total				\$ 67,404
Liabilities	0 - 12	1 - 5	5 Years or	
Product Type	Months	Years	Greater	Total
Interest rates	\$ 6,266	\$17,860	\$ 32,422	\$ 56,548
Credit	809	7,537	3,168	11,514
Currencies	8,586	4,849	5,782	19,217
Commodities	3,970	3,119	2,267	9,356
Equities	3,775	5,476	3,937	13,188
Netting across product types ¹	(2,811)	(5,831)	(5,082)	(13,724)

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Subtotal	\$20,595	\$33,010	\$ 42,494	96,099
Cross maturity netting ²				(17,973)
Cash collateral netting ³				(30,636)
Total				\$ 47,490

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.

2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.

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

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Notes to Consolidated Financial Statements

<i>in millions</i>		OTC Derivatives as of December 2011			
Assets		0 - 12	1 - 5	5 Years or	
Product Type		Months	Years	Greater	Total
Interest rates		\$10,931	\$32,194	\$ 82,480	\$ 125,605
Credit		3,054	15,468	13,687	32,209
Currencies		11,253	11,592	16,023	38,868
Commodities		5,286	5,931	147	11,364
Equities		6,663	7,768	7,468	21,899
Netting across product types ¹		(3,071)	(6,033)	(6,027)	(15,131)
Subtotal		\$34,116	\$66,920	\$113,778	214,814
Cross maturity netting ²					(22,562)
Cash collateral netting ³					(118,104)
Total					\$ 74,148
Liabilities		0 - 12	1 - 5	5 Years or	
Product Type		Months	Years	Greater	Total
Interest rates		\$ 5,787	\$18,607	\$37,739	\$ 62,133
Credit		1,200	6,957	3,894	12,051
Currencies		9,826	5,514	6,502	21,842
Commodities		6,322	5,174	2,727	14,223
Equities		3,290	4,018	4,246	11,554
Netting across product types ¹		(3,071)	(6,033)	(6,027)	(15,131)
Subtotal		\$23,354	\$34,237	\$49,081	106,672
Cross maturity netting ²					(22,562)
Cash collateral netting ³					(28,829)
Total					\$ 55,281

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.

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2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.
3. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements**Derivatives with Credit-Related Contingent Features**

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

<i>in millions</i>	As of December	
	2012	2011
Net derivative liabilities under bilateral agreements	\$27,885	\$35,066
Collateral posted	24,296	29,002
Additional collateral or termination payments for a one-notch downgrade	1,534	1,303
Additional collateral or termination payments for a two-notch downgrade	2,500	2,183

Credit Derivatives

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

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

Credit Default Swaps. Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives

protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.

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

Total Return Swaps. A total return swap transfers the risks relating to economic performance of a reference obligation from the protection buyer to the protection seller. Typically, the protection buyer receives from the protection seller a floating rate of interest and protection against

any reduction in fair value of the reference obligation, and in return the protection seller receives the cash flows associated with the reference obligation, plus any increase in the fair value of the reference obligation.

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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As of December 2012, written and purchased credit derivatives had total gross notional amounts of \$1.76 trillion and \$1.86 trillion, respectively, for total net notional purchased protection of \$98.33 billion. As of December 2011, written and purchased credit derivatives had total gross notional amounts of \$1.96 trillion and \$2.08 trillion, respectively, for total net notional purchased protection of \$116.93 billion.

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

fair values exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under credit support agreements, and therefore are not representative of the firm's credit exposure; tenor is based on expected duration for mortgage-related credit derivatives and on remaining contractual maturity for other credit derivatives; and

the credit spread on the underlying, together with the tenor of the contract, are indicators of payment/performance risk. The firm is less likely to pay or otherwise be required to perform where the credit spread and the tenor are lower.

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor 5 Years				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives Net		
	0 - 12 Months	1 - 5 Years	or Greater	Total	Offsetting Purchased Credit Derivatives ¹	Other Purchased Credit Derivatives ²	Asset	Liability	Asset/ (Liability)
<i>\$ in millions</i>									
As of December 2012									
Credit spread on underlying									
(basis points)									
0 - 250	\$360,289	\$ 989,941	\$103,481	\$1,453,711	\$1,343,561	\$201,459	\$28,817	\$ 8,249	\$ 20,568
251 - 500	13,876	126,659	35,086	175,621	157,371	19,063	4,284	7,848	(3,564)
501 - 1,000	9,209	52,012	5,619	66,840	60,456	8,799	769	4,499	(3,730)
Greater than 1,000	11,453	49,721	3,622	64,796	57,774	10,812	568	21,970	(21,402)
Total	\$394,827	\$1,218,333	\$147,808	\$1,760,968	\$1,619,162	\$240,133	\$34,438	\$ 42,566	\$ (8,128)

As of December 2011**Credit spread on
underlying****(basis points)**

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0 - 250	\$282,851	\$ 794,193	\$141,688	\$1,218,732	\$1,122,296	\$180,316	\$17,572	\$ 16,907	\$ 665
251 - 500	42,682	269,687	69,864	382,233	345,942	47,739	4,517	20,810	(16,293)
501 - 1,000	29,377	140,389	21,819	191,585	181,003	23,176	138	15,398	(15,260)
Greater than 1,000	30,244	114,103	22,995	167,342	147,614	28,734	512	57,201	(56,689)
Total	\$385,154	\$1,318,372	\$256,366	\$1,959,892	\$1,796,855	\$279,965	\$22,739	\$110,316	\$(87,577)

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

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

Hedge Accounting

The firm applies hedge accounting for (i) certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate unsecured long-term and short-term borrowings and certain fixed-rate certificates of deposit and (ii) certain foreign currency forward contracts and foreign currency-denominated debt used to manage foreign currency exposures on the firm's net investment in certain non-U.S. operations.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements**Interest Rate Hedges**

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

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

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

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged borrowings and bank deposits, and the hedge ineffectiveness on these derivatives.

<i>in millions</i>	Year Ended December		
	2012	2011	2010
Interest rate hedges	\$(2,383)	\$ 4,679	\$ 1,617
Hedged borrowings and bank deposits	665	(6,300)	(3,447)
Hedge ineffectiveness ¹	(1,718)	(1,621)	(1,836)

1. Primarily consisted of amortization of prepaid credit spreads resulting from the passage of time.

The gain/(loss) excluded from the assessment of hedge effectiveness was not material for the years ended December 2012, December 2011 and December 2010.

Net Investment Hedges

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

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

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

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<i>in millions</i>	Year Ended December		
	2012	2011	2010
Currency hedges	\$(233)	\$ 160	\$(261)
Foreign currency-denominated debt hedges	347	(147)	(498)

The gain/(loss) related to ineffectiveness was not material for the years ended December 2012, December 2011 and December 2010. The loss reclassified to earnings from accumulated other comprehensive income was not material for the years ended December 2012 and December 2010, and was \$186 million for the year ended December 2011.

As of December 2012 and December 2011, the firm had designated \$2.77 billion and \$3.11 billion, respectively, of foreign currency-denominated debt, included in Unsecured long-term borrowings and Unsecured short-term borrowings, as hedges of net investments in non-U.S. subsidiaries.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 8. Fair Value Option

Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

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

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

reflect economic events in earnings on a timely basis;

mitigate volatility in earnings from using different measurement attributes (e.g., transfers of financial instruments owned accounted for as financings are recorded at fair value whereas the related secured financing would be recorded on an accrual basis absent electing the fair value option); and

address simplification and cost-benefit considerations (e.g., accounting for hybrid financial instruments at fair value in their entirety versus bifurcation of embedded derivatives and hedge accounting for debt hosts).

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

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

repurchase agreements and substantially all resale agreements;

securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;

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substantially all other secured financings, including transfers of assets accounted for as financings rather than sales and certain other nonrecourse financings;

certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;
certain unsecured long-term borrowings, including prepaid commodity transactions and certain hybrid financial instruments;

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

certain insurance and reinsurance contract assets and liabilities and certain guarantees;

certain subordinated liabilities issued by consolidated VIEs; and

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

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

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

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Notes to Consolidated Financial Statements

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are collateral funding spreads, the amount and timing of expected future cash flows and interest rates. The ranges of significant unobservable inputs used to value level 3 resale and repurchase agreements as of December 2012 are as follows:

Yield: 1.7% to 5.4% (weighted average: 1.9%)

Duration: 0.4 to 4.5 years (weighted average: 4.1 years)

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

See Note 9 for further information about collateralized agreements.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, collateral funding spreads, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. The ranges of significant unobservable inputs used to value level 3 other secured financings as of December 2012 are as follows:

Yield: 0.3% to 20.0% (weighted average: 4.2%)

Duration: 0.3 to 10.8 years (weighted average: 2.4 years)

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

See Note 9 for further information about collateralized financings.

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

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

Insurance and Reinsurance Contracts. Insurance and reinsurance contracts at fair value are primarily included in Receivables from customers and counterparties and Other liabilities and accrued expenses. In addition, assets related to the firm's reinsurance business that were classified as held for sale as of December 2012 are included in Other assets. The insurance and reinsurance contracts for which the firm has elected the fair value option are contracts that can be settled only in cash and that qualify for the fair value option because they are recognized financial instruments. These contracts are valued using market transactions and other market evidence where possible, including market-based inputs to models, calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant

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inputs are interest rates, inflation rates, volatilities, funding spreads, yield and duration, which incorporates policy lapse and projected mortality assumptions. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified in level 3. The range of significant unobservable inputs used to value level 3 insurance and reinsurance contracts as of December 2012 is as follows:

Funding spreads: 64 bps to 105 bps (weighted average: 85 bps)

Yield: 4.4% to 15.1% (weighted average: 6.2%)

Duration: 5.3 to 8.8 years (weighted average: 7.6 years)

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

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Notes to Consolidated Financial Statements

Receivables from Customers and Counterparties. Receivables from customers and counterparties at fair value, excluding insurance and reinsurance contracts, are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads. The range of significant unobservable inputs used to value level 3 receivables from customers and counterparties as of December 2012 is as follows:

Funding spreads: 57 bps to 145 bps (weighted average: 105 bps)
Generally, an increase in funding spreads would result in a lower fair value measurement.

Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Such receivables are primarily comprised of customer margin loans and collateral posted in connection with certain derivative transactions. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these items been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012. Receivables from customers and counterparties not accounted for at fair value also includes loans held for investment, which are primarily comprised of collateralized loans to private wealth management clients and corporate loans. As of December 2012 and December 2011, the carrying value of such loans was \$6.50 billion and \$3.76 billion, respectively, which generally approximated fair value. As of December 2012, had these loans been carried at fair value and included in the fair value hierarchy, \$2.41 billion and \$4.06 billion would have been classified in level 2 and level 3, respectively.

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements**Fair Value of Other Financial Assets and Financial****Liabilities by Level**

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

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

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

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes \$21.55 billion of level 1 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.

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2. Consists of assets classified as held for sale related to the firm's reinsurance business, primarily consisting of securities accounted for as available-for-sale and insurance separate account assets which are accounted for at fair value under other U.S. GAAP. Such assets were previously included in Financial instruments owned, at fair value and Securities segregated for regulatory and other purposes, respectively.
3. Consists of insurance contracts and derivatives classified as held for sale. See Insurance and Reinsurance Contracts above and Note 7 for further information about valuation techniques and inputs related to insurance contracts and derivatives, respectively.
4. Includes \$692 million of liabilities classified as held for sale related to the firm's reinsurance business accounted for at fair value under the fair value option.

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<i>in millions</i>	Other Financial Assets at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$21,263	\$ 20,751	\$	\$ 42,014
Securities purchased under agreements to resell		187,232	557	187,789
Securities borrowed		47,621		47,621
Receivables from customers and counterparties		8,887	795	9,682
Total	\$21,263	\$264,491	\$ 1,352	\$287,106

<i>in millions</i>	Other Financial Liabilities at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 4,513	\$ 13	\$ 4,526
Securities sold under agreements to repurchase		162,321	2,181	164,502
Securities loaned		107		107
Other secured financings		28,267	1,752	30,019
Unsecured short-term borrowings		14,560	3,294	17,854
Unsecured long-term borrowings		14,971	2,191	17,162
Other liabilities and accrued expenses		490	8,996	9,486
Total	\$	\$225,229	\$18,427	\$243,656

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes \$21.26 billion of level 1 and \$528 million of level 2 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, principally consisting of U.S. Treasury securities, money market instruments and insurance separate account assets.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements**Transfers Between Levels of the Fair Value Hierarchy**

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

Level 3 Rollforward

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

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

<i>in millions</i>	Level 3 Other Financial Assets at Fair Value for the Year Ended December 2012									
	Balance, beginning of year	Net realized gains/(losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Securities purchased under agreements to resell	\$ 557	\$ 7	\$	\$ 116	\$	\$	\$ (402)	\$	\$	\$ 278
Receivables from customers and counterparties	795		37	199			(17)		(373)	641
Other assets			82				(23)	448		507
Total	\$ 1,352	\$ 7¹	\$ 119¹	\$ 315	\$	\$	\$ (442)	\$448	\$ (373)	\$ 1,426

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

<i>in millions</i>	Level 3 Other Financial Liabilities at Fair Value for the Year Ended December 2012									
	Balance, beginning of year	Net realized (gains)/losses	Net unrealized (gains)/losses relating to instruments still held at	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year

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	year-end															
Deposits	\$	13	\$	\$	5	\$	\$	\$	326	\$	(1)	\$	16	\$	\$	359
Securities sold under agreements to repurchase, at fair value		2,181									(254)					1,927
Other secured financings		1,752	12		(51)				854		(1,155)					1,412
Unsecured short-term borrowings		3,294	(13)		204	(13)			762		(1,206)	240		(684)		2,584
Unsecured long-term borrowings		2,191	31		286				329		(344)	225		(801)		1,917
Other liabilities and accrued expenses		8,996	78		941	1,617					(360)	2				11,274
Total		\$18,427	\$108¹		\$1,385¹	\$1,604			\$	\$2,271	\$(3,320)	\$483		\$(1,485)		\$19,473

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

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

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

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

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

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

<i>in millions</i>	Level 3 Other Financial Assets at Fair Value for the Year Ended December 2011							Net transfers in and/or (out) of level 3	Balance, end of year
	Balance, beginning of year	Net realized gains/(losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements		
Securities purchased under agreements to resell	\$ 100	\$ 2	\$	\$ 620	\$	\$	\$ (165)		