Base Listing Document
relating to Non-collateralised Structured Products

Issuer

Goldman Sachs Structured Products (Asia) Limited

(Incorporated in the Cayman Islands with limited liability)

Guarantor

The Goldman Sachs Group, Inc.

(Incorporated in the State of Delaware, United States of America)

Sponsor

Goldman Sachs (Asia) L.L.C.

This document, for which we and the guarantor accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Stock Exchange's Listing Rules) for the purpose of giving information with regard to the issuer, the guarantor and the warrants, callable bull/bear contracts (CBBCs) and any other structured products (together, our structured products) referred to in this document. The issuer and the guarantor, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

We, the issuer of our structured products, are publishing this base listing document in order to obtain a listing on the Stock Exchange of our structured products.

We will publish a supplemental listing document for each issue of our structured products to set out the terms specific to that issue. If at that point the information in this base listing document (and any applicable addendum) needs to be updated, we will either include the updated information in the relevant supplemental listing document or produce an addendum to this base listing document. You should read the relevant supplemental listing document together with this base listing document (including any addendum) before deciding whether to buy our structured products. Neither the delivery of this base listing document nor any sale of any structured products shall under any circumstances create any implication that there has been no change in the affairs of us, the guarantor or its affiliates since the date of this base listing document. You should ask the sponsor if any addendum to this base listing document or any later base listing document has been issued. Our addendum does not necessarily contain the most recent information since the date of such addendum. You should read the guarantor's most recent Annual Report on Form 10-K, any quarterly reports on Form 10-Q and any current reports on Form 8-K filed with the U.S. Securities and Exchange Commission (SEC) in the website of SEC: www.sec.gov.

Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the structured products.

The structured products constitute general unsecured contractual obligations of the issuer and of no other person and the guarantee constitutes the general unsecured contractual obligations of the guarantor and of no other person and will rank equally among themselves and with all our and the guarantor's other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the structured products, you are relying upon the creditworthiness of the issuer and the guarantor, and have no rights under the structured products against (a) the company which has issued the underlying securities, (b) the trustee or the manager of the underlying trust, or (c) the index sponsor of any underlying index or any other person. If the issuer becomes insolvent or default on its obligations under the structured products or the guarantor becomes insolvent or defaults on its obligations under the guarantee, you may not be able to recover all or even part of the amount due under the structured products (if any).

The issuer and the guarantor are part of a large global financial institution and have many financial products and contracts outstanding at any given time.

The structured products are not bank deposits and are not insured or guaranteed by the United States Federal Deposit Insurance Corporation (the FDIC), or any other governmental agency. The structured products are guaranteed by The Goldman Sachs Group, Inc. and the guarantee will rank pari passu with all other direct, unconditional, unsecured and unsubordinated indebtedness of The Goldman Sachs Group. Inc.

The distribution of this base listing document, any supplemental listing document, any addendum and the offering, sale and delivery of structured products in certain jurisdictions may be restricted by law. You are required to inform yourselves about and to observe such restrictions. Please read Annex 3 "Purchase and Sale" in this base listing document. The structured products have not been approved or disapproved by the SEC or any state securities commission in the United States or regulatory authority, nor has the SEC or any state securities commission or any regulatory authority passed upon the accuracy or the adequacy of this base listing document. Any representation to the contrary is a criminal offence. **The structured products and the guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the Securities Act), and the structured products may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act).**

Dated 25 March 2013

IMPORTANT

If you are in doubt as to the contents of this base listing document, you should obtain independent professional advice.

Copies of this base listing document and the relevant supplemental listing document (together with a Chinese translation of each of these documents) and other documents listed under the section "Where can I read copies of the Issuer's documentation?" in this base listing document may be inspected at the offices of Goldman Sachs (Asia) L.L.C. at 68/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

本基本上市文件及相關補充上市文件（及以上各份文件的英文本）連同本基本上市文件的「本人從何處可查閱發行人的文件副本？」一節所列的其他文件，可於高盛（亞洲）有限責任公司的辦事處（地址為香港皇后大道中2號長江集團中心68樓）查閱。

We do not give you investment advice; you must decide for yourself, after reading the listing documents for the relevant structured products and, if necessary, seeking professional advice, whether our structured products meet your investment needs.

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SUMMARY OF OUR STRUCTURED PRODUCTS

The types of structured products that we may issue comprise of: cash-settled stock warrants, cash-settled foreign stock warrants, cash-settled warrants relating to the units of a fund or trust, index warrants, CBBCs relating to single stock, CBBCs relating to an index and CBBCs relating to the units of a fund or trust. Each type of our structured products will be subject to a separate set of master terms and conditions (Conditions) as set out in Annex 1 to this base listing document. For each issue of our structured products, we will publish a supplemental listing document setting out the specific terms. The specific terms set out in the relevant supplemental listing document supplement and amend the applicable set of master terms and conditions to form the legally binding terms and conditions of that issue of structured products.

We describe below the main features of the different types of our structured products.

General features of our structured products:

Issuer:	Goldman Sachs Structured Products (Asia) Limited
Guarantor:	The Goldman Sachs Group, Inc.
Guarantor's current long-term credit ratings (as of the day immediately preceding the date of this base listing document):	A- by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. A3 by Moody's Investors Service, Inc., New York
Status and ranking of our structured products:	Our structured products constitute our direct, unconditional, unsecured and unsubordinated obligations ranking equally with all our other present and future direct, unconditional, unsecured and unsubordinated obligations. Our structured products are not bank deposits and are not insured or guaranteed by the FDIC, or any other governmental agency. The structured products are guaranteed by The Goldman Sachs Group, Inc. and the guarantee will rank pari passu with all other direct, unconditional, unsecured and unsubordinated indebtedness of The Goldman Sachs Group, Inc.
Guarantee in respect of our structured products:	The obligations of the guarantor under the guarantee are direct, unconditional, unsecured and unsubordinated, subject to the terms of the guarantee. You can find the form of the guarantee in Annex 2.
Liquidity provider:	Goldman Sachs (Asia) Securities Limited. We will describe in each supplemental listing document our obligations to provide liquidity in our structured products.

Form:	Our structured products will be issued in registered form, subject to and with the benefit of, deed polls made by us and the guarantor. Each issue will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) as holder of our structured products and deposited within the Central Clearing and Settlement System (CCASS). We will not issue any definitive certificates for our structured products.
Use of proceeds:	We will use the proceeds from the issue of our structured products for our general working capital or any other purposes permitted under our memorandum and articles of association.
Further issues:	We can issue further structured products to form a single series with an existing issue of our structured products.
Delisting of the company, fund or trust underlying our structured products:	If the shares of the company or the units of the fund or trust (as the case may be) underlying a particular issue of our structured products are delisted from the Stock Exchange, we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our structured products.
Adjustments upon certain events affecting the company, fund, trust, or the index underlying our structured products:	If certain events occur in connection with the company, fund or trust underlying our structured products, or if certain events occur which materially modify the underlying index, we may in our discretion make adjustments to the terms of that issue to account for the effect of such events and/or determine in good faith the closing level or closing price of the underlying asset (as the case may be). Please see the relevant terms and conditions of our structured products for further details. These events and the possible adjustments we may make are set out in detail in the applicable terms and conditions.
Early termination for illegality or impracticability:	We may early terminate our structured products due to illegality or impracticability as further detailed in the relevant terms and conditions of our structured products.
Governing law:	Our structured products and the guarantee are governed by Hong Kong law.

SPECIFIC FEATURES OF OUR STRUCTURED PRODUCTS

The structured products are structured financial products, the value of which is derived from the price or value of another asset. The underlying asset may be shares of a company, units in funds or trusts, an index, or other asset or combination of such assets. Please refer to the "Risk Factors" section in this base listing document and the relevant supplemental listing document for a description of some of the risks of investing or dealing in our structured products. Below is only a descriptive explanation of some terms of our structured products; you should refer to the actual terms and conditions of the relevant structured products for the legally binding terms.

SPECIFIC FEATURES OF OUR WARRANTS

- Cash-settled stock/foreign stock warrants:

  The underlying asset of stock warrants is shares of a company. The shares may be listed in Hong Kong or overseas.

  Our cash-settled stock/foreign stock warrants provide for cash settlement only, which means that physical delivery of the underlying shares will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrantholder a cash amount equal to (1) the product of (a) the entitlement, (b) the difference between the average price of underlying share and the exercise price (in the case of call warrants) or the exercise price and the average price of underlying share (in the case of put warrants), and (c) one board lot, and divided by (2) the number of warrants per entitlement, and in each case less any exercise expenses, converted into the settlement currency of our warrants if necessary, so long as such amount is greater than zero. Please see the terms and conditions of our warrants for further details.

  For both our cash-settled stock warrants and foreign stock warrants, the average price of an underlying share is determined by reference to market closing price on each valuation date. Please see the terms and conditions of our warrants for further details.

- Index warrants:

  The underlying asset of index warrants is an index published by an index sponsor.

  Our index call warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to (1) the product of (a) difference between the closing level of an index on the date of exercise of the index call warrant and the predetermined strike level, (b) one board lot, and (c) the index currency amount and divided by (2) the divisor, converting such amount in the trading currency of the constituent stocks of the index into the settlement currency of our warrants if necessary, and less any exercise expenses, so long as such amount is greater than zero.

Our index put warrant gives its holders a right upon exercise of each board lot of warrants, to receive from us a cash amount equal to (1) the product of (a) the difference between the predetermined strike level and the closing level of the index on the date of exercise of the index put warrant, (b) one board lot, and (c) the index currency amount and divided by (2) the divisor, converting such amount in the trading currency of the constituent stocks of the index into the settlement currency of our warrants if necessary, and less any exercise expenses, so long as such amount is greater than zero.

The closing level of the index on the date of exercise may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means. Please see the terms and conditions of our warrants for further details.

- Cash-settled warrants relating to the units of a fund or trust: The underlying asset of warrants relating to the units of a fund or trust is units of the fund or trust (as the case may be). The units may be listed in Hong Kong or overseas.

Our cash-settled warrants relating to the units of a fund or trust provide for cash settlement only, which means that physical delivery of the underlying units will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrantholder a cash amount equal to (1) the product of (a) the entitlement, (b) the difference between the average price of the underlying unit and the exercise price (in the case of call warrants) or the exercise price and the average price of underlying unit (in the case of put warrants), and (c) one board lot, and divided by (2) the number of warrants per entitlement, and in each case less any exercise expenses, so long as such amount is greater than zero. Please see the terms and conditions of our warrants for further details.

The supplemental listing document will set out, without limitation, the following terms specific to our warrants to supplement the applicable set of master terms and conditions in this base listing document:

Board lot	Minimum number at which our warrants trade
Shares of the company	Name of underlying share (for our stock/foreign stock warrants only) and par value of underlying share (for our stock warrants only)
Company	Name of the company which issues the underlying shares (for our stock/ foreign stock warrants only)
Fund/Trust	Name of the underlying fund or trust (for our warrants relating to the units of a fund or trust only)
Index	Name of the underlying index (for our index warrants only)
Index sponsor	Name of company that maintains the index and calculates and publishes the index levels (for our index warrants only)
Exercise price	Predetermined exercise price of the underlying asset on expiry date (for our stock/foreign stock warrants and warrants relating to the units of a fund/trust only)
Strike level	Predetermined level of the underlying index (for our index warrants only)
Closing level	The level of the underlying index for the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
Divisor	A predetermined amount which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
Relevant exchange	The relevant exchange where the underlying share is listed (for our foreign stock warrants only)
Foreign currency	The relevant foreign currency in which the foreign underlying share is denominated (for our foreign stock warrants only)
Exchange rate	The relevant exchange rate for conversion of the currency in which the underlying asset is denominated to Hong Kong dollars for the calculation of the cash settlement amount (for our warrants referencing underlying assets which are not denominated in Hong Kong dollars or where currency conversion is otherwise necessary only)
Expiry date	Date on which our warrants expire
Valuation date(s)	Date(s) on which the closing price, closing level or spot price (as the case may be) of the underlying asset is determined for the calculation of the cash settlement amount upon exercise of our warrants

Entitlement	Number of shares/units to which a specified number of warrants relates (for our stock/foreign stock warrants and warrants relating to the units of a fund or trust only)
Number of warrants per entitlement	Number of warrants to which one entitlement relates (for our stock/foreign stock warrants and warrants relating to the units of a fund or trust only)
Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount payable upon the exercise of a board lot of our warrants (for our index warrants only)
European style	European style warrants can only be exercised on the expiry date
Listing date	The date on which our warrants commence trading on the Stock Exchange

SPECIFIC FEATURES OF OUR CBBCS

- CBBCs relating to single stock:

The underlying asset of CBBCs relating to single stock is shares of a company. The shares may be listed in Hong Kong or overseas.

CBBCs relating to single stock are issued either as Bull CBBCs or Bear CBBCs:

Bull CBBCs relating to single stock

Generally for a series of Bull CBBCs relating to single stock, when the spot price of the underlying share as reported by the relevant exchange is at or below the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder of such CBBCs an amount equal to (1) the product of (a) the entitlement, (b) the difference between the closing price of the underlying share and the strike price, and (c) one board lot, and divided by (2) the number of CBBCs per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bull CBBCs or Category R Bull CBBCs.

For Category N Bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bull CBBCs (where the call price is above the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be (1) the product of (a) the entitlement, (b) the difference between the lowest spot price to which the underlying share has traded on the exchange during the MCE valuation period and the strike price, and (c) one board lot, and divided by (2) the number of CBBCs per entitlement, and less any exercise expenses. However, if this residual value is a negative number then the cash settlement amount shall be zero.

Please note that during the life of a Bull CBBC relating to a share, a given percentage change in the underlying share price may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying share, for a given change in the underlying share price. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

Bear CBBCs relating to single stock

Generally for a series of Bear CBBCs relating to single stock, when the spot price of the underlying share as reported by the relevant exchange is at or above the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder of such CBBCs an amount equal to (1) the product of (a) the entitlement, (b) the difference between the strike price and the closing price of the underlying share, and (c) one board lot, and divided by (2) the number of CBBCs per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bear CBBCs or Category R Bear CBBCs.

For Category N Bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bear CBBCs (where the call price is below the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be (1) the product of (a) the entitlement, (b) the difference between the strike price and the highest spot price to which the underlying share has traded on the exchange during the MCE valuation period, and (c) one board lot, and divided by (2) the number of CBBCs per entitlement, and less any exercise expenses. However, if this residual value is a negative number then the cash settlement amount shall be zero.

Please note that during the life of a Bear CBBC relating to a share, a given percentage change in the underlying share price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying share, for a given change in the underlying share price. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

For both our Bull CBBCs and Bear CBBCs relating to single stock, the closing price of an underlying share will be determined by reference to the market closing price on the valuation date, please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to an index: The underlying asset of CBBCs relating to an index is an index published by an index sponsor.

CBBCs relating to an index are issued either as Bull CBBCs or Bear CBBCs:

Bull CBBCs relating to an index

Generally for a series of Bull CBBCs relating to an index, when the level of the underlying index as published by the index sponsor is at or below the predetermined call level during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon the expiry of a CBBC, for each board lot of CBBCs, we will pay the holder of such CBBC an amount equal to (1) the product of (a) the difference between the closing level of the underlying index and the strike level, (b) one board lot, and (c) the index currency amount, and divided by (2) the divisor, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bull CBBCs or Category R Bull CBBCs.

For Category N Bull CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bull CBBCs (where the call level is above the strike level), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (a) the difference between the lowest spot level of the underlying index as published by the index sponsor during the MCE valuation period and the strike level, (b) one board lot, and (c) the index currency amount, and divided by (2) the divisor, and less any exercise expenses. However, if this residual value is a negative number then the cash settlement amount shall be zero.

Please note that during the life of a Bull CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the Index, for a given change in the Index level. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

Bear CBBCs relating to an index

Generally for a series of Bear CBBCs relating to an index, when the level of the underlying index as published by the index sponsor is at or above the predetermined call level during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon the expiry of a CBBC, for each board lot of CBBCs, we will pay the holder of such CBBC an amount equal to (1) the product of (a) the difference between the strike level and the closing level of the underlying index, (b) one board, and (c) the index currency amount, and divided by (2) the divisor, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bear CBBCs or Category R Bear CBBCs.

For Category N Bear CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bear CBBCs (where the call level is below the strike level), the holder of each board lot of CBBCs will receive from us a residual value, which will be an amount equal to (1) the product of (a) the difference between the strike level and the highest spot level of the underlying index as published by the index sponsor during the MCE valuation period, (b) one board lot, and (c) the index currency amount, and divided by (2) the divisor, and less any exercise expenses. However, if this residual value is a negative number then the cash settlement amount shall be zero.

Please note that during the life of a Bear CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the Index, for a given change in the Index level. Please refer to the "Risk Factors" section of this base listing document and that of the relevant supplemental listing document.

For both our Bull CBBCs and Bear CBBCs relating to an index, the closing level of the index will be determined by reference to the index level calculated for the purpose of final settlement of the applicable futures contract specified in the relevant supplement listing document, please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to the units of a fund or trust

The underlying asset of CBBCs relating to the units of a fund or trust is units of the fund or trust (as the case may be).

CBBCs relating to the units of a fund or trust are issued as either Bull CBBCs or Bear CBBCs:

Bull CBBCs relating to the units of a fund or trust

Generally for a series of Bull CBBCs relating to the units of a fund or trust, when the spot price of the underlying unit as reported by the relevant exchange is at or below the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder of such CBBCs an amount equal to (1) the product of (a) the entitlement, (b) the difference between the closing price of the underlying unit and the strike price, and (c) one board lot, and divided by (2) the number of CBBCs per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bull CBBCs or Category R Bull CBBCs.

For Category N Bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bull CBBCs (where the call price is above the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be (1) the product of (a) the entitlement, (b) the difference between the lowest spot price to which the underlying unit has traded on the exchange during the MCE valuation period and the strike price, and (c) one board lot, and divided by (2) the number of CBBCs per entitlement, and less any exercise expenses. However, if this residual value is a negative number then the cash settlement amount shall be zero.

Please note that during the life of a Bull CBBC relating to the units of a fund or trust, a given percentage change in the underlying unit price may not result in the same percentage change (in the same direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying unit, for a given change in the underlying unit price. Please refer to the "Risk Factors" section of this base listing document and the relevant supplemental listing document.

Bear CBBCs relating to the units of a fund or trust

Generally for a series of Bear CBBCs relating to the units of a fund or trust, when the spot price of the underlying unit as reported by the relevant exchange is at or above the predetermined call price during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will terminate. If no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder of such CBBCs an amount equal to (1) the product of (a) the entitlement, (b) the difference between the strike price and the closing price of the underlying unit, and (c) one board lot, and divided by (2) the number of CBBCs per entitlement, and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bear CBBCs or Category R Bear CBBCs.

For Category N Bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bear CBBCs (where the call price is below the strike price), the holder of each board lot of CBBCs will receive from us a residual value, which will be (1) the product of (a) the entitlement, (b) the difference between the strike price and the highest spot price to which the underlying unit has traded on the exchange during the MCE valuation period, and (c) one board lot, and divided by (2) the number of CBBCs per entitlement, and less any exercise expenses. However, if this residual value is a negative number then the cash settlement amount shall be zero.

Please note that during the life of a Bear CBBC relating to the units of a fund or trust, a given percentage change in the underlying unit price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, a significant portion or the entire loss of your investment in our CBBCs, which will be proportionately greater than the amount of loss you would sustain from investing in the same amount directly in the underlying unit, for a given change in the underlying unit price. Please refer to the "Risk Factors" section of this base listing document and the relevant supplemental listing document.

For both our Bull CBBCs and Bear CBBCs relating to the units of a fund or trust, the closing price of an underlying unit will be determined by reference to the market closing price on the valuation date, please see the terms and conditions of our CBBCs for further details.

The supplemental listing document will set out the following terms specific to our CBBCs to supplement the applicable set of master terms and conditions in this base listing document:

Category	The category of our CBBCs: Category N or Category R, Bull or Bear
Board lot	Minimum number at which our CBBCs trade
Shares of the company	Name and par value of the underlying share (for our CBBCs relating to single stock only)
Company	Name of the company which issues the underlying shares (for our CBBCs relating to single stock only)
Fund/Trust	Name of the underlying fund or trust (for our CBBCs relating to the units of a fund or trust only)
Index	Name of the underlying index (for our CBBCs relating to an index only)
Index sponsor	Name of company that maintains the index and calculates and publishes the index levels (for our CBBCs relating to an index only)
Call price	Predetermined call price of the underlying share (for our CBBCs relating to single stock and our CBBCs relating to the units of a fund or trust only)
Strike price	Predetermined strike price of the underlying share (for our CBBCs relating to single stock and our CBBCs relating to the units of a fund or trust only)
Call level	Predetermined call level of the underlying index (for our CBBCs relating to an index only)
Strike level	Predetermined strike level of the underlying index (for our CBBCs relating to an index only)
Divisor	A predetermined amount which is used in the calculation of the cash settlement amount (if any) payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our CBBCs relating to an index only)
Expiry date	Date on which our CBBCs expires
Valuation date	Date on which the closing price or the closing level of the underlying asset is determined for calculation of the cash settlement amount upon automatic exercise on expiry
Entitlement	Number of shares/units to which a specified number of CBBCs relates (for our CBBCs relating to single stock and our CBBCs relating to the units of a fund or trust only)
Number of CBBC(s) per Entitlement	Number of CBBCs to which one entitlement relates (for our CBBCs relating to single stock and our CBBCs relating to the units of a fund or trust only)

Index currency amount	An amount denominated in the currency in which the constituent stocks of the index are traded, which is used in the calculation of the cash settlement amount (if any) payable upon the occurrence of a mandatory call event or automatic exercise on expiry (for our CBBCs relating to an index only)
Observation commencement date	The date on which the observation period commence
Observation period	The period commences from the observation commencement date to the trading day immediately before the expiry date (both dates inclusive)
Listing date	The date on which our CBBCs commence trading on the Stock Exchange

MORE INFORMATION ABOUT OUR STRUCTURED PRODUCTS AND OUR LISTING DOCUMENTS

WHO IS RESPONSIBLE FOR THIS BASE LISTING DOCUMENT?

We and the guarantor accept full responsibility for the accuracy of the information contained in this base listing document.

We have included references to websites to guide you to sources of freely available information. The information on these websites does not form part of our listing document. Neither we nor the guarantor accept any responsibility for the information on those websites. Such information has not been prepared for the purposes of our structured products. You should conduct your own web searches and consult publicly available information to ensure that you are viewing the most up-to-date information.

This base listing document is accurate at the date stated on the cover. You must not assume, however, that information in this base listing document is accurate at any time after the date of this base listing document.

The sponsor and the liquidity provider are not responsible in any way for ensuring the accuracy of our listing documents.

IS THERE ANY GUARANTEE OR COLLATERAL FOR THE STRUCTURED PRODUCTS?

Our obligations under the structured products are unconditionally and irrevocably guaranteed by the guarantor. If we become insolvent or default on our obligations under the structured products and the guarantor becomes insolvent or defaults on its obligations under the guarantee, you can only claim as an unsecured creditor of us, as the issuer, and the guarantor. In such event, you may not be able to recover all or even part of the amount due under the structured products (if any).

WHAT ARE OUR GUARANTOR'S CREDIT RATINGS?

The guarantor's long-term credit ratings (as of the day immediately preceding the date of this base listing document) are as set out on page 1 of this base listing document.

You may visit www.gs.com/investor-relations/creditor-information/index.html to obtain information about the guarantor's credit ratings.

Rating agencies usually receive a fee from the companies that they rate. When evaluating the guarantor's creditworthiness, you should not solely rely on the guarantor's credit ratings because:

(a) a credit rating is not a recommendation to buy, sell or hold the structured products;

(b) ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and

(c) a high credit rating is not necessarily indicative of low risk. The guarantor's credit ratings as of the day immediately preceding the date of this base listing document are for reference only. Any downgrading of the guarantor's credit ratings could result in a reduction in the value(s) of the structured product(s).

THE STRUCTURED PRODUCTS ARE NOT RATED.

The guarantor's credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to the guarantor's ratings from time to time.

IS THE ISSUER OR GUARANTOR REGULATED BY THE HONG KONG MONETARY AUTHORITY REFERRED TO IN RULE 15A.13(2) OR THE SECURITIES AND FUTURES COMMISSION OF HONG KONG (SFC) REFERRED TO IN RULE 15A.13(3)?

Neither we nor the guarantor are regulated by any of the bodies referred to in Rule 15A.13(2) or (3) of the Stock Exchange's Listing Rules. The guarantor is a corporation organised under the laws of the State of Delaware, and is a bank holding company regulated by the Board of Governors of the Federal Reserve System, and many of its subsidiaries are regulated by various regulatory bodies throughout the world, including broker dealer and investment advisor subsidiaries registered with the SEC and subsidiaries regulated by the U.S. Commodity Futures Trading Commission with respect to certain futures-related activities.

WHERE CAN I FIND MORE INFORMATION ABOUT THE ISSUER, THE GUARANTOR AND THE STRUCTURED PRODUCTS?

Information about us, the guarantor and our structured products is described in this base listing document, the relevant supplemental listing document and the relevant addenda to these documents (if any).

Additional and more up-to-date information regarding the guarantor may be available on the website www.sec.gov. You are cautioned that this information (if available) will be of a general nature and cannot be relied upon as being accurate and/or correct and will not have been prepared exclusively for the purposes of our structured products.

We have not authorised anyone to give you any information about us, the guarantor, our structured products other than the information in this base listing document, the relevant supplemental listing document and the relevant addendum (if any).

WHEN WERE THE STRUCTURED PRODUCTS AUTHORISED?

The issue of our warrants and CBBCs were authorised by resolutions of our board of directors on 28 October 2005 and 5 June 2006 respectively. The giving of the guarantee was authorised by resolutions of the board of directors of the guarantor on 28 October 2011.

WHERE CAN I READ COPIES OF THE ISSUER'S DOCUMENTATION?

You can read copies of the documents set out below by going to the offices of Goldman Sachs (Asia) L.L.C., 68/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong. These offices are open only during normal business hours and not on Saturdays, Sundays or public holidays. Since we are not obliged to update the listing document of any particular issue of structured products after dealing in the structured products have commenced on the Stock Exchange, you should read the annual report(s), quarterly report(s) and current report(s) of the guarantor that are available as described below or on the website www.sec.gov.

These are the documents, copies of which may be inspected upon request while any of our structured products are in issue:

- our memorandum and articles of association;
- the guarantor's amended and restated by-laws and restated certificate of incorporation;
- an extract of the guarantor's Annual Report on Form 10-K for the fiscal year ended 31 December 2012 which contains its financial position at 31 December 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended 31 December 2012;
- as they become available, the guarantor's quarterly reports on Form 10-Q;
- as they become available, the guarantor's current reports on Form 8-K;
- the guarantee dated 25 March 2013 relating to the issuance of our warrants and CBBCs;
- the letter from the guarantor's auditor, PricewaterhouseCoopers LLP, consenting to the reproduction of their report in this base listing document;
- the Instrument dated 28 February 2007 relating to the issuance of our warrants and the Instrument dated 25 May 2007 relating to the issuance of our CBBCs;
- the registrar and agent agreement dated 1 November 2005 and 8 June 2006 between us and Goldman Sachs (Asia) L.L.C. relating to the issuance of our warrants and our CBBCs respectively; and
- this base listing document including any addenda to this document and the relevant supplemental listing document (together with a Chinese translation of each of these documents).

A reasonable fee will be charged if you want to take photocopies of any of the documents while they are on display.

TRANSFER OF STRUCTURED PRODUCTS

Settlement of transactions between members of the Stock Exchange on any business day must take place on or before the second business day thereafter. Securities executed on the Stock Exchange would normally be settled under the continuous net settlement system in CCASS.

Dealings in the structured products will take place in relevant board lots in the relevant settlement currency. For further details on transfers of structured products and their exercise, termination pursuant to mandatory call event or settlement, see the terms and conditions of the relevant issue of structured products.

DO I HAVE TO PAY STAMP DUTY OR OTHER LEVIES ON THE STRUCTURED PRODUCTS?

No, there is no Hong Kong or Cayman Islands stamp duty on issue or transfer of our cash-settled structured products. The levy for the investor compensation fund is currently suspended.

However, the SFC charges a transaction levy at the rate of 0.003 per cent. on the value of the transaction of structured products and this amount is payable by each of the buyer and seller. Additionally, the Stock Exchange charges a trading fee on every purchase and sale of listed securities calculated at a rate of 0.005 per cent of the amount of the transaction and is payable by each of the buyer and seller.

Your broker may charge commission or other fees. You should check with your broker what fees will be chargeable.

You should be aware that you may be required to pay taxes including stamp taxes or other documentary charges in accordance with the laws and practices of the country where the structured products are transferred, or where the issuer of the underlying asset is organized or resident. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. You should also be aware that tax regulations and their application by the relevant taxation authorities change from time to time.

CHANGE IN TAX LAW

Tax law and practice is subject to change, possibly with retrospective effect and this could adversely affect the value of our structured products to the holder and/or the market value of our structured products. Any such change may (i) cause the tax treatment of the relevant structured products to change from what the investor understood the position to be at the time of purchase; (ii) render the statements in this base listing document concerning relevant tax law and practice in relation to our structured products to be inaccurate or to be inapplicable in some or all respect to certain structured products or to not include material tax considerations in relation to certain structured products; or (iii) give us the right to terminate the structured products if such change has the effect that our performance under the structured products is unlawful or impracticable.

HOW DO I HOLD MY STRUCTURED PRODUCTS?

Our structured products will be issued in global registered form, represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors).

We have made all necessary arrangements to enable our structured products to be admitted for deposit, clearing and settlement in CCASS. We will not issue any definitive certificates for our structured products. Our structured products will be deposited within CCASS.

If you are a CCASS investor participant, you may hold your structured products in your account with CCASS. If you do not have a CCASS account, your broker or agent (as a CCASS participant) will arrange to hold your structured products for you in an account at CCASS. We or the guarantor will make all payments on our structured products to CCASS: you will have to check your CCASS account or rely on your broker to ensure that payments on your structured products are credited to your account with your broker. Once we have made the relevant payments in this way to CCASS, we will have no further obligations for that payment, even if CCASS or your broker fails to transmit to you your share of the payment or if it was transmitted late. Any notices we or the guarantor gives in relation to our structured products will be given in the same way: you will have to rely on CCASS and/or your broker to ensure that those notices reach you.

RISK FACTORS

You should carefully consider the following information together with the other information contained in this base listing document and in the applicable supplemental listing document before purchasing our structured products.

This section highlights only some of the risks of dealing in the structured products but their inclusion in this document does not mean these are the only significant or relevant risks of dealing in our structured products.

There are risks associated with investing in our structured products; our structured products are volatile instruments

Our structured products are structured financial instruments, their value may fall as rapidly as they may rise and you may sustain a total loss in your investment. Your investment in our structured products involves risks. Before investing in any of our structured products, you should consider whether our structured products are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks are described in this base listing document or a supplemental listing document. You should consider taking independent professional advice prior to making an investment in our structured products.

Structured products are complex and volatile instruments

Your investment in our structured products will be worthless if you are holding our structured products when they expire out-of-the-money – meaning that the closing price or level of the underlying asset, determined in accordance with the terms and conditions of our structured products, is greater (for our put warrants or our bear CBBCs) or less (for our call warrants or our bull CBBCs) than the exercise price, strike price or strike level (as the case may be) of our structured products.

Our structured products are complex instruments and their values at any time prior to expiry are governed by a number of factors, including but not limited to the time left till expiry, the price or level of the underlying asset compared with the strike price/level and call price/level (in the case of our CBBCs) of our structured products, the value and volatility of price or level of the underlying asset, market interest rate movements, our and the guarantor's financial condition and the market's view of our and the guarantor's credit quality. The values of our structured products may rise or fall rapidly over a short time due to changes in one or more factors. The interplay of these different factors also means that the effect on the value of our structured products from the change in one factor may offset or accentuate the effect from the change in another factor. The value or level of the underlying assets (and some of the other relevant factors) can also be unpredictable: it may change suddenly and in large magnitude or not change at all. You may risk losing your entire investment if the price or level of the underlying assets do not move in your anticipated direction. You should also note that, assuming all other factors are held constant, the value of structured products will decline over time.

The cash settlement amount of our structured products if calculated at any time prior to expiry may typically be less than the market price of such structured products at that time. The difference will reflect, among other things, a "time value" for the structured products which depends on a number of interrelated factors including those specified above.

Your ability to realise your investment in our structured products is dependent on the trading market for our structured products

Our structured products are not exercisable prior to the expiry date, therefore the only way you may be able to realise the value of your investment in our structured products is to dispose of them either in the on-exchange market or over-the-counter market. If you dispose of your investment in our structured products before expiry in this way, the amount you will receive will depend on the price you are able to obtain from the market for our structured products. That price may depend on the quantity of our structured products you are trying to sell. The market price of our structured products may not be equal to the value of our structured products, and changes in the price of our structured products may not correspond (in direction and/or magnitude) with changes in the value of our structured products.

The liquidity provider appointed for our structured products will upon request provide bid and/or ask prices for our structured products on the Stock Exchange and may (but is not obliged to) provide such prices at other times too, but under certain circumstances it may not provide bid and/or ask prices even if requested. You should refer to the section regarding liquidity provider in the relevant supplemental listing document for further details. The prices provided by our liquidity provider are influenced by, among other things, the supply and demand of our structured products for a particular series in the market, and may not correspond with the values of such structured products or changes in such values.

You should note that the prices available in the market for our structured products may also come from other participants in the market, although we cannot predict if and to what extent a secondary market may develop for our structured products or whether that market will be liquid or illiquid. The fact that a particular series of structured products is listed does not necessarily lead to greater liquidity. In addition, no assurance can be given that the listing of any particular series of our structured products will be maintained. If our structured products of a particular series cease to be listed, they may not be transacted through the Stock Exchange or at all, and they may even be terminated early. Off-exchange transactions may involve greater risks than on-exchange transactions. You may be unable to find any buyer for your holdings of our structured products on the Stock Exchange if the value of the structured products falls below HK$0.01.

Only the liquidity provider appointed for our structured products is obliged to provide bid and/or ask prices for our structured products upon request (subject to the terms set out in the relevant supplemental listing document), and at times it may be the only source of bid and/or ask prices for our structured products.

The liquidity of any series of our structured products may also be affected by restrictions on offers and sales of our structured products in some jurisdiction including the restrictions described in Annex 3 "Purchase and Sale" to this base listing document.

If trading or dealing in the underlying asset on the market on which such underlying asset is listed or dealt in (including the Stock Exchange) is suspended for any reasons, trading in our structured products may also be suspended for a similar period. If suspension of the underlying asset is prolonged, our structured products may also be suspended for a prolonged period, which may in turn adversely impact the value of the relevant structured products as their time value may dissipate. Upon the resumption of trading of our structured products after a prolonged period of suspension, the price of our structured products may fluctuate significantly because of the significant impact of such prolonged period of suspension. This may adversely affect your investment in the structured product.

In view of the limited trading market of our structured products, you may need to hold our structured products until expiry.

Non-collateralised structured products; you must rely on our and the guarantor's creditworthiness; you may lose all or substantially all of your investment if we and/or the guarantor become insolvent

Our structured products are not secured on any of our or the guarantor's assets or any collateral. Our structured products represent our general contractual obligations and will rank equally with our other general unsecured obligations. The number of structured products outstanding at any given time may be substantial. When purchasing our structured products, you will be relying upon our and the guarantor's creditworthiness and of no one else. There is no assurance of protection against a default by us in respect of our obligations under our structured products or a default by the guarantor in respect of its obligations under the guarantee. If we become insolvent or default on our obligations under the structured products or the guarantor becomes insolvent or defaults on its obligations under the guarantee, you can only claim as our or the guarantor's unsecured creditor regardless of the performance of the underlying asset and you may not be able to recover all or even part of the amount due under the structured products (if any).

Our obligations are not deposit liability or debt obligations

We do not intend to create upon ourselves a deposit liability or a debt obligation by issue of any structured products.

Our structured products are not bank deposits and are not insured or guaranteed by the United States Federal Deposit Insurance Corporation, or any other governmental agency. The structured products are guaranteed by The Goldman Sachs Group, Inc. and the guarantee will rank pari passu with all other direct, unconditional, unsecured and unsubordinated indebtedness of The Goldman Sachs Group, Inc..

You have no rights in the underlying assets and the market price for our structured products may fluctuate differently from that of the underlying assets

Our structured products are financial instruments issued by us and are separate from the underlying assets. You have no rights under our structured products against (i) any company, fund or trust which issues shares or units comprising the underlying assets of the relevant issue of structured products, (ii) the trustee or the manager of any underlying asset that is a fund or trust, or (iii) the sponsor of any underlying asset that is an index. In addition, buying our structured products is not the same as buying the underlying assets or having a direct investment in the underlying assets or shares comprising any underlying asset that is an index. You will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying asset or shares comprising any underlying asset that is an index. As mentioned, there are many factors influencing the value and/or market price of structured products, which are leveraged instruments. For example, increases in the price or level of the underlying assets may not lead to an increase in the value and/or market price of our call warrants or bull CBBCs by a proportionate amount or even any increase at all; however, a decrease in the price or level of the underlying assets may lead to a greater than proportionate decrease in the value and/or market price of our call warrants or bull CBBCs. There is no assurance that a change in value and/or market price of our structured products will correspond in direction and/or magnitude with the change in price or level of the underlying assets. You should recognise the complexities of utilising our structured products to hedge against the market risk associated with investing in an underlying asset or shares comprising any underlying asset that is an index.

The issuer, the trustee, the manager or the sponsor of the underlying assets will have no involvement in the offer and sale of our structured products and no obligation to you as investors in our structured products. The decisions made by them on corporate actions, such as a merger or sale of assets, or adjustment of the method for calculation of an index may also have adverse impact on the value and/or market price of our structured products.

We, the guarantor and its subsidiaries and affiliates and the sponsor have no responsibility to inform the holders of our structured products of any disclosure on any company which issues shares or units comprising the underlying assets of any of our structured products.

There could be conflicts of interest arising out of our other activities which may affect our structured products

We, the guarantor and its subsidiaries and affiliates may engage in transactions (whether for their proprietary accounts, including hedging, or trading for accounts under management or otherwise) involving, as well as provide investment banking and other services to, any company, or any trustee or manager of a trust or a fund underlying our structured products or their securities and may enter into transactions with the substantial shareholders of the underlying company. Those transactions may have a positive or negative impact on the price or level of the underlying asset and in turn the value and/or market price of our structured products. For example, in the case of CBBCs, these transactions may result in the price or level of the underlying asset moving closer to, or even reaching or going beyond the call price or call level of our CBBCs thus causing a mandatory call event. These transactions may also influence the price or level of the underlying asset after the occurrence of the mandatory call event and adversely impact on the residual value payable (if any, for a category R CBBC). The mandatory call event may be triggered by a single trade in the underlying asset, regardless of the size of the trade. In addition, the unwinding of hedges at any time or after the occurrence of a mandatory call event may affect the price or level of the underlying asset and consequently affect the cash settlement amount of our CBBCs.

We, the guarantor and its subsidiaries and affiliates may have officers who serve as directors of any of the companies underlying our structured products. Our principal trading activities (which include hedging of our structured products) in the underlying securities or related structured products may affect the value and/or market price of our structured products. We, the guarantor or its subsidiaries and affiliates may issue other competing financial products which may affect the value and/or market price of our structured products. You should also note that potential conflicts of interest may arise from the different roles played by us, the guarantor and its subsidiaries and affiliates in connection with our structured products and the economic interests in each role may be adverse to your interests in our structured products. We or the guarantor owe no duty to you to avoid such conflicts.

Certain of our affiliates and certain affiliates of the guarantor may from time to time, by virtue of their status as underwriter, advisor or otherwise, possess or have access to information relating to the underlying assets and any derivative instruments referencing them. Such affiliates will not be obliged to disclose any such information to a purchaser of our structured products.

Certain of our affiliates and certain affiliates of the guarantor may be the counterparty to the hedge of our and the guarantor's obligations under an issue of our structured products. Accordingly, certain conflict of interest may arise both among these affiliates and between the interests of these affiliates and the interests of purchasers of our structured products.

As the agent is our affiliate and affiliate of the guarantor, potential conflicts of interest may exist between the agent and the holders of our structured products, including with respect to the exercise of the discretionary powers of the agent. For instance, in the case of stock warrants, the agent has the authority to determine if a market disruption event has occurred on any valuation date, and the occurrence of a market disruption event results in a valuation date being postponed such that the valuation date will fall on or after the expiry date, then the valuation date will be the business day immediately preceding the expiry date and the agent will determine the closing price of the shares on the basis of its good faith estimate of the price that would have prevailed on that day but for the market disruption event. Any such discretion exercised by the agent shall be binding on us and the holders of the structured products.

Goldman Sachs (Asia) Securities Limited, the liquidity provider for our structured products, is our affiliate and affiliate of the guarantor and may therefore trade or hold our structured products and enter into hedging transactions in respect of our structured products from time to time.

We may early terminate our structured products due to illegality or impracticability

We are entitled to terminate the structured products if we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable (i) for us to perform our obligations under the structured products, or for the guarantor to perform its obligations under the guarantee, in whole or in part as a result of (a) the adoption of, or any change in, any relevant law or regulation (including any tax law) or (b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law) (each of (a) and (b), a "**Change in Law Event**"); or (ii) for us or any of our affiliates to maintain our hedging arrangements with respect to the structured products due to a Change in Law Event. If this happens, we or the guarantor will, if and to the extent permitted by the applicable law or regulation, pay to each holder of those structured products a cash amount that the agent determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each structured product held by such holder immediately prior to such termination (ignoring such illegality or impracticability) less our cost of unwinding any related hedging arrangement as determined by us in our sole and absolute discretion. Such fair market value of the structured products may be substantially less than your initial investment and may be zero.

Risks associated with structured products linked to the value of foreign underlying asset

You should be aware that investments in structured products linked to the value of foreign underlying asset involve particular risks. For our structured products linked to a foreign stock or an index which comprises stocks traded in the equity securities markets of foreign countries, the liquidity and volatility of foreign equity securities markets may be different from that of the Hong Kong equity securities market. Also, there is generally less publicly available information about the underlying foreign companies than those about Hong Kong listed companies and some of the information may not be available in English and/or Chinese. Foreign companies are also subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to Hong Kong listed companies.

Securities prices in the foreign countries are subject to political, economic, financial and social factors that apply in those geographical regions, which may differ favourably or unfavourably from those factors that apply to Hong Kong. Moreover, foreign economies may also differ favorably or unfavorably from the Hong Kong economy in important respects such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

Further, for our structured products linked to a foreign stock or an index which comprises stocks traded in the equity securities markets of foreign countries, the trading hours and closing time of the Stock Exchange and the related exchange may be different and the Stock Exchange and the related exchange may be located in different time zones. The days on which the Stock Exchange and the related exchange are open for trading may also be different. The supplemental listing document for our structured products linked to a foreign stock or an index which comprises stocks traded in the equity securities markets of foreign countries will set out further details on the trading hours of the related exchange.

Where the Stock Exchange is open for trading and the corresponding price/level of the underlying asset are not available from the related exchange, the liquidity provider will provide market making for the structured products by using the last available closing price/level of the underlying asset from the related exchange, adjusted where necessary to another appropriate price/level which reflects the fair market value of the underlying asset.

Structured products relating to an index involve valuation risks

You should note that, in the case of structured products relating to an index, an investment involves valuation risks in relation to the index. The level of the index may vary over time and may increase or decrease due to various factors including changes in the formula for or the method of calculating the index. In addition, a level for the index may be published by the index sponsor at a time when one or more securities comprising the index are not trading. If this occurs on the expiry date and there is no market disruption event called under the terms of the relevant structured products, then the value of such securities used in calculating the closing level of the index will not be their up-to-date market price. Certain (but not all) events relating to the index underlying our structured products require or, as the case may be, permit us to make certain adjustments or amendments to the conditions (including, but not limited to, determining the level of the index). However, we are not required to make an adjustment for every event that can affect the index. If an event occurs that does not require us to adjust the Conditions, the market price of our structured products and the cash settlement amount upon mandatory call event or expiry of our structured products may be affected.

Risks associated with our structured products relating to the units of a fund or trust

For our structured products relating to the units of a fund or trust, neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the fund or trust. Neither the trustee nor the manager of the fund or trust (i) is involved in the offer of any structured products in any way, or (ii) has any obligation to consider the interest of the holders of any structured products in taking any corporate actions that might affect the value of any structured products. We have no role in the fund or trust. The trustee or the manager of the fund or trust is responsible for making investment and other trading decisions with respect to the management of the fund or trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the fund or trust. The manner in which the fund or trust is managed and the timing of actions may have a significant impact on the performance of the units. Hence, the price which is used to calculate the performance of the units is also subject to these risks.

You should note that our structured products relating to the units of a fund or trust reference the units of the fund or trust and the cash settlement amount payable upon exercise will be calculated using the official closing prices of the units on the stock exchange on the valuation dates. If the fund or trust is designed to track the performance of an index, you should note that our structured products do not reference the index tracked by the fund or trust. Changes in the price of the units on the Stock Exchange may not correspond with changes in the level of such index, and such price at any given time may differ from the net asset value per unit of the fund or trust. In addition, the components which comprise such index may change from time to time. The price of the units of the fund or trust may rise or fall as a result of such changes. The composition of such index may also change if one of the constituent companies were to delist its shares or if a new eligible company were to list its shares and be added to such index.

A fund or trust is exposed to the political, economic, currency and other risks related to the underlying asset pool or index that the fund or trust is designed to track. There may also be disparity between the performance of the fund or trust and the performance of the underlying asset pool or index that the fund or trust is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses. In addition, where the index or market that the fund or trust tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the fund or trust in line with its net asset value may be disrupted, causing the fund or trust to trade at a higher premium or discount to its net asset value. Such risks may have a negative impact on the performance of the fund or trust and the price of the units of the fund or trust may fall.

If a fund or trust adopts a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the fund or trust is designed to track, you should also note that:

(a) investments in financial derivative instruments will expose the fund or trust to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. If the fund or trust has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the fund or trust seeks to realise the collateral; and

(b) the fund or trust may be exposed to higher liquidity risk if the fund or trust invests in financial derivative instruments which do not have an active secondary market.

You should read the offering document of the fund or trust for further information about the risks applicable to the fund or trust.

Liquidation of underlying company or termination of underlying fund or trust

In the event of liquidation, dissolution or winding up of the company that issues the underlying shares, or termination of a fund or trust that issues the underlying units or the appointment of a receiver or administrator or analogous person, to the company, trust or fund, the relevant structured products shall lapse and shall cease to be valid for any purpose, and the holders of the relevant structured products will sustain a total loss in their investment.

Time lag between the time of exercise or the occurrence of a mandatory call event (in the case of CBBCs) and the time of determination of the settlement amount may affect the settlement amount

There may be a time lag between the time or date (i) when our structured products are automatically exercised or (ii) (in the case of our CBBCs only) when a mandatory call event occurs and the time of determination of the settlement amount. Such delay could be significantly longer in the case of a market disruption event, delisting of the company that issues the underlying assets or shares comprising any underlying asset that is an index, termination of the trust or fund that issues the underlying unit or other adjustment events. The settlement amount may change significantly during any such period and may result in such settlement amount being zero.

We may adjust the terms and conditions of our structured products upon the occurrence of certain corporate events or extraordinary events affecting the underlying assets

We and/or the agent may determine that certain corporate events or extraordinary events affecting the underlying assets have occurred and may make corresponding adjustments to the terms and conditions of our structured products, including adjustments to the value or level of the underlying assets or changing the composition of the underlying assets. Such events and/or adjustments (if any) may have adverse impact on the value and/or market price of our structured products. We may also in our sole discretion adjust the entitlement of our structured products for dilution events such as stock splits and stock dividends.

However, we have no obligation to make an adjustment for every event that can affect the underlying asset. The value and/or market price of our structured products may be adversely affected by such events in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our structured products.

Our determination of the occurrence of a market or settlement disruption event may affect the value and/or market price of our structured products

We and/or the agent may determine that a market or settlement disruption event has occurred. Such determination may affect the value and/or market price of our structured products, and may delay settlement in respect of our structured products.

If the agent determines that a market disruption event exists, the valuation of the underlying assets for the purpose of calculating the cash settlement amount of our structured products will be postponed. If such market disruption event exists for a continuous period of time as specified in the terms of our structured products, we and/or the agent may determine the good faith estimate of the value or level of the underlying assets that would have prevailed on the relevant postponed valuation date but for such market disruption event.

The implied volatility of our structured products may not reflect the actual volatility of the underlying asset

The market price of our structured products is determined among other factors by the supply and demand of the structured products. This price "implies" a level of volatility in the underlying asset in the sense that such level of volatility would give a theoretical value for the structured products which is equal to that price; but such level of volatility may not be equal to the actual level of volatility of the underlying asset in the past or future.

Investment in our structured products may involve exchange rate risks and interest rate risks

An investment in our structured products may involve exchange rate risks. For example, the underlying asset may be denominated in a currency other than that of our structured products, our structured products may be denominated in a currency other than the currency of your home jurisdiction and our structured products may settle in a currency other than the currency in which you wishes to receive funds. Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our structured products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in our structured products. We cannot assure you that current exchange rates at the issue date of our structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of our structured products.

An investment in our structured products may also involve interest rate risk as the intrinsic value of a structured product may be sensitive to fluctuations in interest rates. Fluctuations in the short term or long term interest rates of the currency in which our structured products are settled or the currency in which the underlying asset is denominated may affect the value and/or market price of our structured products.

Change in tax law

Tax law and practice is subject to change, possibly with retrospective effect and this could adversely affect the value of our structured products to the holder and/or the market value of our structured products. Any such change may (i) cause the tax treatment of the relevant structured products to change from what the investor understood the position to be at the time of purchase; (ii) render the statements in this base listing document concerning relevant tax law and practice in relation to our structured products to be inaccurate or to be inapplicable in some or all respect to certain structured products or to not include material tax considerations in relation to certain structured products; or (iii) give us the right to terminate the structured products if such change has the effect that our performance under the structured products is unlawful or impracticable.

Please consult your tax advisers if you are in any doubt of your tax position

You may be required to pay taxes including stamp taxes or other documentary charges in accordance with the laws and practices of the country where our structured products are transferred or where the issuer of the underlying asset is organized or resident and such laws and practices may change from time to time. If you are in any doubt of your tax position, you should consult your own independent tax advisers.

Our structured products are issued in global registered form; you have to rely on your brokers to evidence title to your investment and to receive notices and the cash settlement amount

Our structured products are issued in global registered form and held on your behalf within a clearing system. This means that evidence of title to your interests, as well as the efficiency of ultimate delivery of the cash settlement amount, will be governed by the CCASS Rules.

Our structured products in global registered form will be registered in the name of HKSCC Nominees Limited (or its successors), which shall be treated by us as the holder of our structured products for all purposes. This means that you will not receive definitive certificates and the register will record at all times that our structured products are being held by HKSCC Nominees Limited (or its successors). You will have to rely solely upon your brokers and the statements received from your brokers to evidence title to your investments. You will also have to rely on your brokers to effectively inform you of any notices, announcements and/or meetings issued or called by us (upon receipt by those brokers as CCASS participants of the same from CCASS and ultimately from us). The Stock Exchange's Listing Rules also provide that our obligations to deliver notices, announcements and/or meetings will be complied with by a posting on the Stock Exchange website. Our obligations to deliver any cash settlement amount to you will be duly performed by the delivery of any such amount to HKSCC Nominees Limited (or its successors) as the holder of our structured products. You will therefore have to rely on your brokers for the ultimate delivery of any cash settlement amount to you as the investor.

We and our guarantor do not give you any advice or credit analysis

Neither we nor the guarantor is responsible for the lawfulness of your acquisition of our structured products. We and the guarantor are not giving you any advice or credit analysis of the underlying assets. You shall be deemed to have made a representation to such effect for each purchase of our structured products of any series.

Risks relating to the guarantor

Please refer to the section "Risk factors" in the guarantor's Annual Report on Form 10-K for the fiscal year ended 31 December 2012 as filed with the SEC on 28 February 2013, an extract of which is reproduced in the section headed "Statutory and General Information About Us and the Guarantor" of this document for a description of additional risks relating to the guarantor.

Risks associated with our CBBCs

You may lose all or substantially all your investment at expiry

If you hold your CBBCs until expiry and no mandatory call event occurs during the observation period, the cash settlement amount payable upon exercise at expiry will depend on how much the closing price or level of the underlying asset is above (in the case of bull CBBCs) or below (in the case of bear CBBCs) the strike price or level. The cash settlement amount may be substantially less than your initial investment in the CBBCs, and may even be zero.

You may lose all or substantially all of your investment upon the occurrence of the mandatory call event

You may lose all or substantially all of your investment in our CBBCs if the mandatory call event occurs during the observation period of our CBBCs - meaning that the price or level of the underlying asset is at or below (for our bull CBBCs) or at or above (for our bear CBBCs) the predetermined call price or call level at any time during the observation period. The mandatory call event may be triggered by a single, small trade in the underlying share or security comprised in the underlying index, regardless of the size of the trade. The trade that triggers the mandatory call event may only be the result of a temporary fall (or rise, as the case may be) in the price or level of the underlying asset caused by a number of factors. Subsequent to the occurrence of the mandatory call event, the price or level of the underlying asset may recover to above (or below, as the case may be) the call price or call level.

Upon the occurrence of a mandatory call event, a Category N CBBC will become worthless while a Category R CBBC will be settled by the payment of a residual value (if any) by us. Such residual value is determined by reference to the amount by which the minimum trade price or index level of the underlying asset during the MCE valuation period exceeds the strike price or strike level (for our Category R bull CBBCs) or the amount by which the strike price or strike level exceeds the maximum trade price or index level of the underlying asset during the MCE valuation period (for our Category R bear CBBCs). This residual value may be as low as zero.

Where the mandatory call event occurs in a continuous trading session of the Stock Exchange, all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a mandatory call event will be cancelled. Where the mandatory call event occurs during a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session will be cancelled. We will announce the occurrence of the mandatory call event in accordance with the requirements of the Stock Exchange but the announcement of the same can be delayed by among other reasons, technical errors or system failures beyond our control. Your gain or loss from a trade that is subsequently cancelled will be reversed. If in the meantime you have entered into transactions with our CBBCs as a hedge, then upon cancellation of trades in our CBBCs, you will need to find a replacement hedge and may incur losses in doing so.

Revocation of mandatory call event

Termination of our CBBCs and cancellation of trades following the occurrence of the mandatory call event is irrevocable unless the mandatory call event is triggered by (i) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited (e.g. the setting up of wrong call price or call level and other parameters) and such event is reported by the Stock Exchange to us and the Stock Exchange and we mutually agree that such mandatory call event is to be revoked, or (ii) manifest errors caused by the relevant third party price sources (e.g. any miscalculation of the index level by the index sponsor) and such event is reported by us to the Stock Exchange and the Stock Exchange and we mutually agree that such mandatory call event is to be revoked. In each of the above cases, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the trading day of the Stock Exchange immediately following the day on which the mandatory call event occurs, or such other time frame as prescribed by the Stock Exchange from time to time.

Under the terms and conditions of our CBBCs, none of the Stock Exchange, us, the guarantor, the issuer or sponsor of the underlying asset or any of our or their affiliates or agent shall be responsible for any losses suffered as a result of the determination of the price or level of the underlying asset, any adjustments involved in determining the occurrence of the mandatory call event, the calculation of any cash settlement amount and the suspension of trading in connection with the mandatory call event, notwithstanding that such adjustments, calculation or suspension may have occurred as a result of an error.

A CBBC is different from a margin trading position over the same underlying asset

An investment in CBBC is similar to but not the same as a corresponding margin trading position. Both are different from an actual position in the underlying asset in that an investor does not have to pay an amount equal to the maximum potential exposure of the position upon entry. Because the initial payment is small by comparison, a given change in the price or level of the underlying asset can result in a greater percentage change in the value of the investment.

Whilst the total gain or loss of investing in a CBBC upon exercise at expiry will be substantially equal to that of an equivalent margin trading position (of same size and strike price or level) on the same underlying asset, at other times a CBBC differs from an equivalent margin trading position in many ways.

Generally a margin trading position will be marked-to-market at the end of every trading day so that the holder would realise the day's gain or loss immediately, unless a mandatory call event or expiry occurs the gain or loss of a CBBC is realised only when it is sold. One can maintain a margin trading position even if the underlying asset price or level continues to moves against the direction anticipated, so long as the holder continues to put up additional margin, with the CBBC when the underlying asset price or level reaches the call level it is immediately terminated. Once the call level is reached, a CBBC investor would lose his entire investment (for a category N CBBC) or would only receive the residual value (if any, for a category R CBBC) and due to the call termination, he would not benefit from the reversal of direction of the underlying asset price or level subsequent to the mandatory call event (for a category N CBBC) or the determination of residual value (for a category R CBBC).

This call termination feature of CBBCs (among other reasons) also means that the theoretical value of a CBBC at a time prior to its expiry will be different from that of an equivalent margin trading position. A given percentage change in the price or level of the underlying asset may not result in the same percentage change (in the same direction for a bull CBBC or in the opposite direction for a bear CBBC) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller (or may be zero), in the same or opposite direction.

The theoretical value of a CBBC at any time will also contain an amount which reflects our cost of maintaining the corresponding hedge position in the underlying asset (e.g. the cost of funding a long position in shares, the net cost of borrowing shares for short sale, or the cost of margin in maintaining the futures position). The purchase price of a CBBC you pay may include all or part of such cost and when the mandatory call event occurs, the cash settlement amount (if any) will not contain a refund of such cost.

Other than at expiry (assuming mandatory call event does not occur prior to expiry) when the cash settlement amount will be set by the closing price or level of the underlying asset, at any time prior to the expiry you may sell your holding of CBBCs in the market and the price realised may or may not be the same as the theoretical value of the CBBCs, as the price will be determined by the levels of supply and demand in the market.

The funding costs of our CBBCs will fluctuate during the term of our CBBCs

The issue price of our CBBCs is set by reference to the difference between the spot price or spot level of the underlying asset as of the launch date and the strike price or strike level, plus the applicable funding cost. The funding cost applicable to our CBBCs is specified in the relevant supplemental listing document. It will fluctuate during the term of our CBBCs as the funding rate changes from time to time. The funding cost is an amount determined by us based on one or more factors, including but not limited to the strike price or strike level (as the case may be), the prevailing interest rate, the expected term of our CBBCs, any expected notional dividends in respect of the underlying asset and the margin financing provided by us.

Residual value will not include residual funding cost

The residual value (if any, for a category R CBBC) payable by us following the occurrence of a mandatory call event will not include the residual funding cost for the CBBCs. When a mandatory call event occurs, the investors will lose the funding cost for the full period.

TAXATION

We have based this summary of Hong Kong and the Cayman Islands tax on current law and practice. It is intended to give you an overview of what Hong Kong and the Cayman Islands tax you might have to pay if you hold our structured products. It is not complete and we are not giving you any tax advice. You should consult your own tax adviser about the tax consequences of investing in our structured products, particularly if you are subject to special tax rules (for example, if you are a bank, dealer, insurance company or a tax-exempt entity).

HONG KONG

Withholding Tax

We are not required under current law to make any withholding on account of Hong Kong tax from payments in respect of our structured products.

Capital Gains Tax

No capital gains tax is payable in Hong Kong on any capital gains arising from a sale or disposal of our structured products.

Profits Tax

Hong Kong profits tax may be chargeable on any gains arising from a sale or disposal of our structured products where the sale or disposal is or forms part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

Our cash-settled structured products are not subject to Hong Kong stamp duty or bearer instrument duty either when issued or on any subsequent transfer.

CAYMAN ISLANDS

The Cayman Islands currently have no exchange control restrictions and no income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax applicable to the investor of our structured products. No Cayman Islands withholding tax will be payable on issue, exercise, sale or other disposition of our structured products and gains derived from our structured products will not be subject to Cayman Islands capital gains tax. The Cayman Islands are not party to any double taxation treaties which are applicable to payments made to or by us.

We have applied for, and received, an undertaking from the Governor-in-Cabinet of the Cayman Islands to the effect that, in accordance with section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands (the Tax Concessions Law), for a period of 30 years from 16th August 2005, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to us or its operations and that neither the aforesaid taxes nor any tax in the nature of estate duty or inheritance tax shall be payable on the shares, debentures or other obligations of us or by way of withholding of any relevant payment (as defined in the Tax Concession Law).

No stamp duties or similar taxes or charges are payable under the laws of the Cayman Islands in respect of the issue or transfer of our structured products.

GENERAL INFORMATION ABOUT US

History

We were incorporated with unlimited duration on 2 August 2005 under the Companies Law of the Cayman Islands with limited liability (with registration number MC-152854). Our registered office is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our authorised share capital is U.S.$10,000,000 divided into 10,000,000 ordinary shares of U.S.$1.00 each, of which 1,000,000 ordinary shares are issued and fully paid and are held by Goldman Sachs (Asia) Finance, which is an indirect wholly-owned subsidiary of the guarantor. We do not have any subsidiaries.

Business

We are a general finance vehicle for The Goldman Sachs Group, Inc. (Goldman Sachs). Our objects are, pursuant to our memorandum of association, unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2012 Revision) or as the same may be revised from time to time, or any other law of the Cayman Islands. Our principal place of business in Hong Kong for Part XI of the Companies Ordinance (Cap. 32) is 68/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Directors

Our directors and their principal activities outside the Group are set out below:

Name	Function	Principal activity outside the group
Archie Parnell	Director	none
Dhruv Piplani	Director	none
Stefan Bollinger	Director	none

Archie Parnell – Mr. Parnell is the head of the Tax Department of Goldman Sachs in Asia, and is the managing director of the Tax Department of Goldman Sachs (Asia) L.L.C.. Mr. Parnell joined Goldman Sachs in 1994 and was named managing director in 2001. He has also been appointed a director of Goldman Sachs (Asia) L.L.C. since January 2012.

Dhruv Piplani – Mr. Piplani heads the Asia Pacific Ex-Japan Equities Risk Trading and the Asia Pacific Equity Derivatives Trading teams. He joined Goldman Sachs in 2007 as an executive director, was named managing director in 2008 and partner in 2010.

Stefan Bollinger – Mr. Bollinger heads the Asia Pacific Private Investor Product Group and co-heads Private Wealth Management coverage within the Securities Division. In 2013, he assumed additional responsibility as head of Asia Ex-Japan Corporate Sales. He joined Goldman Sachs as a managing director in the Fixed Income, Currency and Commodities Division in 2004 and was named partner in 2010.

Borrowing power exercisable by our directors

The directors may exercise all of our powers to borrow money and to mortgage or charge our undertaking, property and uncalled capital or any part thereof, and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of us or of any third party.

Financial Statements of the Issuer

Since the date of incorporation, we have not published any financial statements. We are not required by Cayman Islands law to publish any financial statements.

INFORMATION RELATING TO THE GUARANTOR

The Goldman Sachs 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. The guarantor is a corporation established under the laws of the State of Delaware and its principal executive offices are located at 200 West Street, New York, New York 10282.

Additional information about the guarantor can be found in its Annual Report on Form 10-K for the fiscal year ended 31 December 2012 as filed with the SEC on 28 February 2013 (the Annual Report on Form 10-K), an extract of which is reproduced in the section headed "Statutory and General Information About Us and the Guarantor" of this document. Exhibits referenced in the Annual Report on Form 10-K that are not included in this document are not incorporated by reference herein. You should read this in conjunction with any addenda or supplemental listing document for updated information about the guarantor.

Further information on the guarantor, including its Annual Report on Form 10-K for the fiscal year ended 31 December 2012, additional quarterly reports on Form 10-Q and current reports on Form 8-K filed with the SEC, as they become available, may be obtained in the website of SEC: www.sec.gov.

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:	Name of each exchange on which registered:
Common stock, par value $.01 per share	**New York Stock Exchange**
Depositary Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series A	**New York Stock Exchange**
Depositary Shares, Each Representing 1/1,000th Interest in a Share of 6.20% Non-Cumulative Preferred Stock, Series B	**New York Stock Exchange**
Depositary Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series C	**New York Stock Exchange**
Depositary Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series D	**New York Stock Exchange**
Depositary Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series I	**New York Stock Exchange**

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

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 ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

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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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.

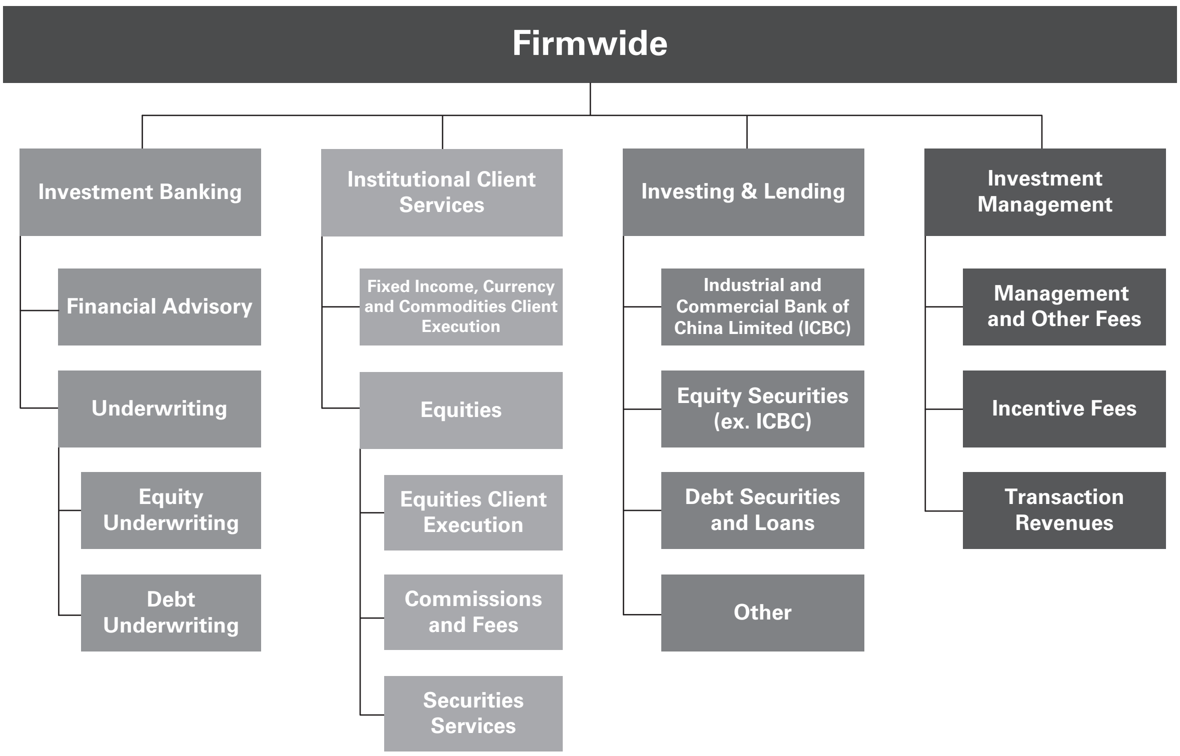
References to "this Form 10-K" are to our Annual Report on Form 10-K for the year ended December 31, 2012. All references to 2012, 2011 and 2010 refer to our years ended, or the dates, as the context requires, December 31, 2012, December 31, 2011 and December 31, 2010, respectively.

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.



The table below presents our segment operating results.

$ in millions		Year Ended December [1] 2012	2011	2010	% of 2012 Net Revenues
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 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.

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.
- 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.

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

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.

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.

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.

	As of December		
in billions	**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.

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

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.

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).

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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. 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.

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

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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.

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 $4.51 [1] for 2011 and $13.18 [2] for 2010. Return on average common shareholders' equity (ROE) [3] 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 share [4] 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 1 [5] 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. 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.

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 supervision [1] 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 [2]. Other client assets increased $44 billion to $111 billion, primarily due to net inflows [2], 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.

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.

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.

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.

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.

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	
in millions	**Total at Fair Value**	**Level 3 Total**	Total at Fair Value	Level 3 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	—
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.

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.

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.

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.

	Year Ended December		
$ in millions, except per share amounts	**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 [1]	**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.

	Average for the Year Ended December		
in millions	**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. 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.

in millions, except per share amount	Year Ended 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

in millions	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

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.

in millions, except per share amount	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

in millions	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

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.

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 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.

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.

	Year Ended December		
$ in millions	**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
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.

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.

$ in millions	Year Ended 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%
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%

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		
$ in millions	Pre-tax earnings	Provision for taxes	Effective income tax rate
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%

Segment Operating Results

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

		Year Ended December		
in millions		**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.

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.

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.

	Year Ended December		
in millions	**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]

	Year Ended December		
in billions	**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.
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.

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.

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.

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

	Year Ended December		
in millions	**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 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.

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.

	Year Ended December		
in millions	**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 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.

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.

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

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.

	As of December 31,		
in billions	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.

	Year Ended December 31,		
in billions	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)	**21** [1]	(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

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.

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).

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).

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.

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.

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.

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.

	As of December	
in millions	**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
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.

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.

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.

	As of December 2012					
in millions	**Excess Liquidity and Cash [1]**	**Secured Client Financing**	**Institutional Client Services**	**Investing & Lending**	**Other Assets**	**Total 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**

	As of December 2011					
in millions	Excess Liquidity and Cash [1]	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	Total 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
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	$23,152	$923,225

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.

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.

	As of December	
$ in millions	**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.

		As of December	
in millions		**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.

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.

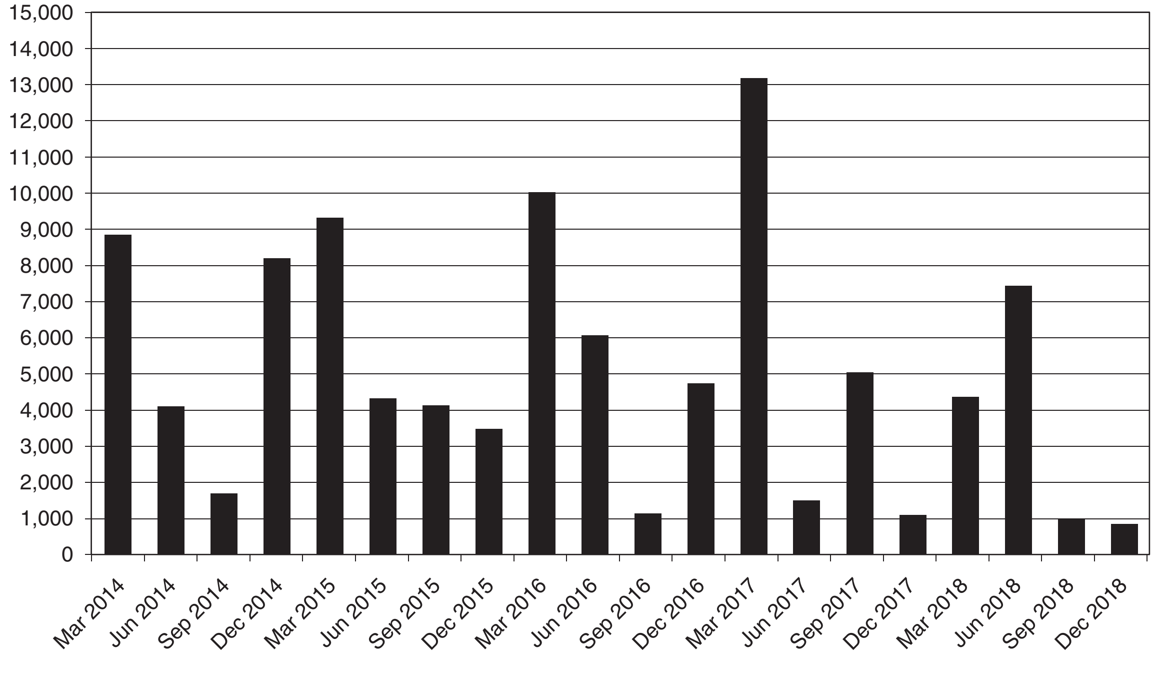
The weighted average maturity of our secured funding, excluding funding collateralized by highly liquid securities eligible for inclusion in our GCE, exceeded 100 days as of December 2012.

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.

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.

Unsecured Long-Term Borrowings Maturity Profile
$ in millions



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.

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.

	As of December 2012	
	Type of Deposit	
in millions	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 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.

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%.

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.

$ in millions	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 Ratio [6]	**7.3%**	7.0%
Tier 1 Common Ratio [7]	**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).
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).

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.

	As of December	
in millions	**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.

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.

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. See "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.

	As of December	
in millions, except per share amounts	**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.

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

	As of December	
in millions	**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.

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.
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.

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.

in millions	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
Other financial guarantees	904	442	1,195	938	3,479

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.

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.

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.

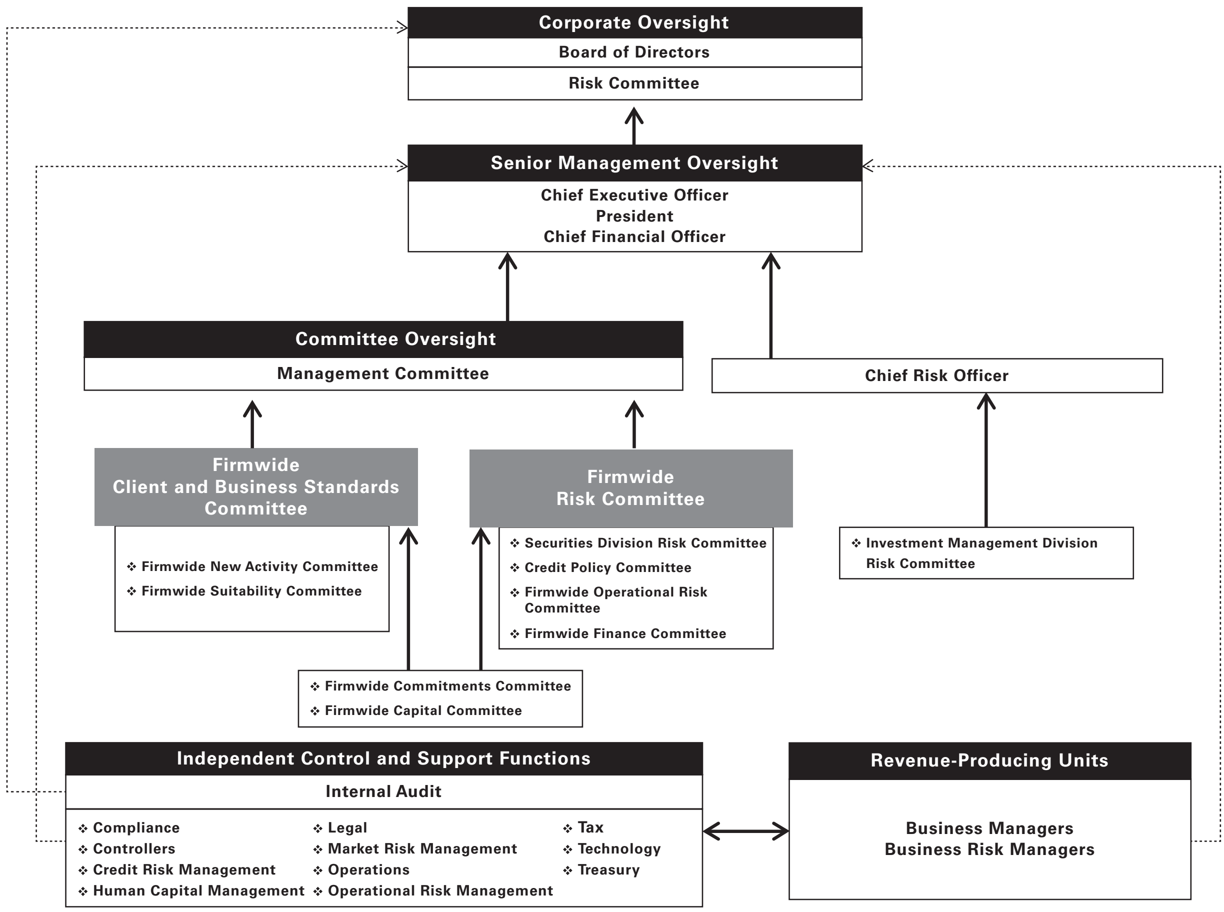
Structure

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.

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.

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:

- **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.

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.

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.

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

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.

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

	Average for the Year Ended December	
in millions	**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.

	Average for the Year Ended December	
in millions	**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 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.

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.
- 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.

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. 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.

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.

Credit Ratings

The table below presents the unsecured credit ratings and outlook of Group Inc.

	As of December 2012					
	Short-Term Debt	Long-Term Debt	Subordinated Debt	Trust Preferred [1]	Preferred Stock	Ratings 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 Debt	Long-Term Debt	Short-Term Bank Deposits	Long-Term 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				
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.

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.

	As of December	
in millions	**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.

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.

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.

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.

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.

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

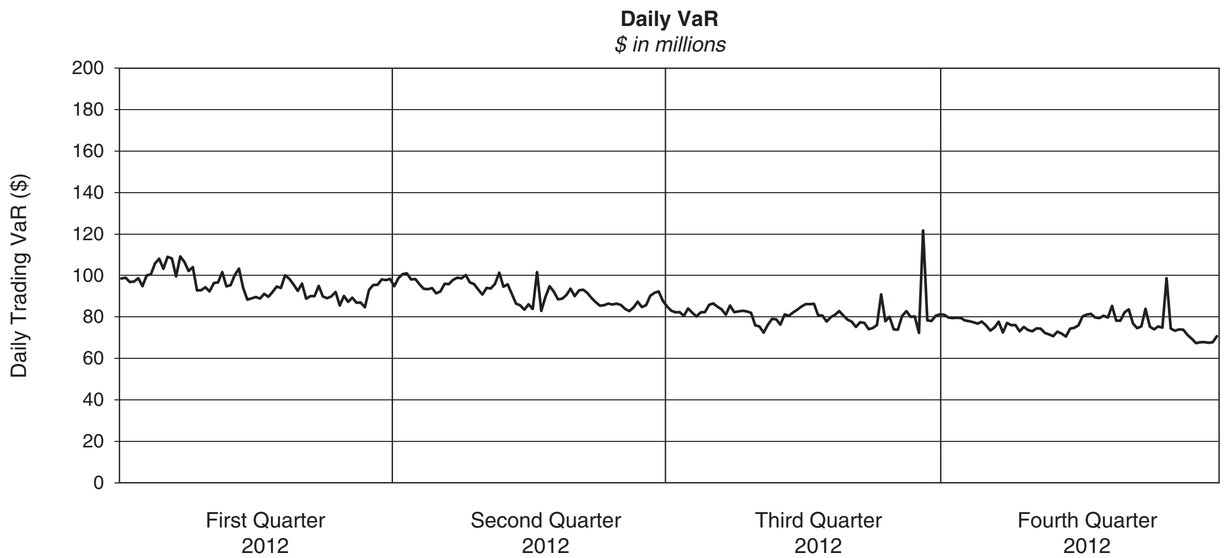
in millions	As of December		Year Ended December 2012	
Risk Categories	**2012**	2011	**High**	**Low**
Interest rates	**$ 64**	$100	**$103**	**$61**
Equity prices	**22**	31	**92**	**14**
Currency rates	**9**	14	**22**	**9**
Commodity prices	**18**	23	**32**	**15**
Diversification effect	**(42)**	(69)		
Total	**$ 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.

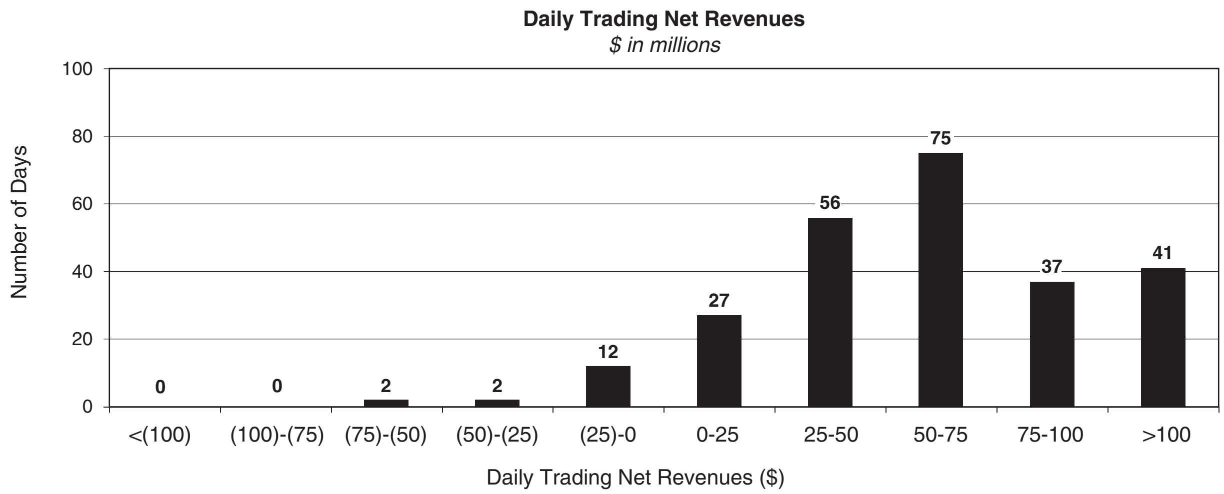
During the year ended December 2012, the firmwide VaR risk limit was not exceeded and was reduced on one occasion due to lower levels of volatility.

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.

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.

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	10% Sensitivity	
	Amount as of December	
in millions	**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.

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."

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
- 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.

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.

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.

in millions	As of December 2012						
Credit Rating Equivalent	**0 - 12 Months**	**1 - 5 Years**	**5 Years or Greater**	**Total**	**Netting**	**Exposure**	**Exposure Net of Collateral**
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**

in millions	As of December 2011						
Credit Rating Equivalent	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Netting	Exposure	Exposure Net of Collateral
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

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.

Credit Exposure by Industry

	Cash		OTC Derivatives		Loans and Lending Commitments [1]	
	As of December		As of December		As of December	
in millions	**2012**	2011	**2012**	2011	**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

	Cash		OTC Derivatives		Loans and Lending Commitments [1]	
	As of December		As of December		As of December	
in millions	**2012**	2011	**2012**	2011	**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

	Cash		OTC Derivatives		Loans and Lending Commitments [1]	
in millions	As of December		As of December		As of December	
Credit Rating Equivalent	**2012**	2011	**2012**	2011	**2012**	2011
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).

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.

	As of December 2012											
	Credit Exposure								Market Exposure			
in millions	Loans	OTC Derivatives	Other	Gross Funded	Hedges	Total Net Funded Credit Exposure	Unfunded Credit Exposure	Total Credit Exposure	Debt	Equities and Other	Credit Derivatives	Total 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
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	$1,091 [1]	$2,967 [2]	$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.

	As of December 2011											
	Credit Exposure								Market Exposure			
in millions	Loans	OTC Derivatives	Other	Gross Funded	Hedges	Total Net Funded Credit Exposure	Unfunded Credit Exposure	Total Credit Exposure	Debt	Equities and Other	Credit Derivatives	Total Market 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 countries and are collateralized with cash or U.S. Treasury securities. The gross purchased and written credit derivative notionals 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 notionals 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 notionals 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.

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.

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.

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.

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.

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.

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.

Item 8. Financial Statements and Supplementary Data

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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.

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

Consolidated Statements of Earnings

	Year Ended December		
in millions, except per share amounts	**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
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.

Consolidated Statements of Comprehensive Income

	Year Ended December		
in millions	**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.

Consolidated Statements of Financial Condition

in millions, except share and per share amounts	As of December 2012	As of December 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
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.

Consolidated Statements of Changes in Shareholders' Equity

	Year Ended December		
in millions	**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
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.

Consolidated Statements of Cash Flows

	Year Ended December		
in millions	**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)
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.

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

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.

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
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Other Liabilities and Accrued Expenses	Note 17
Commitments, Contingencies and Guarantees	Note 18
Shareholders' Equity	Note 19
Regulation and Capital Adequacy	Note 20
Earnings Per Common Share	Note 21
Transactions with Affiliated Funds	Note 22
Interest Income and Interest Expense	Note 23
Income Taxes	Note 24
Business Segments	Note 25
Credit Concentrations	Note 26
Legal Proceedings	Note 27
Employee Benefit Plans	Note 28
Employee Incentive Plans	Note 29
Parent Company	Note 30

Consolidation

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

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

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

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

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

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."

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.

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	
in millions	**Financial Instruments Owned**	**Financial Instruments Sold, But Not Yet Purchased**	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
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
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.

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.

	Year Ended December		
in millions	**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

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

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

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

The fair value hierarchy is as follows:

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

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

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

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

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.

	As of December	
$ in millions	**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.

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.

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.

The table below presents the valuation techniques and the nature of significant inputs generally used to determine the fair values of each type of level 3 cash instrument.

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Loans and securities backed by commercial real estate • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses and include: • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices • Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds) • Recovery rates implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples • Timing of expected future cash flows (duration)
Loans and securities backed by residential real estate • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles, including relevant indices such as the ABX (an index that tracks the performance of subprime residential mortgage bonds). Significant inputs include: • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral • Market yields implied by transactions of similar or related assets • Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs • Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
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 Corporate debt securities State and municipal obligations Other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX, LCDX and MCDX (an index that tracks the performance of municipal obligations) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
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

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 *(in millions)*	Significant Unobservable Inputs by Valuation Technique	Range of Significant Unobservable Inputs (Weighted Average [1]) as of December 2012
Loans and securities backed by commercial real estate • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination	**$3,389**	Discounted cash flows: • Yield • Recovery rate [3] • Duration (years) [4] • Basis	 4.0% to 43.3% (9.8%) 37.0% to 96.2% (81.7%) 0.1 to 7.0 (2.6) (13) points to 18 points (2 points)
Loans and securities backed by residential real estate • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination	**$1,619**	Discounted cash flows: • Yield • Cumulative loss rate • Duration (years) [4]	 3.1% to 17.0% (9.7%) 0.0% to 61.6% (31.6%) 1.3 to 5.9 (3.7)
Bank loans and bridge loans	**$11,235**	Discounted cash flows: • Yield • Recovery rate [3] • Duration (years) [4]	 0.3% to 34.5% (8.3%) 16.5% to 85.0% (56.0%) 0.2 to 4.4 (1.9)
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	**$4,651**	Discounted cash flows: • Yield • Recovery rate [3] • Duration (years) [4]	 0.6% to 33.7% (8.6%) 0.0% to 70.0% (53.4%) 0.5 to 15.5 (4.0)
Equities and convertible debentures (including private equity investments and investments in real estate entities)	**$14,855 [2]**	Comparable multiples: • Multiples Discounted cash flows: • Discount rate • Long-term growth rate/ compound annual growth rate • Capitalization rate	 0.7x to 21.0x (7.2x) 10.0% to 25.0% (14.3%) 0.7% to 25.0% (9.3%) 3.9% to 11.4% (7.3%)

1. 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.

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.

	Cash Instrument Assets at Fair Value as of December 2012			
in millions	**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**

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

1. Includes $489 million and $446 million of 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.

in millions	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

in millions	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.

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								
in millions	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
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
Equities and convertible debentures	13,667	292	992	3,071	(702)	(1,278)	965	(2,152)	14,855
Total	**$34,685**	**$1,691 [3]**	**$2,013 [3]**	**$11,996**	**$(6,696)**	**$(6,415)**	**$2,790**	**$(4,315)**	**$35,749**

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

	Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2011							
in millions	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							
in millions	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.

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.

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.

	As of December 2012		As of December 2011	
in millions	**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.
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.

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."

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

	As of December 2012		As of December 2011	
in millions	**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.

	As of December 2012			As of December 2011		
in millions	**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	$48,414,131
Counterparty netting [1]	**(668,460)**	**(668,460)**		(787,733)	(787,733)	
Cash collateral netting [2]	**(99,488)**	**(30,636)**		(118,104)	(28,829)	
Fair value included in financial instruments owned	**$ 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.

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.

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.

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 Product Type	Net Level 3 Assets/(Liabilities) as of December 2012 *(in millions)*	Significant Unobservable Inputs of Derivative Pricing Models	Range of Significant Unobservable Inputs (Average / Median) [1] 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%)
Currencies	**$35**	Correlation [2]	65% to 87% (76% / 79%)
Commodities	**$(304)**	Volatility	13% to 53% (30% / 29%)
		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%)
		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.

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.

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				
in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$13	$ 608,151	$ 192	$ —	$ 608,356
Credit	—	74,907	10,909	—	85,816
Currencies	—	71,157	992	—	72,149
Commodities	—	22,697	623	—	23,320
Equities	43	48,698	742	—	49,483
Gross fair value of derivative assets	56	825,610	13,458	—	839,124
Counterparty netting [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				
in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$14	$ 545,110	$ 547	$ —	$ 545,671
Credit	—	70,246	4,681	—	74,927
Currencies	—	59,937	957	—	60,894
Commodities	—	23,423	927	—	24,350
Equities	50	41,641	1,990	—	43,681
Gross fair value of derivative liabilities	64	740,357	9,102	—	749,523
Counterparty netting [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.

	Derivative Assets at Fair Value as of December 2011				
in millions	Level 1	Level 2	Level 3	Cross-Level 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				
in millions	Level 1	Level 2	Level 3	Cross-Level 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.

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.

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

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

	Level 3 Derivative Assets and Liabilities at Fair Value for the Year Ended December 2011							
in millions	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
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.

	As of December	
in millions	**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

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.

in millions

	OTC Derivatives as of December 2012			
Assets Product Type	**0 -12 Months**	**1 - 5 Years**	**5 Years or Greater**	**Total**
Interest rates	**$10,318**	**$28,445**	**$ 80,449**	**$119,212**
Credit	**2,190**	**12,244**	**7,970**	**22,404**
Currencies	**11,100**	**8,379**	**11,044**	**30,523**
Commodities	**3,840**	**3,862**	**304**	**8,006**
Equities	**3,757**	**7,730**	**6,957**	**18,444**
Netting across product types [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 Product Type	**0 - 12 Months**	**1 - 5 Years**	**5 Years or Greater**	**Total**
Interest rates	**$ 6,266**	**$17,860**	**$ 32,422**	**$ 56,548**
Credit	**809**	**7,537**	**3,168**	**11,514**
Currencies	**8,586**	**4,849**	**5,782**	**19,217**
Commodities	**3,970**	**3,119**	**2,267**	**9,356**
Equities	**3,775**	**5,476**	**3,937**	**13,188**
Netting across product types [1]	**(2,811)**	**(5,831)**	**(5,082)**	**(13,724)**
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.

in millions

	OTC Derivatives as of December 2011			
Assets Product Type	0 - 12 Months	1 - 5 Years	5 Years or 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 Product Type	0 - 12 Months	1 - 5 Years	5 Years or 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.

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.

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.

	As of December	
in millions	**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.

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				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives		
$ in millions	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives [1]	Other Purchased Credit Derivatives [2]	Asset	Liability	Net Asset/ (Liability)
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)									
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.

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.

	Year Ended December		
in millions	**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.

	Year Ended December		
in millions	**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.

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

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

- repurchase agreements and substantially all resale agreements;
- securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;
- substantially all other secured financings, including transfers of assets accounted for as financings rather than sales 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.

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 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.

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.

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.

	Other Financial Assets at Fair Value as of December 2012			
in millions	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**

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

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes $21.55 billion of level 1 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.

2. Consists of assets classified as held for sale related to the firm's 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.

	Other Financial Assets at Fair Value as of December 2011			
in millions	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

	Other Financial Liabilities at Fair Value as of December 2011			
in millions	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.

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.

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

in millions	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	$ 7 [1]	$ 119 [1]	$ 315	$—	$ —	$ (442)	$448	$ (373)	$ 1,426

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

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

in millions	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Deposits	$ 13	$ —	$ 5	$ —	$—	$ 326	$ (1)	$ 16	$ —	$ 359
Securities sold under agreements to repurchase, at fair value	2,181	—	—	—	—	—	(254)	—	—	1,927
Other secured financings	1,752	12	(51)	—	—	854	(1,155)	—	—	1,412
Unsecured short-term borrowings	3,294	(13)	204	(13)	—	762	(1,206)	240	(684)	2,584
Unsecured long-term borrowings	2,191	31	286	—	—	329	(344)	225	(801)	1,917
Other liabilities and accrued expenses	8,996	78	941	1,617	—	—	(360)	2	—	11,274
Total	$18,427	$108 [1]	$1,385 [1]	$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."

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.

Level 3 Other Financial Assets at Fair Value for the Year Ended December 2011

in millions	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Securities purchased under agreements to resell	$ 100	$ 2	$ —	$ 620	$—	$ —	$ (165)	$ —	$ 557
Receivables from customers and counterparties	298	—	54	468	—	—	(25)	—	795
Total	$ 398	$ 2 [1]	$ 54 [1]	$1,088	$—	$ —	$ (190)	$ —	$ 1,352

1. The aggregate amounts include gains of approximately $54 million and $2 million reported in "Market making" and "Other principal transactions," respectively.

Level 3 Other Financial Liabilities at Fair Value for the Year Ended December 2011

in millions	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Deposits	$ —	$—	$ —	$ —	$—	$ 13	$ —	$ —	$ 13
Securities sold under agreements to repurchase, at fair value	2,060	—	—	—	—	299	(178)	—	2,181
Other secured financings	8,349	8	3	—	—	483	(4,062)	(3,029)	1,752
Unsecured short-term borrowings	3,476	(15)	(340)	(5)	—	815	(1,080)	443	3,294
Unsecured long-term borrowings	2,104	25	5	—	—	441	(193)	(191)	2,191
Other liabilities and accrued expenses	2,409	—	1,095	5,840	—	—	(348)	—	8,996
Total	$18,398	$18 [1]	$ 763 [1]	$5,835	$—	$2,051	$(5,861)	$(2,777)	$18,427

1. The aggregate amounts include losses of approximately $766 million, $7 million and $8 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.

The net unrealized loss on other financial assets and liabilities at fair value of $709 million for the year ended December 2011 primarily consisted of losses on other liabilities and accrued expenses, primarily attributable to the impact of a change in interest rates on certain insurance liabilities. These losses were primarily offset by gains on unsecured short-term borrowings, primarily reflecting gains on certain equity-linked notes, principally due to a decline in global equity markets.

Significant transfers in or out of level 3 during the year ended December 2011 included:

- Other secured financings: net transfer out of level 3 of $3.03 billion, principally due to transfers to level 2 of certain borrowings as unobservable inputs were no longer significant to the valuation of these borrowings as they neared maturity.
- Unsecured short-term borrowings: net transfer into level 3 of $443 million, principally due to transfers to level 3 of certain borrowings due to less transparency of market prices as a result of less activity in these financial instruments.

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

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

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

	Gains/(Losses) on Financial Assets and Financial Liabilities at Fair Value Under the Fair Value Option		
	Year Ended December		
in millions	**2012**	2011	2010
Receivables from customers and counterparties [1]	**$ 190**	$ 97	$ (97)
Other secured financings	**(190)**	(63)	(227)
Unsecured short-term borrowings [2]	**(973)**	2,149	(1,455)
Unsecured long-term borrowings [3]	**(1,523)**	2,336	(1,169)
Other liabilities and accrued expenses [4]	**(1,486)**	(911)	50
Other [5]	**(81)**	90	(10)
Total	**$(4,063)**	$3,698	$(2,908)

1. Primarily consists of gains/(losses) on certain reinsurance contracts and certain transfers accounted for as receivables rather than purchases.
2. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of $(814) million, $2.01 billion, and $(1.49) billion as of December 2012, December 2011 and December 2010, respectively.
3. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of $(887) million, $1.80 billion and $(1.32) billion as of December 2012, December 2011 and December 2010, respectively.
4. Primarily consists of gains/(losses) on certain insurance contracts.
5. Primarily consists of gains/(losses) on resale and repurchase agreements, securities borrowed and loaned and deposits.

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

Loans and Lending Commitments

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

	As of December	
in millions	**2012**	2011
Aggregate contractual principal amount of performing loans and long-term receivables in excess of the related fair value	**$ 2,742**	$ 3,826
Aggregate contractual principal amount of loans on nonaccrual status and/or more than 90 days past due in excess of the related fair value	**22,610**	23,034
Total [1]	**$25,352**	$26,860
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	**$ 1,832**	$ 3,174

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

As of December 2012 and December 2011, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of $1.99 billion and $2.82 billion, respectively, and the related total contractual amount of these lending commitments was $59.29 billion and $66.12 billion, respectively. See Note 18 for further information about lending commitments.

Long-term Debt Instruments

The aggregate contractual principal amount of long-term other secured financings for which the fair value option was elected exceeded the related fair value by $115 million and $239 million as of December 2012 and December 2011, respectively. The fair value of unsecured long-term borrowings for which the fair value option was elected exceeded the related aggregate contractual principal amount by $379 million as of December 2012, whereas the aggregate contractual principal amount exceeded the related fair value by $693 million as of December 2011. The amounts above include both principal and non-principal-protected long-term borrowings.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain/(loss) attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was $3.07 billion, $(805) million and $1.85 billion for the years ended December 2012, December 2011 and December 2010, respectively. Changes in the fair value of loans and lending commitments are primarily attributable to changes in instrument-specific credit spreads. Substantially all of the firm's performing loans and lending commitments are floating-rate.

Impact of Credit Spreads on Borrowings

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

	Year Ended December		
in millions	**2012**	2011	2010
Net gains/(losses) including hedges	**$(714)**	$596	$198
Net gains/(losses) excluding hedges	**(800)**	714	199

Note 9.
Collateralized Agreements and Financings

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

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

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

	As of December	
in millions	**2012**	2011
Securities purchased under agreements to resell [1]	**$141,334**	$187,789
Securities borrowed [2]	**136,893**	153,341
Securities sold under agreements to repurchase [1]	**171,807**	164,502
Securities loaned [2]	**13,765**	7,182

1. Substantially all resale and repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.
2. As of December 2012 and December 2011, $38.40 billion and $47.62 billion of securities borrowed, and $1.56 billion and $107 million of securities loaned were at fair value, respectively.

Resale and Repurchase Agreements

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

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

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

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

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, "repos to maturity" are accounted for as sales. A repo to maturity is a transaction in which the firm transfers a security under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the firm effectively no longer has a repurchase obligation and has relinquished control over the underlying security and, accordingly, accounts for the transaction as a sale. The firm had no repos to maturity outstanding as of December 2012 or December 2011.

Securities Borrowed and Loaned Transactions

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

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

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

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

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

As of December 2012 and December 2011, the firm had \$8.94 billion and \$20.22 billion, respectively, of securities received under resale agreements and securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in "Cash and securities segregated for regulatory and other purposes."

Other Secured Financings

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

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

Other secured financings include arrangements that are nonrecourse. As of December 2012 and December 2011, nonrecourse other secured financings were \$1.76 billion and \$3.14 billion, respectively.

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

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

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

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

	As of December 2012			As of December 2011		
$ in millions	**U.S. Dollar**	**Non-U.S. Dollar**	**Total**	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):						
At fair value	**$16,504**	**$6,181**	**$22,685**	$18,519	$ 5,140	$23,659
At amortized cost	**34**	**326**	**360**	155	5,371	5,526
Interest rates [1]	***6.18%***	***0.10%***		*3.85%*	*0.22%*	
Other secured financings (long-term):						
At fair value	**6,134**	**1,518**	**7,652**	4,305	2,055	6,360
At amortized cost	**577**	**736**	**1,313**	1,024	795	1,819
Interest rates [1]	***2.61%***	***2.55%***		*1.88%*	*3.28%*	
Total [2]	**$23,249**	**$8,761**	**$32,010**	$24,003	$13,361	$37,364
Amount of other secured financings collateralized by:						
Financial instruments [3]	**$22,323**	**$8,442**	**$30,765**	$22,850	$12,274	$35,124
Other assets [4]	**926**	**319**	**1,245**	1,153	1,087	2,240

1. The weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.
2. Includes $8.68 billion and $9.36 billion related to transfers of financial assets accounted for as financings rather than sales as of December 2012 and December 2011, respectively. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value" of $8.92 billion and $9.51 billion as of December 2012 and December 2011, respectively.
3. Includes $17.24 billion and $14.33 billion of other secured financings collateralized by financial instruments owned, at fair value as of December 2012 and December 2011, respectively, and includes $13.53 billion and $20.79 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of December 2012 and December 2011, respectively.
4. Primarily real estate and cash.

The table below presents other secured financings by maturity.

in millions	**As of December 2012**
Other secured financings (short-term)	**$23,045**
Other secured financings (long-term):	
2014	**4,957**
2015	**1,446**
2016	**869**
2017	**271**
2018-thereafter	**1,422**
Total other secured financings (long-term)	**8,965**
Total other secured financings	**$32,010**

Collateral Received and Pledged

The firm receives financial instruments (e.g., U.S. government and federal agency, other sovereign and corporate obligations, as well as equities and convertible debentures) as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans.

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

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

	As of December	
in millions	**2012**	2011
Collateral available to be delivered or repledged	**$540,949**	$622,926
Collateral that was delivered or repledged	**397,652**	454,604

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

	As of December	
in millions	**2012**	2011
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	**$ 67,177**	$ 53,989
Did not have the right to deliver or repledge	**120,980**	110,949
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	**2,031**	3,444

Note 10.

Securitization Activities

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

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

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

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

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

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

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

	Year Ended December		
in millions	**2012**	2011	2010
Residential mortgages	**$33,755**	$40,131	$47,803
Commercial mortgages	**300**	—	1,451
Other financial assets	**—**	269	12
Total	**$34,055**	$40,400	$49,266
Cash flows on retained interests	**$ 389**	$ 569	$ 517

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

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

	As of December 2012			As of December 2011		
in millions	**Outstanding Principal Amount**	**Fair Value of Retained Interests**	**Fair Value of Purchased Interests**	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests
U.S. government agency-issued collateralized mortgage obligations [1]	**$57,685**	**$4,654**	**$ —**	$70,448	$5,038	$ —
Other residential mortgage-backed [2]	**3,656**	**106**	**—**	4,459	101	3
Commercial mortgage-backed [3]	**1,253**	**1**	**56**	3,398	606	331
CDOs, CLOs and other [4]	**8,866**	**51**	**331**	9,972	32	211
Total [5]	**$71,460**	**$4,812**	**$387**	$88,277	$5,777	$545

1. Outstanding principal amount and fair value of retained interests primarily relate to securitizations during 2012 and 2011 as of December 2012, and securitizations during 2011 and 2010 as of December 2011.
2. Outstanding principal amount and fair value of retained interests as of both December 2012 and December 2011 primarily relate to prime and Alt-A securitizations during 2007 and 2006.
3. As of December 2012, the outstanding principal amount primarily relates to securitizations during 2012 and 2007 and the fair value of retained interests primarily relate to securitizations during 2012. As of December 2011, the outstanding principal amount primarily relates to securitizations during 2010, 2007 and 2006 and the fair value of retained interests primarily relates to securitizations during 2010.
4. Outstanding principal amount and fair value of retained interests as of both December 2012 and December 2011 primarily relate to CDO and CLO securitizations during 2007 and 2006.
5. Outstanding principal amount includes $835 million and $774 million as of December 2012 and December 2011, respectively, related to securitization entities in which the firm's only continuing involvement is retained servicing which is not a variable interest.

In addition to the interests in the table above, the firm had other continuing involvement in the form of derivative transactions and guarantees with certain nonconsolidated VIEs. The carrying value of these derivatives and guarantees was a net asset of $45 million and a net liability of $52 million as of December 2012 and December 2011, respectively. The notional amounts of these derivatives and guarantees are included in maximum exposure to loss in the nonconsolidated VIE tables in Note 11.

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

	As of December 2012		As of December 2011	
	Type of Retained Interests		Type of Retained Interests	
$ in millions	**Mortgage-Backed**	**Other [1]**	Mortgage-Backed	Other [1]
Fair value of retained interests	**$4,761**	**$ 51**	$5,745	$ 32
Weighted average life (years)	**8.2**	**2.0**	7.1	4.7
Constant prepayment rate [2]	**10.9%**	**N.M.**	14.1%	N.M.
Impact of 10% adverse change [2]	**$ (57)**	**N.M.**	$ (55)	N.M.
Impact of 20% adverse change [2]	**(110)**	**N.M.**	(108)	N.M.
Discount rate [3]	**4.6%**	**N.M.**	5.4%	N.M.
Impact of 10% adverse change	**$ (96)**	**N.M.**	$ (125)	N.M.
Impact of 20% adverse change	**(180)**	**N.M.**	(240)	N.M.

1. Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of December 2012 and December 2011. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of $51 million and $32 million as of December 2012 and December 2011, respectively.

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

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

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

Note 11.

Variable Interest Entities

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

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

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

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

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

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

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

Investment Funds. The firm purchases equity securities issued by and may provide guarantees to certain of the investment funds it manages. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

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

VIE Consolidation Analysis

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

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

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

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

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

Nonconsolidated VIEs

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

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

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

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

- Substantially all assets held by the firm related to mortgage-backed, corporate CDO and CLO and other asset-backed VIEs and investment funds are included in "Financial instruments owned, at fair value." Substantially all liabilities held by the firm related to corporate CDO and CLO and other asset-backed VIEs are included in "Financial instruments sold, but not yet purchased, at fair value."

- Assets and liabilities held by the firm related to real estate, credit-related and other investing VIEs are primarily included in "Financial instruments owned, at fair value" and in "Financial instruments sold, but not yet purchased, at fair value," and "Other liabilities and accrued expenses," respectively.
- Assets and liabilities held by the firm related to power-related VIEs are primarily included in "Financial instruments owned, at fair value" and "Other assets" and in "Other liabilities and accrued expenses," respectively.

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

	Nonconsolidated VIEs						
	As of December 2011						
in millions	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Power-related	Investment funds	Total
Assets in VIE	$94,047 [2]	$20,340	$8,974	$4,593	$519	$2,208	$130,681
Carrying Value of the Firm's Variable Interests							
Assets	7,004	911	1,495	352	289	5	10,056
Liabilities	—	63	3	24	2	—	92
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	5,745	32	—	—	—	—	5,777
Purchased interests	962	368	—	333	—	—	1,663
Commitments and guarantees [1]	—	1	373	—	46	—	420
Derivatives [1]	2,469	7,529	—	1,221	—	—	11,219
Loans and investments	82	—	1,495	—	288	5	1,870
Total	$ 9,258 [2]	$ 7,930	$1,868	$1,554	$334	$ 5	$ 20,949

1. The aggregate amounts include $3.25 billion and $4.17 billion as of December 2012 and December 2011, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.
2. Assets in VIE and maximum exposure to loss include $3.57 billion and $1.72 billion, respectively, as of December 2012, and $6.15 billion and $2.62 billion, respectively, as of December 2011, related to CDOs backed by mortgage obligations.

Consolidated VIEs

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

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

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

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

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

	Consolidated VIEs			
	As of December 2011			
in millions	Real estate, credit-related and other investing	CDOs, mortgage-backed and other asset-backed	Principal-protected notes	Total
Assets				
Cash and cash equivalents	$ 660	$ 51	$ 1	$ 712
Cash and securities segregated for regulatory and other purposes	139	—	—	139
Receivables from brokers, dealers and clearing organizations	4	—	—	4
Receivables from customers and counterparties	—	16	—	16
Financial instruments owned, at fair value	2,369	352	112	2,833
Other assets	1,552	437	—	1,989
Total	$4,724	$856	$ 113	$5,693
Liabilities				
Other secured financings	$1,418	$298	$3,208	$4,924
Payables to customers and counterparties	—	9	—	9
Financial instruments sold, but not yet purchased, at fair value	—	—	2	2
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	185	—	1,941	2,126
Unsecured long-term borrowings	4	—	269	273
Other liabilities and accrued expenses	2,046	40	—	2,086
Total	$3,653	$347	$5,420	$9,420

Note 12.

Other Assets

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

	As of December	
in millions	**2012**	2011
Property, leasehold improvements and equipment [1]	**$ 8,217**	$ 8,697
Goodwill and identifiable intangible assets [2]	**5,099**	5,468
Income tax-related assets [3]	**5,620**	5,017
Equity-method investments [4]	**453**	664
Miscellaneous receivables and other [5]	**20,234**	3,306
Total	**$39,623**	$23,152

1. Net of accumulated depreciation and amortization of $9.05 billion and $8.46 billion as of December 2012 and December 2011, respectively.
2. Includes $149 million of intangible assets classified as held for sale. See Note 13 for further information about goodwill and identifiable intangible assets.
3. See Note 24 for further information about income taxes.
4. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of $5.54 billion and $4.17 billion as of December 2012 and December 2011, respectively, which are included in "Financial instruments owned, at fair value." The firm has generally elected the fair value option for such investments acquired after the fair value option became available.
5. Includes $16.77 billion of assets related to the firm's reinsurance business which were classified as held for sale as of December 2012.

Assets Held for Sale

In the fourth quarter of 2012, the firm classified its reinsurance business within its Institutional Client Services segment as held for sale. Assets related to this business of $16.92 billion, consisting primarily of available-for-sale securities and separate account assets at fair value, are included in "Other assets." Liabilities related to the business of $14.62 billion are included in "Other liabilities and accrued expenses." See Note 8 for further information about insurance-related assets and liabilities held for sale at fair value.

The firm expects to complete the sale of a majority stake in its reinsurance business in 2013 and does not expect to recognize a material gain or loss upon the sale. Upon completion of the sale, the firm will no longer consolidate this business.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment included $6.20 billion and $6.48 billion as of December 2012 and December 2011, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities, including VIEs, consolidated by the firm.

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

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. The firm's policy for impairment testing of property, leasehold improvements and equipment is the same as is used for identifiable intangible assets with finite lives. See Note 13 for further information.

Impairments

As a result of a decline in the market conditions in which certain of the firm's consolidated investments operate, during 2012 and 2011, the firm tested certain property, leasehold improvements and equipment, intangible assets and other assets for impairment in accordance with ASC 360. The carrying value of these assets exceeded the projected undiscounted cash flows over the estimated remaining useful lives of these assets; as such, the firm determined the assets were impaired and recorded impairment losses. In addition, the firm sold assets during 2012 and 2011 and recognized impairment losses prior to the sale of these assets. These impairment losses represented the excess of the carrying values of these assets over their estimated fair values, which are primarily level 3 measurements, using a combination of discounted cash flow analyses and relative value analyses, including the estimated cash flows expected to be received from the disposition of certain of these assets.

The impairment losses were approximately $400 million during the year ended December 2012, substantially all of which were included in "Depreciation and amortization" within the firm's Investing & Lending segment. Impairment losses related to property, leasehold improvements and equipment were approximately $250 million, including approximately $160 million attributable to commodity-related assets. Impairment losses related to intangible and other assets were approximately $150 million, including approximately $80 million attributable to commodity-related assets and approximately $40 million attributable to the firm's New York Stock Exchange (NYSE) Designated Market Maker (DMM) rights.

The impairment losses were approximately $440 million during the year ended December 2011 (approximately $220 million related to assets classified as held for sale, primarily related to Litton Loan Servicing LP (Litton), approximately $120 million related to commodity-related intangible assets and approximately $100 million related to property, leasehold improvements and equipment), all of which were included in "Depreciation and amortization." The impairment losses related to commodity-related intangible assets and property, leasehold improvements and equipment were included in the firm's Investing & Lending segment and the impairment losses related to assets classified as held for sale were principally included in the firm's Institutional Client Services segment. Litton was sold in the third quarter of 2011 and the firm received total consideration that approximated the firm's adjusted carrying value for Litton. See Note 18 for further information about the sale of Litton.

Note 13.
Goodwill and Identifiable Intangible Assets

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

	Goodwill	
	As of December	
in millions	**2012**	2011
Investment Banking:		
Financial Advisory	**$ 98**	$ 104
Underwriting	**183**	186
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	**269**	284
Equities Client Execution	**2,402**	2,390
Securities Services	**105**	117
Investing & Lending	**59**	147
Investment Management	**586**	574
Total	**$3,702**	$3,802

	Identifiable Intangible Assets	
	As of December	
in millions	**2012**	2011
Investment Banking:		
Financial Advisory	**$ 1**	$ 4
Underwriting	**—**	1
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	**421**	488
Equities Client Execution	**565**	677
Investing & Lending	**281**	369
Investment Management	**129**	127
Total	**$1,397**	$1,666

Goodwill

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

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

The quantitative goodwill impairment test consists of two steps.

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

Goodwill was tested for impairment, using a quantitative test, during the fourth quarter of 2012 and goodwill was not impaired.

To estimate the fair value of each reporting unit, both relative value and residual income valuation techniques are used because the firm believes market participants would use these techniques to value the firm's reporting units.

Relative value techniques apply average observable price-to-earnings multiples of comparable competitors to certain reporting units' net earnings. For other reporting units, fair value is estimated using price-to-book multiples based on residual income techniques, which consider a reporting unit's return on equity in excess of the firm's cost of equity capital. 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.

Identifiable Intangible Assets

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

		As of December		
$ in millions		**2012**	Weighted Average Remaining Lives *(years)*	2011
Customer lists	Gross carrying amount	**$ 1,099**		$ 1,119
	Accumulated amortization	**(643)**		(593)
	Net carrying amount	**456**	**8**	526
Commodities-related intangibles [1]	Gross carrying amount	**513**		595
	Accumulated amortization	**(226)**		(237)
	Net carrying amount	**287**	**10**	358
Television broadcast royalties	Gross carrying amount	**560**		560
	Accumulated amortization	**(186)**		(123)
	Net carrying amount	**374**	**6**	437
Insurance-related intangibles [2]	Gross carrying amount	**380**		292
	Accumulated amortization	**(231)**		(146)
	Net carrying amount	**149**	**N/A** [2]	146
Other [3]	Gross carrying amount	**950**		950
	Accumulated amortization	**(819)**		(751)
	Net carrying amount	**131**	**12**	199
Total	**Gross carrying amount**	**3,502**		3,516
	Accumulated amortization	**(2,105)**		(1,850)
	Net carrying amount	**$ 1,397**	**8**	$ 1,666

1. Primarily includes commodity-related customer contracts and relationships, permits and access rights.
2. Primarily related to the firm's reinsurance business, which is classified as held for sale. See Note 12 for further information.
3. Primarily includes the firm's exchange-traded fund lead market maker rights and NYSE DMM rights.

Substantially all of the firm's identifiable intangible assets are considered to have finite lives and are amortized (i) over their estimated lives, (ii) based on economic usage for certain commodity-related intangibles or (iii) in proportion to estimated gross profits or premium revenues. Amortization expense for identifiable intangible assets is included in "Depreciation and amortization."

The tables below present amortization expense for identifiable intangible assets for the years ended December 2012, December 2011 and December 2010, and the estimated future amortization expense through 2017 for identifiable intangible assets as of December 2012.

	Year Ended December		
in millions	**2012**	2011	2010
Amortization expense	**$338**	$389	$520

in millions	**As of December 2012**
Estimated future amortization expense:	
2013	**$225**
2014	**189**
2015	**157**
2016	**155**
2017	**153**

Identifiable intangible assets are tested for recoverability whenever events or changes in circumstances indicate that an asset's or asset group's carrying value may not be recoverable.

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

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

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

Note 14.

Deposits

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

	As of December	
in millions	**2012**	2011
U.S. offices	**$62,377**	$38,477
Non-U.S. offices	**7,747**	7,632
Total	**$70,124** [1]	$46,109 [1]

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

	As of December 2012		
in millions	**U.S.**	**Non-U.S.**	**Total**
2013	**$ 5,248**	**$2,083**	**$ 7,331**
2014	**3,866**	**—**	**3,866**
2015	**3,285**	**—**	**3,285**
2016	**1,687**	**—**	**1,687**
2017	**2,377**	**—**	**2,377**
2018 - thereafter	**5,069**	**—**	**5,069**
Total	**$21,532** [2]	**$2,083** [3]	**$23,615** [1]

1. Includes $5.10 billion and $4.53 billion as of December 2012 and December 2011, respectively, of time deposits accounted for at fair value under the fair value option. See Note 8 for further information about deposits accounted for at fair value.
2. Includes $44 million greater than $100,000, of which $7 million matures within three months, $24 million matures within three to six months, $8 million matures within six to twelve months, and $5 million matures after twelve months.
3. Substantially all were greater than $100,000.

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

Note 15.

Short-Term Borrowings

Short-term borrowings were comprised of the following:

in millions	As of December 2012	As of December 2011
Other secured financings (short-term)	**$23,045**	$29,185
Unsecured short-term borrowings	**44,304**	49,038
Total	**$67,349**	$78,223

See Note 9 for further information about other secured financings.

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

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

The table below presents unsecured short-term borrowings.

$ in millions	As of December 2012	As of December 2011
Current portion of unsecured long-term borrowings [1, 2]	**$25,344**	$28,836
Hybrid financial instruments	**12,295**	11,526
Promissory notes	**260**	1,328
Commercial paper	**884**	1,491
Other short-term borrowings	**5,521**	5,857
Total	**$44,304**	$49,038
Weighted average interest rate [3]	**1.57%**	1.89%

1. As of December 2012, no borrowings guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP) were outstanding and the program had expired for new issuances. Includes $8.53 billion as of December 2011, issued by Group Inc. and guaranteed by the FDIC under the TLGP.
2. Includes $24.65 billion and $27.95 billion as of December 2012 and December 2011, respectively, issued by Group Inc.
3. The weighted average interest rates for these borrowings include the effect of hedging activities and exclude financial instruments accounted for at fair value under the fair value option. See Note 7 for further information about hedging activities.

Note 16.
Long-Term Borrowings

Long-term borrowings were comprised of the following:

	As of December	
in millions	**2012**	2011
Other secured financings (long-term)	**$ 8,965**	$ 8,179
Unsecured long-term borrowings	**167,305**	173,545
Total	**$176,270**	$181,724

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

	As of December 2012			As of December 2011		
in millions	**U.S. Dollar**	**Non-U.S. Dollar**	**Total**	U.S. Dollar	Non-U.S. Dollar	Total
Fixed-rate obligations [1]						
Group Inc.	**$ 86,170**	**$36,207**	**$122,377**	$ 82,396	$38,012	$120,408
Subsidiaries	**2,391**	**662**	**3,053**	1,662	557	2,219
Floating-rate obligations [2]						
Group Inc.	**17,075**	**19,227**	**36,302**	19,936	25,878	45,814
Subsidiaries	**3,719**	**1,854**	**5,573**	3,500	1,604	5,104
Total	**$109,355**	**$57,950**	**$167,305**	$107,494	$66,051	$173,545

1. Interest rates on U.S. dollar-denominated debt ranged from 0.20% to 10.04% (with a weighted average rate of 5.48%) and 0.10% to 10.04% (with a weighted average rate of 5.62%) as of December 2012 and December 2011, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.10% to 14.85% (with a weighted average rate of 4.66%) and 0.85% to 14.85% (with a weighted average rate of 4.75%) as of December 2012 and December 2011, respectively.

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

The table below presents unsecured long-term borrowings by maturity date. In the table below:

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

	As of December 2012		
in millions	**Group Inc.**	**Subsidiaries**	**Total**
2014	**$ 22,279**	**$ 496**	**$ 22,775**
2015	**20,734**	**411**	**21,145**
2016	**21,717**	**172**	**21,889**
2017	**20,218**	**494**	**20,712**
2018 - thereafter	**73,731**	**7,053**	**80,784**
Total [1]	**$158,679**	**$8,626**	**$167,305**

1. Includes $10.51 billion related to interest rate hedges on certain unsecured long-term borrowings, by year of maturity as follows: $564 million in 2014, $536 million in 2015, $1.15 billion in 2016, $1.44 billion in 2017 and $6.82 billion in 2018 and thereafter.

The firm designates certain derivatives as fair value hedges to effectively convert a substantial portion of its fixed-rate unsecured long-term borrowings which are not accounted for at fair value into floating-rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of December 2012 and December 2011. See Note 7 for further information about hedging activities. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to changes in the firm's own credit spreads would be an increase of less than 2% and a reduction of less than 4% in the carrying value of total unsecured long-term borrowings as of December 2012 and December 2011, respectively. As these borrowings are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012.

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

	As of December 2012			As of December 2011		
in millions	**Group Inc.**	**Subsidiaries**	**Total**	Group Inc.	Subsidiaries	Total
Fixed-rate obligations						
At fair value	**$ 28**	**$ 94**	**$ 122**	$ 10	$ 66	$ 76
At amortized cost [1]	**22,500**	**2,047**	**24,547**	26,839	1,934	28,773
Floating-rate obligations						
At fair value	**8,166**	**4,305**	**12,471**	12,903	4,183	17,086
At amortized cost [1]	**127,985**	**2,180**	**130,165**	126,470	1,140	127,610
Total	**$158,679**	**$8,626**	**$167,305**	$166,222	$7,323	$173,545

1. The weighted average interest rates on the aggregate amounts were 2.47% (5.26% related to fixed-rate obligations and 1.98% related to floating-rate obligations) and 2.59% (5.18% related to fixed-rate obligations and 2.03% related to floating-rate obligations) as of December 2012 and December 2011, respectively. These rates exclude financial instruments accounted for at fair value under the fair value option.

Subordinated Borrowings

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated borrowings, which are junior to senior borrowings. As of December 2012 and December 2011, subordinated debt had maturities ranging from 2015 to 2038 and 2017 to 2038, respectively. The table below presents subordinated borrowings.

	As of December 2012			As of December 2011		
$ in millions	Par Amount	Carrying Amount	Rate [1]	Par Amount	Carrying Amount	Rate [1]
Subordinated debt [2]	**$14,409**	**$17,358**	**4.24%**	$14,310	$17,362	4.39%
Junior subordinated debt	**2,835**	**4,228**	**3.16%**	5,085	6,533	2.43%
Total subordinated borrowings	**$17,244**	**$21,586**	**4.06%**	$19,395	$23,895	3.87%

1. Weighted average interest rate after giving effect to fair value hedges used to convert these fixed-rate obligations into floating-rate obligations. See Note 7 for further information about hedging activities. See below for information about interest rates on junior subordinated debt.
2. Par amount and carrying amount of subordinated debt issued by Group Inc. was $13.85 billion and $16.80 billion, respectively, as of December 2012, and $13.75 billion and $16.80 billion, respectively, as of December 2011.

Junior Subordinated Debt

Junior Subordinated Debt Issued to APEX Trusts. In 2007, Group Inc. issued a total of $2.25 billion of remarketable junior subordinated debt to Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts), Delaware statutory trusts. The APEX Trusts issued $2.25 billion of guaranteed perpetual Normal Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to Group Inc. Group Inc. also entered into contracts with the APEX Trusts to sell $2.25 billion of Group Inc. perpetual non-cumulative preferred stock (the stock purchase contracts). See Note 19 for more information about the preferred stock that Group Inc. has issued in connection with the stock purchase contracts.

The firm accounted for the stock purchase contracts as equity instruments and, accordingly, recorded the cost of the stock purchase contracts as a reduction to additional paid-in capital.

During the first quarter of 2012, pursuant to a remarketing provided for by the initial terms of the junior subordinated debt, Goldman Sachs Capital II sold all of its $1.75 billion of junior subordinated debt to Murray Street Investment Trust I (Murray Street Trust), a new trust sponsored by the firm. On June 1, 2012, pursuant to the stock purchase contracts, Goldman Sachs Capital II used the proceeds of this sale to purchase shares of Group Inc.'s Perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock).

During the third quarter of 2012, pursuant to a remarketing provided for by the initial terms of the junior subordinated debt, Goldman Sachs Capital III sold all of its $500 million of junior subordinated debt to Vesey Street Investment Trust I (Vesey Street Trust), a new trust sponsored by the firm. On September 4, 2012, pursuant to the stock purchase contracts, Goldman Sachs Capital III used the proceeds of this sale to purchase shares of Group Inc.'s Perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock).

In connection with the remarketing of the junior subordinated debt to the Murray Street Trust and Vesey Street Trust (together, the 2012 Trusts), pursuant to the terms of the junior subordinated debt, the interest rate and other terms were modified. Following such sales, the firm pays interest semi-annually on the $1.75 billion of junior subordinated debt held by the Murray Street Trust at a fixed annual rate of 4.647% and the debt matures on March 9, 2017 and on the $500 million of junior subordinated debt held by the Vesey Street Trust at a fixed annual rate of 4.404% and the debt matures on September 1, 2016. To fund the purchase of the junior subordinated debt, the 2012 Trusts issued an aggregate of $2.25 billion of senior guaranteed trust securities. The 2012 Trusts are required to pay distributions on their senior guaranteed trust securities in the same amounts and on the same dates that they are scheduled to receive interest on the junior subordinated debt they hold, and are required to redeem their respective senior guaranteed trust securities upon the maturity or earlier redemption of the junior subordinated debt they hold. Group Inc. fully and unconditionally guarantees the payment of these distribution and redemption amounts when due on a senior basis and, as such, the $2.25 billion of junior subordinated debt held by the 2012 Trusts for the benefit of investors is no longer classified as junior subordinated debt.

The firm has the right to defer payments on the junior subordinated debt, subject to limitations. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. If the firm were to defer payment of interest on the junior subordinated debt and the 2012 Trusts were therefore unable to make scheduled distributions to the holders of the senior guaranteed trust securities, under the guarantee, Group Inc. would be obligated to make those payments to the holders of the senior guaranteed trust securities.

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

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

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

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

Note 17.

Other Liabilities and Accrued Expenses

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

in millions	As of December 2012	2011
Compensation and benefits	**$ 8,292**	$ 5,701
Insurance-related liabilities [1]	**10,274**	18,614
Noncontrolling interests [2]	**508**	1,450
Income tax-related liabilities [3]	**2,724**	533
Employee interests in consolidated funds	**246**	305
Subordinated liabilities issued by consolidated VIEs	**1,360**	1,090
Accrued expenses and other [4]	**18,991**	4,108
Total	**$42,395**	$31,801

1. As of December 2012, certain insurance-related liabilities were classified as held for sale and included within "Accrued expenses and other." See Note 12 for further information.
2. Includes $419 million and $1.17 billion related to consolidated investment funds as of December 2012 and December 2011, respectively.
3. See Note 24 for further information about income taxes.
4. Includes $14.62 billion of liabilities related to the firm's reinsurance business which were classified as held for sale as of December 2012. See Note 12 for further information.

The table below presents insurance-related liabilities by type.

in millions	As of December 2012	2011
Separate account liabilities	**$ —**	$ 3,296
Liabilities for future benefits and unpaid claims	**10,274**	14,213
Contract holder account balances	**—**	835
Reserves for guaranteed minimum death and income benefits	**—**	270
Total [1]	**$10,274**	$18,614

1. As of December 2012, certain insurance-related liabilities were classified as held for sale and included within "Accrued expenses and other." See Note 12 for further information.

Separate account liabilities are supported by separate account assets, representing segregated contract holder funds under variable annuity and life insurance contracts. As of December 2011, separate account assets were included in "Cash and securities segregated for regulatory and other purposes."

Liabilities for future benefits and unpaid claims include liabilities arising from reinsurance provided by the firm to other insurers. The firm had a receivable of $1.30 billion as of December 2011 related to such reinsurance contracts, which was reported in "Receivables from customers and counterparties." In addition, the firm has ceded risks to reinsurers related to certain of its liabilities for future benefits and unpaid claims and had a receivable of $648 million as of December 2011 related to such reinsurance contracts, which was reported in "Receivables from customers and counterparties." Contracts to cede risks to reinsurers do not relieve the firm of its obligations to contract holders. Liabilities for future benefits and unpaid claims include $10.27 billion and $8.75 billion carried at fair value under the fair value option as of December 2012 and December 2011, respectively.

Contract holder account balances primarily include fixed annuities under reinsurance contracts.

Reserves for guaranteed minimum death and income benefits represent a liability for the expected value of guaranteed benefits in excess of projected annuity account balances. These reserves are based on total payments expected to be made less total fees expected to be assessed over the life of the contract. As of December 2011, such reserves were related to $5.52 billion of contract holder account balances. The net amount at risk, representing guaranteed minimum death and income benefits in excess of contract holder account balances, was $1.51 billion as of December 2011. The weighted average attained age of these contract holders was 69 years as of December 2011.

Note 18.

Commitments, Contingencies and Guarantees

Commitments

The table below presents the firm's commitments.

	Commitment Amount by Period of Expiration as of December 2012				Total Commitments as of December	
in millions	**2013**	**2014-2015**	**2016-2017**	**2018-Thereafter**	**2012**	2011
Commitments to extend credit [1]						
Commercial lending: [2]						
Investment-grade	**$ 7,765**	**$11,632**	**$33,620**	**$ 719**	**$ 53,736**	$ 51,281
Non-investment-grade	**2,114**	**4,462**	**9,833**	**4,693**	**21,102**	14,217
Warehouse financing	**556**	**228**	**—**	**—**	**784**	247
Total commitments to extend credit	**10,435**	**16,322**	**43,453**	**5,412**	**75,622**	65,745
Contingent and forward starting resale and securities borrowing agreements [3]	**47,599**	**—**	**—**	**—**	**47,599**	54,522
Forward starting repurchase and secured lending agreements [3]	**6,144**	**—**	**—**	**—**	**6,144**	17,964
Letters of credit [4]	**614**	**160**	**—**	**15**	**789**	1,353
Investment commitments	**1,378**	**2,174**	**258**	**3,529**	**7,339**	9,118
Other	**4,471**	**53**	**31**	**69**	**4,624**	5,342
Total commitments	**$70,641**	**$18,709**	**$43,742**	**$9,025**	**$142,117**	$154,044

1. Commitments to extend credit are presented net of amounts syndicated to third parties.
2. Includes commitments associated with the former William Street credit extension program.
3. These agreements generally settle within three business days.
4. Consists of commitments under letters of credit issued by various banks which the firm provides to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements.

Commitments to Extend Credit

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

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

As of December 2012, approximately $16.09 billion of the firm's lending commitments were held for investment and were accounted for on an accrual basis. As of December 2012, the carrying value and the estimated fair value of such lending commitments were liabilities of $63 million and $523 million, respectively. As these lending commitments are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these commitments been included in the firm's fair value hierarchy, they would have primarily been classified in level 3 as of December 2012.

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

Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was $32.41 billion and $31.94 billion as of December 2012 and December 2011, respectively. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the firm realizes on such commitments, up to a maximum of approximately $950 million. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of $1.13 billion, of which $300 million of protection had been provided as of both December 2012 and December 2011. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG. These instruments primarily include credit default swaps that reference the same or similar underlying instrument or entity or credit default swaps that reference a market index.

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

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

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

Investment Commitments

The firm's investment commitments consist of commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages. These commitments include $872 million and $1.62 billion as of December 2012 and December 2011, respectively, related to real estate private investments and $6.47 billion and $7.50 billion as of December 2012 and December 2011, respectively, related to corporate and other private investments. Of these amounts, $6.21 billion and $8.38 billion as of December 2012 and December 2011, respectively, relate to commitments to invest in funds managed by the firm, which will be funded at market value on the date of investment.

Leases

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

in millions	As of December 2012
2013	$ 439
2014	407
2015	345
2016	317
2017	306
2018 - thereafter	1,375
Total	**$3,189**

Rent charged to operating expense for the years ended December 2012, December 2011 and December 2010 was $374 million, $475 million and $508 million, respectively.

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

Contingencies

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

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

- **Representations and Warranties.** The firm has not been a significant originator of residential mortgage loans. The firm did purchase loans originated by others and generally received loan-level representations of the type described below from the originators. During the period 2005 through 2008, the firm sold approximately $10 billion of loans to government-sponsored enterprises and approximately $11 billion of loans to other third parties. In addition, the firm transferred loans to trusts and other mortgage securitization vehicles. As of December 2012 and December 2011, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately $35 billion and $42 billion, respectively. This amount reflects paydowns and cumulative losses of approximately $90 billion ($20 billion of which are cumulative losses) as of December 2012 and approximately $83 billion ($17 billion of which are cumulative losses) as of December 2011. A small number of these Goldman Sachs-issued securitizations with an outstanding principal balance of $540 million and total paydowns and cumulative losses of $1.52 billion ($508 million of which are cumulative losses) as of December 2012, and an outstanding principal balance of $635 million and total paydowns and cumulative losses of $1.42 billion ($465 million of which are cumulative losses) as of December 2011, were structured with credit protection obtained from monoline insurers. In connection with both sales of loans and securitizations, the firm provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the firm purchased the loans.

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

  The firm has received repurchase claims for residential mortgage loans based on alleged breaches of representations, from government-sponsored enterprises, other third parties, trusts and other mortgage securitization vehicles, which have not been significant. During the years ended December 2012 and December 2011, the firm repurchased loans with an unpaid principal balance of less than $10 million. The loss related to the repurchase of these loans was not material for the years ended December 2012 and December 2011.

  Ultimately, the firm's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors including the following: (i) the extent to which these claims are actually made; (ii) the extent to which there are underlying breaches of representations that give rise to valid claims for repurchase; (iii) in the case of loans originated by others, the extent to which the firm could be held liable and, if it is, the firm's ability to pursue and collect on any claims against the parties who made representations to the firm; (iv) macro-economic factors, including developments in the residential real estate market; and (v) legal and regulatory developments.

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

- **Foreclosure and Other Mortgage Loan Servicing Practices and Procedures.** The firm had received a number of requests for information from regulators and other agencies, including state attorneys general and banking regulators, as part of an industry-wide focus on the practices of lenders and servicers in connection with foreclosure proceedings and other aspects of mortgage loan servicing practices and procedures. The requests sought information about the foreclosure and servicing protocols and activities of Litton, a residential mortgage servicing subsidiary sold by the firm to Ocwen Financial Corporation (Ocwen) in the third quarter of 2011. The firm is cooperating with the requests and these inquiries may result in the imposition of fines or other regulatory action. In the third quarter of 2010, prior to the firm's sale of Litton, Litton had temporarily suspended evictions and foreclosure and real estate owned sales in a number of states, including those with judicial foreclosure procedures. Litton resumed these activities beginning in the fourth quarter of 2010.

  In connection with the sale of Litton, the firm provided customary representations and warranties, and indemnities for breaches of these representations and warranties, to Ocwen. These indemnities are subject to various limitations, and are capped at approximately $50 million. The firm has not yet received any claims relating to these indemnities. The firm also agreed to provide specific indemnities to Ocwen related to claims made by third parties with respect to servicing activities during the period that Litton was owned by the firm and which are in excess of the related reserves accrued for such matters by Litton at the time of the sale. These indemnities are capped at approximately $125 million. The firm has recorded a reserve for the portion of these potential losses that it believes is probable and can be reasonably estimated. As of December 2012, the firm had not received material claims with respect to these indemnities and had not made material payments in connection with these claims.

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

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

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

On January 16, 2013, Group Inc. and GS Bank USA entered into a settlement in principle with the Federal Reserve Board relating to the servicing of residential mortgage loans and foreclosure processing. This settlement in principle, amends the Order which is described above, provides for the termination of the independent foreclosure review under the Order and calls for Group Inc. and GS Bank USA collectively to: (i) make cash payments into a settlement fund for distribution to eligible borrowers; and (ii) provide other assistance for foreclosure prevention and loss mitigation over the next two years. The other provisions of the Order will remain in effect. The firm's reserves for legal and regulatory matters as of December 2012 include provisions relating to this settlement.

In addition, on September 1, 2011, GS Bank USA entered into an Agreement on Mortgage Servicing Practices with the New York State Department of Financial Services, Litton and Ocwen relating to the servicing of residential mortgage loans, and, in a related agreement with the New York State Department of Financial Services, Group Inc. agreed to forgive 25% of the unpaid principal balance on certain delinquent first lien residential mortgage loans owned by Group Inc. or a subsidiary, totaling approximately $13 million in principal forgiveness.

Guarantees

The firm enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. Disclosures about derivatives are not required if they may be cash settled and the firm has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties and certain other counterparties. Accordingly, the firm has not included such contracts in the table below.

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

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

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

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

	As of December 2012					
		Maximum Payout/Notional Amount by Period of Expiration				
in millions	Carrying Value of Net Liability	2013	2014-2015	2016-2017	2018-Thereafter	Total
Derivatives [1]	**$8,581**	**$339,460**	**$213,012**	**$49,413**	**$61,264**	**$663,149**
Securities lending indemnifications [2]	**—**	**27,123**	**—**	**—**	**—**	**27,123**
Other financial guarantees [3]	**152**	**904**	**442**	**1,195**	**938**	**3,479**

1. These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore these amounts do not reflect the firm's overall risk related to its derivative activities. As of December 2011, the carrying value of the net liability related to derivative guarantees was $11.88 billion.
2. Collateral held by the lenders in connection with securities lending indemnifications was $27.89 billion as of December 2012. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.
3. Other financial guarantees excludes certain commitments to issue standby letters of credit that are included in "Commitments to extend credit." See table in "Commitments" above for a summary of the firm's commitments. As of December 2011, the carrying value of the net liability related to other financial guarantees was $205 million.

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

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

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

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

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

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

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the consolidated statements of financial condition as of December 2012 and December 2011.

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

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

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the consolidated statements of financial condition as of December 2012 and December 2011.

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

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

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

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

Note 19.

Shareholders' Equity

Common Equity

Dividends declared per common share were $1.77 in 2012, $1.40 in 2011 and $1.40 in 2010. On January 15, 2013, Group Inc. declared a dividend of $0.50 per common share to be paid on March 28, 2013 to common shareholders of record on February 28, 2013.

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

During 2012, 2011 and 2010, the firm repurchased 42.0 million shares, 47.0 million shares and 25.3 million shares of its common stock at an average cost per share of $110.31, $128.33 and $164.48, for a total cost of $4.64 billion, $6.04 billion and $4.16 billion, respectively, under the share repurchase program. In addition, pursuant to the terms of certain share-based compensation plans, employees may remit shares to the firm or the firm may cancel restricted stock units (RSUs) to satisfy minimum statutory employee tax withholding requirements. Under these plans, during 2012, 2011 and 2010, employees remitted 33,477 shares, 75,517 shares and 164,172 shares with a total value of $3 million, $12 million and $25 million, and the firm cancelled 12.7 million, 12.0 million and 6.2 million of RSUs with a total value of $1.44 billion, $1.91 billion and $972 million, respectively.

Preferred Equity

The table below presents perpetual preferred stock issued and outstanding as of December 2012.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Dividend Rate	Redemption Value *(in millions)*
A	50,000	30,000	29,999	3 month LIBOR + 0.75%, with floor of 3.75% per annum	$ 750
B	50,000	32,000	32,000	6.20% per annum	800
C	25,000	8,000	8,000	3 month LIBOR + 0.75%, with floor of 4.00% per annum	200
D	60,000	54,000	53,999	3 month LIBOR + 0.67%, with floor of 4.00% per annum	1,350
E	17,500	17,500	17,500	3 month LIBOR + 0.77%, with floor of 4.00% per annum	1,750
F	5,000	5,000	5,000	3 month LIBOR + 0.77%, with floor of 4.00% per annum	500
I	34,500	34,000	34,000	5.95% per annum	850
	242,000	180,500	180,498		$6,200

Each share of non-cumulative Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock issued and outstanding has a par value of $0.01, has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at the firm's option, subject to the approval of the Federal Reserve Board, at a redemption price equal to $25,000 plus declared and unpaid dividends. On October 24, 2012, Group Inc. issued 34,000 shares of non-cumulative Series I Preferred Stock, par value $0.01 per share. Each share of Series I Preferred Stock issued and outstanding has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at the firm's option beginning November 10, 2017, subject to the approval of the Federal Reserve Board, at a redemption price equal to $25,000 plus accrued and unpaid dividends.

In 2007, the Board of Directors of Group Inc. (Board) authorized 17,500 shares of Series E Preferred Stock, and 5,000 shares of Series F Preferred Stock, in connection with the APEX Trusts. On June 1, 2012, Group Inc. issued 17,500 shares of Series E Preferred Stock to Goldman Sachs Capital II pursuant to the stock purchase contracts held by Goldman Sachs Capital II. On September 4, 2012, Group Inc. issued 5,000 shares of Series F Preferred Stock to Goldman Sachs Capital III pursuant to the stock purchase contracts held by Goldman Sachs Capital III. Each share of Series E and Series F Preferred Stock issued and outstanding has a par value of $0.01, has a liquidation preference of $100,000 and is redeemable at the option of the firm at any time subject to approval from the Federal Reserve Board and to certain covenant restrictions governing the firm's ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics, at a redemption price equal to $100,000 plus declared and unpaid dividends. See Note 16 for further information about the APEX Trusts.

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

In March 2011, the firm provided notice to Berkshire Hathaway Inc. and certain of its subsidiaries (collectively, Berkshire Hathaway) that it would redeem in full the 50,000 shares of the firm's 10% Cumulative Perpetual Preferred Stock, Series G (Series G Preferred Stock) held by Berkshire Hathaway for the stated redemption price of \$5.50 billion (\$110,000 per share), plus accrued and unpaid dividends. In connection with this notice, the firm recognized a preferred dividend of \$1.64 billion (calculated as the difference between the carrying value and the redemption value of the preferred stock), which was recorded as a reduction to earnings applicable to common shareholders for the first quarter of 2011. The redemption also resulted in the acceleration of \$24 million of preferred dividends related to the period from April 1, 2011 to the redemption date, which was included in the firm's results during the three months ended March 2011. The Series G Preferred Stock was redeemed on April 18, 2011. Berkshire Hathaway continues to hold a five-year warrant, issued in October 2008, to purchase up to 43.5 million shares of common stock at an exercise price of \$115.00 per share.

On January 9, 2013, Group Inc. declared dividends of \$234.38, \$387.50, \$250.00, \$250.00 and \$437.99 per share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series I Preferred Stock, respectively, to be paid on February 11, 2013 to preferred shareholders of record on January 27, 2013. In addition, the firm declared dividends of \$977.78 per each share of Series E Preferred Stock and Series F Preferred Stock, to be paid on March 1, 2013 to preferred shareholders of record on February 14, 2013.

The table below presents preferred dividends declared on preferred stock.

	Year Ended December					
	2012		2011		2010	
	per share	*in millions*	*per share*	*in millions*	*per share*	*in millions*
Series A	**\$ 960.94**	**\$ 29**	\$ 950.51	\$ 28	\$ 950.51	\$ 28
Series B	**1,550.00**	**50**	1,550.00	50	1,550.00	50
Series C	**1,025.01**	**8**	1,013.90	8	1,013.90	8
Series D	**1,025.01**	**55**	1,013.90	55	1,013.90	55
Series E	**2,055.56**	**36**	—	—	—	—
Series F	**1,000.00**	**5**	—	—	—	—
Series G [1]	**—**	**—**	2,500.00	125	10,000.00	500
Total		**\$183**		\$266		\$641

1. Amount for the year ended December 2011 excludes preferred dividends related to the redemption of the firm's Series G Preferred Stock.

Accumulated Other Comprehensive Income/(Loss)

The tables below present accumulated other comprehensive income/(loss) by type.

	As of December 2012			
in millions	**Currency translation adjustment, net of tax**	**Pension and postretirement liability adjustments, net of tax**	**Net unrealized gains/(losses) on available-for-sale securities, net of tax**	**Accumulated other comprehensive income/(loss), net of tax**
Balance, beginning of year	**\$(225)**	**\$(374)**	**\$ 83**	**\$(516)**
Other comprehensive income/(loss)	**(89)**	**168**	**244**	**323**
Balance, end of year	**\$(314)**	**\$(206)**	**\$327 [1]**	**\$(193)**

	As of December 2011			
in millions	Currency translation adjustment, net of tax	Pension and postretirement liability adjustments, net of tax	Net unrealized gains/(losses) on available-for-sale securities, net of tax	Accumulated other comprehensive income/(loss), net of tax
Balance, beginning of year	\$(170)	\$(229)	\$113	\$(286)
Other comprehensive loss	(55)	(145)	(30)	(230)
Balance, end of year	\$(225)	\$(374)	\$ 83 [1]	\$(516)

1. Substantially all consists of net unrealized gains on securities held by the firm's insurance subsidiaries as of both December 2012 and December 2011.

Note 20.

Regulation and Capital Adequacy

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, the firm is subject to consolidated 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). The firm's U.S. bank depository institution subsidiaries, including GS Bank USA, are subject to 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, the firm and its U.S. bank depository institution subsidiaries must meet specific capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory reporting practices. The firm and its U.S. bank depository institution subsidiaries' capital amounts, as well as GS Bank USA's prompt corrective action classification, are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

Group Inc.

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%.

The table below presents information regarding Group Inc.'s regulatory capital ratios.

	As of December	
$ in millions	**2012**	2011
Tier 1 capital	**$ 66,977**	$ 63,262
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 ratio	**7.3%**	7.0%

RWAs under the Federal Reserve Board's risk-based capital requirements are calculated based on the amount of market risk and credit risk. RWAs for market risk are determined by reference to the firm's Value-at-Risk (VaR) model, supplemented by other measures to capture risks not reflected in the firm's VaR model. Credit risk for on-balance sheet assets is based on the balance sheet value. For off-balance sheet exposures, including OTC derivatives and commitments, a credit equivalent amount is calculated based on the notional amount of each trade. 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).

Tier 1 leverage ratio is defined as Tier 1 capital under Basel 1 divided by average adjusted total assets (which includes adjustments for disallowed goodwill and intangible assets, and the carrying value of equity investments in non-financial companies that are subject to deductions from Tier 1 capital).

Regulatory Reform

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 the firm's capital ratios under the guidelines issued by the Basel Committee in December 2010 (Basel 3). These changes resulted in increased regulatory capital requirements for market risk, and will be reflected in all of the firm's Basel-based capital ratios for periods beginning on or after January 1, 2013.

The firm is currently working to implement the requirements set out in the Agencies' Risk-Based Capital Standards: Advanced Capital Adequacy Framework — Basel 2, as applicable to Group Inc. 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, equity investments, and introduces a new operational risk capital requirement. The firm will adopt Basel 2 once approved to do so by regulators. The firm's 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 Basel 1. 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 the firm 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 the firm's junior subordinated debt issued to trusts; such capital would instead be eligible as Tier 2 capital under the proposals. 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.

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 the firm, based on its 2011 financial data, 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. The final determination of the amount of additional Tier 1 common equity that the firm will be required to hold will be based on the firm's 2013 financial data and the manner and timing of the U.S. banking regulators' implementation of the Basel Committee's methodology. The Basel Committee indicated that globally systemically important banking institutions will be required to meet the capital surcharges on a phased-in basis from 2016 through 2019.

In October 2012, the Basel Committee 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 the firm's other subsidiaries, including Goldman Sachs International (GSI), will depend on how they are implemented by the banking and non-banking regulators in the United States and other jurisdictions.

The Basel Committee has released other consultation papers that may result in further changes to the 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.

The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers and major security-based swap participants. The firm has registered certain subsidiaries as "swap dealers" under the U.S. Commodity Futures Trading Commission (CFTC) rules, including GS&Co., GS Bank USA, GSI and J. Aron & Company. These entities and other entities that would require registration under the CFTC or SEC rules will be subject to regulatory capital requirements, which have not yet been finalized by the CFTC and SEC.

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 U.K.'s Financial Services Authority (FSA)) adds further uncertainty to the firm's future capital and liquidity requirements and those of the firm's subsidiaries.

Bank Subsidiaries

GS Bank USA, an FDIC-insured, New York State-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve Board, the FDIC, the New York State Department of Financial Services and the Consumer Financial Protection Bureau, and is subject to minimum capital requirements (described below) that are calculated in a manner similar to those applicable to bank holding companies. 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, for purposes of assessing the adequacy of its capital. Under the regulatory framework for prompt corrective action that is applicable to GS Bank USA, in order to be considered a "well-capitalized" depository institution, GS Bank USA must maintain a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. GS Bank USA has agreed with the Federal Reserve Board to maintain minimum capital ratios in excess of these "well-capitalized" levels. Accordingly, for a period of time, GS Bank USA is expected to maintain a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 11% and a Tier 1 leverage ratio of at least 6%. As noted in the table below, GS Bank USA was in compliance with these minimum capital requirements as of December 2012 and December 2011.

The table below presents information regarding GS Bank USA's regulatory capital ratios under Basel 1 as implemented by the Federal Reserve Board.

	As of December	
$ in millions	**2012**	2011
Tier 1 capital	**$ 20,704**	$ 19,251
Tier 2 capital	**$ 39**	$ 6
Total capital	**$ 20,743**	$ 19,257
Risk-weighted assets	**$109,669**	$112,824
Tier 1 capital ratio	**18.9%**	17.1%
Total capital ratio	**18.9%**	17.1%
Tier 1 leverage ratio	**17.6%**	18.5%

Effective January 1, 2013, GS Bank USA implemented the revised market risk regulatory framework outlined above. These changes resulted in increased regulatory capital requirements for market risk, and will be reflected in all of GS Bank USA's Basel-based capital ratios for periods beginning on or after January 1, 2013.

GS Bank USA is also currently working to implement the Basel 2 framework, as implemented by the Federal Reserve Board. GS Bank USA will adopt Basel 2 once 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 requirements of 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. GS Bank USA will also be impacted by aspects of the Dodd-Frank Act, including new stress tests.

The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The amount deposited by the firm's depository institution held at the Federal Reserve Bank was approximately $58.67 billion and $40.06 billion as of December 2012 and December 2011, respectively, which exceeded required reserve amounts by $58.59 billion and $39.51 billion as of December 2012 and December 2011, respectively.

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

The firm's principal non-U.S. bank subsidiaries include GSIB, a wholly-owned credit institution, regulated by the FSA, and GS Bank Europe, a wholly-owned credit institution, regulated by the Central Bank of Ireland, which are both subject to minimum capital requirements. As of December 2012 and December 2011, GSIB and GS Bank Europe were both in compliance with all regulatory capital requirements. On January 18, 2013, GS Bank Europe surrendered its banking license to the Central Bank of Ireland after transferring its deposits to GSIB.

Broker-Dealer Subsidiaries

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

As of December 2012 and December 2011, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of $14.12 billion and $11.24 billion, respectively, which exceeded the amount required by $12.42 billion and $9.34 billion, respectively. As of December 2012 and December 2011, GSEC had regulatory net capital, as defined by Rule 15c3-1, of $2.02 billion and $2.10 billion, respectively, which exceeded the amount required by $1.92 billion and $2.00 billion, respectively.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. As of December 2012 and December 2011, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

Insurance Subsidiaries

The firm has U.S. insurance subsidiaries that 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. In addition, certain of the firm's insurance subsidiaries outside of the U.S. are regulated by the FSA and certain are regulated by the Bermuda Monetary Authority. The firm's insurance subsidiaries were in compliance with all regulatory capital requirements as of December 2012 and December 2011.

Other Non-U.S. Regulated Subsidiaries

The firm's principal non-U.S. regulated subsidiaries include GSI and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's regulated U.K. broker-dealer, is subject to the capital requirements imposed by the FSA. GSJCL, the firm's regulated Japanese broker-dealer, is subject to the capital requirements imposed by Japan's Financial Services Agency. As of December 2012 and December 2011, GSI and GSJCL were in compliance with their local capital adequacy requirements. Certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of December 2012 and December 2011, these subsidiaries were in compliance with their local capital adequacy requirements.

Restrictions on Payments

The regulatory requirements referred to above restrict Group Inc.'s ability to withdraw capital from its regulated subsidiaries. As of December 2012 and December 2011, Group Inc. was required to maintain approximately $31.01 billion and $25.53 billion, respectively, of minimum equity capital in these regulated subsidiaries. This minimum equity capital requirement includes certain restrictions imposed by federal and state laws as to the payment of dividends to Group Inc. by its regulated subsidiaries. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board, the FDIC and the New York State Department of Financial Services have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization.

Note 21.

Earnings Per Common Share

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

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

	Year Ended December		
in millions, except per share amounts	**2012**	2011	2010
Numerator for basic and diluted EPS — net earnings applicable to common shareholders	**$7,292**	$2,510	$7,713
Denominator for basic EPS — weighted average number of common shares	**496.2**	524.6	542.0
Effect of dilutive securities:			
RSUs	**11.3**	14.6	15.0
Stock options and warrants	**8.6**	17.7	28.3
Dilutive potential common shares	**19.9**	32.3	43.3
Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares	**516.1**	556.9	585.3
Basic EPS	**$14.63**	$ 4.71	$14.15
Diluted EPS	**14.13**	4.51	13.18

In the table above, unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of $0.07 for both the years ended December 2012 and December 2011, and $0.08 for the year ended December 2010.

The diluted EPS computations in the table above do not include the following:

	Year Ended December		
in millions	**2012**	2011	2010
Number of antidilutive RSUs and common shares underlying antidilutive stock options and warrants	**52.4**	9.2	6.2

Note 22.

Transactions with Affiliated Funds

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

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

	Year Ended December		
in millions	**2012**	2011	2010
Fees earned from affiliated funds	**$2,935**	$2,789	$2,882

	As of December	
in millions	**2012**	2011
Fees receivable from funds	**$ 704**	$ 721
Aggregate carrying value of interests in funds	**14,725**	14,960

As of December 2012 and December 2011, the firm had outstanding loans and guarantees to certain of its funds of $582 million and $289 million, respectively, which are collateralized by certain fund assets. These amounts relate primarily to certain real estate funds for which the firm voluntarily provided financial support to alleviate liquidity constraints during the financial crisis and, more recently, to enable them to fund investment opportunities. As of December 2012 and December 2011, the firm had no outstanding commitments to extend credit to these funds.

The Volcker Rule, as currently drafted, would restrict the firm from providing additional voluntary financial support to these funds after July 2014 (subject to extension by the Federal Reserve Board). As a general matter, in the ordinary course of business, the firm does not expect to provide additional voluntary financial support to these funds; however, in the event that such support is provided, the amount of any such support is not expected to be material. In addition, in the ordinary course of business, the firm may also engage in other activities with these funds, including, among others, securities lending, trade execution, market making, custody, and acquisition and bridge financing. See Note 18 for the firm's investment commitments related to these funds.

Note 23.

Interest Income and Interest Expense

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

	Year Ended December		
in millions	**2012**	2011	2010
Interest income			
Deposits with banks	**$ 156**	$ 125	$ 86
Securities borrowed, securities purchased under agreements to resell and federal funds sold [1]	**(77)**	666	540
Financial instruments owned, at fair value	**9,817**	10,718	10,346
Other interest [2]	**1,485**	1,665	1,337
Total interest income	**11,381**	13,174	12,309
Interest expense			
Deposits	**399**	280	304
Securities loaned and securities sold under agreements to repurchase	**822**	905	708
Financial instruments sold, but not yet purchased, at fair value	**2,438**	2,464	1,859
Short-term borrowings [3]	**581**	526	453
Long-term borrowings [3]	**3,736**	3,439	3,155
Other interest [4]	**(475)**	368	327
Total interest expense	**7,501**	7,982	6,806
Net interest income	**$ 3,880**	$ 5,192	$ 5,503

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

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

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

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

Note 24.

Income Taxes

Provision for Income Taxes

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

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

	Year Ended December		
in millions	**2012**	2011	2010
Current taxes			
U.S. federal	**$3,013**	$ 405	$1,791
State and local	**628**	392	325
Non-U.S.	**447**	204	1,083
Total current tax expense	**4,088**	1,001	3,199
Deferred taxes			
U.S. federal	**(643)**	683	1,516
State and local	**38**	24	162
Non-U.S.	**249**	19	(339)
Total deferred tax (benefit)/expense	**(356)**	726	1,339
Provision for taxes	**$3,732**	$1,727	$4,538

	Year Ended December		
	2012	2011	2010
U.S. federal statutory income tax rate	**35.0%**	35.0%	35.0%
State and local taxes, net of U.S. federal income tax effects	**3.8**	4.4	2.5
Tax credits	**(1.0)**	(1.6)	(0.7)
Non-U.S. operations	**(4.8)**	(6.7)	(2.3)
Tax-exempt income, including dividends	**(0.5)**	(2.4)	(1.0)
Other	**0.8**	(0.7)	1.7 [1]
Effective income tax rate	**33.3%**	28.0%	35.2%

1. Primarily includes the effect of the SEC settlement of $550 million, substantially all of which is non-deductible.

Deferred Income Taxes

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

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

	As of December	
in millions	**2012**	2011
Deferred tax assets		
Compensation and benefits	**$2,447**	$3,126
Unrealized losses	**1,477**	849
ASC 740 asset related to unrecognized tax benefits	**685**	569
Non-U.S. operations	**965**	662
Foreign tax credits	**—**	12
Net operating losses	**222**	213
Occupancy-related	**119**	110
Other comprehensive income-related	**114**	168
Other, net	**435**	581
	6,464	6,290
Valuation allowance [1]	**(168)**	(65)
Total deferred tax assets [2]	**$6,296**	$6,225
Depreciation and amortization	**1,230**	1,959
Other comprehensive income-related	**85**	36
Total deferred tax liabilities [2]	**$1,315**	$1,995

1. Relates primarily to the ability to utilize losses in various tax jurisdictions.

2. Before netting within tax jurisdictions.

The firm has recorded deferred tax assets of $222 million and $213 million as of December 2012 and December 2011, respectively, in connection with U.S. federal, state and local and foreign net operating loss carryforwards. The firm also recorded a valuation allowance of $60 million and $59 million as of December 2012 and December 2011, respectively, related to these net operating loss carryforwards. As of December 2012, the U.S. federal and foreign net operating loss carryforwards were $39 million and $640 million, respectively. If not utilized, the U.S. federal net operating loss carryforward will begin to expire in 2026. The foreign net operating loss carryforwards can be carried forward indefinitely. State and local net operating loss carryforwards of $1.19 billion will begin to expire in 2013. If these carryforwards expire, they will not have a material impact on the firm's results of operations. The firm had foreign tax credit carryforwards of $0 and $12 million as of December 2012 and December 2011, respectively. The firm recorded a related net deferred income tax asset of $0 and $6 million as of December 2012 and December 2011, respectively.

The firm had capital loss carryforwards of $0 and $6 million as of December 2012 and December 2011, respectively. The firm recorded a related net deferred income tax asset of $0 and $2 million as of December 2012 and December 2011, respectively.

The valuation allowance increased by $103 million and $15 million during 2012 and 2011, respectively. The increase in 2012 was primarily due to the acquisition of deferred tax assets considered more likely than not to be unrealizable. The increase in 2011 was due to losses considered more likely than not to expire unused.

The firm permanently reinvests eligible earnings of certain foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated. As of December 2012 and December 2011, this policy resulted in an unrecognized net deferred tax liability of $3.75 billion and $3.32 billion, respectively, attributable to reinvested earnings of $21.69 billion and $20.63 billion, respectively.

Unrecognized Tax Benefits

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

As of December 2012 and December 2011, the accrued liability for interest expense related to income tax matters and income tax penalties was $374 million and $233 million, respectively. The firm recognized $95 million, $21 million and $28 million of interest and income tax penalties for the years ended December 2012, December 2011 and December 2010, respectively. It is reasonably possible that unrecognized tax benefits could change significantly during the twelve months subsequent to December 2012 due to potential audit settlements, however, at this time it is not possible to estimate any potential change.

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

	As of December		
in millions	**2012**	2011	2010
Balance, beginning of year	**$1,887**	$2,081	$1,925
Increases based on tax positions related to the current year	**190**	171	171
Increases based on tax positions related to prior years	**336**	278	162
Decreases related to tax positions of prior years	**(109)**	(41)	(104)
Decreases related to settlements	**(35)**	(638)	(128)
Acquisitions/(dispositions)	**(47)**	47	56
Exchange rate fluctuations	**15**	(11)	(1)
Balance, end of year	**$2,237**	$1,887	$2,081
Related deferred income tax asset [1]	**685**	569	972
Net unrecognized tax benefit [2]	**$1,552**	$1,318	$1,109

1. Included in "Other assets." See Note 12.

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

Regulatory Tax Examinations

The firm is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the firm has significant business operations, such as the United Kingdom, Japan, Hong Kong, Korea and various states, such as New York. The tax years under examination vary by jurisdiction. The firm believes that during 2013, certain audits have a reasonable possibility of being completed. The firm does not expect completion of these audits to have a material impact on the firm's financial condition but it may be material to operating results for a particular period, depending, in part, on the operating results for that period.

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

Jurisdiction	As of December 2012
U.S. Federal [1]	**2005**
New York State and City [2]	**2004**
United Kingdom	**2007**
Japan [3]	**2008**
Hong Kong	**2005**
Korea	**2008**

1. IRS examination of fiscal 2008 through calendar 2010 began during 2011. IRS examination of fiscal 2005, 2006 and 2007 began during 2008. IRS examination of fiscal 2003 and 2004 has been completed, but the liabilities for those years are not yet final. The firm anticipates that the audits of fiscal 2005 through calendar 2010 should be completed during 2013, and the audits of 2011 through 2012 should begin in 2013.
2. New York State and City examination of fiscal 2004, 2005 and 2006 began in 2008.
3. Japan National Tax Agency examination of fiscal 2005 through 2009 began in 2010. The examinations have been completed, but the liabilities for 2008 and 2009 are not yet final.

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

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

Note 25.

Business Segments

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

Basis of Presentation

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

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

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

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

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

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

		For the Years Ended or as of December		
in millions		**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
	Segment assets	**$ 1,712**	$ 1,983	$ 1,870
Institutional Client Services	Net revenues [1]	**$ 18,124**	$ 17,280	$ 21,796
	Operating expenses	**12,480**	12,837	14,994
	Pre-tax earnings	**$ 5,644**	$ 4,443	$ 6,802
	Segment assets	**$825,496**	$813,660	$799,775
Investing & Lending	Net revenues	**$ 5,891**	$ 2,142	$ 7,541
	Operating expenses	**2,666**	2,673	3,361
	Pre-tax earnings/(loss)	**$ 3,225**	$ (531)	$ 4,180
	Segment assets	**$ 98,600**	$ 94,330	$ 95,373
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
	Segment assets	**$ 12,747**	$ 13,252	$ 14,314
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 assets	**$938,555**	$923,225	$911,332

1. Includes $121 million, $115 million and $111 million for the years ended December 2012, December 2011 and December 2010, respectively, of realized gains on available-for-sale securities held in the firm's reinsurance subsidiaries.

Total operating expenses in the table above include the following expenses that have not been allocated to the firm's 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 the firm's segments, have now been allocated. This allocation is consistent with the manner in which management currently views the performance of the firm's segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

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

	Year Ended December		
in millions	**2012**	2011	2010
Investment Banking	**$ (15)**	$ (6)	$ —
Institutional Client Services	**3,723**	4,360	4,692
Investing & Lending	**26**	635	609
Investment Management	**146**	203	202
Total net interest income	**$3,880**	$5,192	$5,503

	Year Ended December		
in millions	**2012**	2011	2010
Investment Banking	**$ 164**	$ 174	$ 172
Institutional Client Services	**796**	944	1,109
Investing & Lending	**564**	563	422
Investment Management	**204**	188	200
Total depreciation and amortization [1]	**$1,738**	$1,869	$1,904

1. Includes real estate-related exit costs of $10 million and $1 million for the years ended December 2012 and December 2010, respectively, that have not been allocated to the firm's segments.

Geographic Information

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

Geographic results are generally allocated as follows:

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

The table below presents the total net revenues, pre-tax earnings and net earnings of the firm by geographic region allocated based on the methodology referred to above, as well as the percentage of total net revenues, pre-tax earnings and net earnings (excluding Corporate) for each geographic region.

	Year Ended December					
$ in millions	**2012**		2011		2010	
Net revenues						
Americas [1]	**$20,159**	**59%**	$17,873	62%	$21,564	55%
EMEA [2]	**8,612**	**25**	7,074	25	10,449	27
Asia [3, 4]	**5,392**	**16**	3,864	13	7,148	18
Total net revenues	**$34,163**	**100%**	$28,811	100%	$39,161	100%
Pre-tax earnings						
Americas [1]	**$ 6,960**	**61%**	$ 5,307	85%	$ 7,303	55%
EMEA [2]	**2,943**	**26**	1,210	19	3,029	23
Asia [3]	**1,490**	**13**	(231)	(4)	2,933	22
Subtotal	**11,393**	**100%**	6,286	100%	13,265	100%
Corporate [5]	**(186)**		(117)		(373)	
Total pre-tax earnings	**$11,207**		$ 6,169		$12,892	
Net earnings						
Americas [1]	**$ 4,259**	**56%**	$ 3,522	78%	$ 4,322	50%
EMEA [2]	**2,369**	**31**	1,103	24	2,200	26
Asia [3]	**972**	**13**	(103)	(2)	2,083	24
Subtotal	**7,600**	**100%**	4,522	100%	8,605	100%
Corporate	**(125)**		(80)		(251)	
Total net earnings	**$ 7,475**		$ 4,442		$ 8,354	

1. Substantially all relates to the U.S.
2. EMEA (Europe, Middle East and Africa).
3. Asia also includes Australia and New Zealand.
4. Net revenues in Asia in 2011 primarily reflect lower net revenues in Investing & Lending, principally due to losses from public equities, reflecting a significant decline in equity markets in Asia during 2011.
5. Consists of 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. Net provisions for litigation and regulatory proceedings, previously included in Corporate, have now been allocated to the geographic regions. Reclassifications have been made to previously reported geographic region amounts to conform to the current presentation.

Note 26.

Credit Concentrations

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

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

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

The table below presents the credit concentrations in assets held by the firm. As of December 2012 and December 2011, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

	As of December	
$ in millions	**2012**	2011
U.S. government and federal agency obligations [1]	**$114,418**	$103,468
% of total assets	**12.2%**	11.2%
Non-U.S. government and agency obligations [1, 2]	**$ 62,252**	$ 49,025
% of total assets	**6.6%**	5.3%

1. Substantially all included in "Financial instruments owned, at fair value" and "Cash and securities segregated for regulatory and other purposes."
2. Principally related to Germany, Japan and the United Kingdom as of both December 2012 and December 2011.

To reduce credit exposures, the firm may enter into agreements with counterparties that permit the firm to offset receivables and payables with such counterparties and/or enable the firm to obtain collateral on an upfront or contingent basis. Collateral obtained by the firm related to derivative assets is principally cash and is held by the firm or a third-party custodian. Collateral obtained by the firm related to resale agreements and securities borrowed transactions is primarily U.S. government and federal agency obligations and non-U.S. government and agency obligations. See Note 9 for further information about collateralized agreements and financings.

The table below presents U.S. government and federal agency obligations, and non-U.S. government and agency obligations that collateralize resale agreements and securities borrowed transactions (including those in "Cash and securities segregated for regulatory and other purposes"). Because the firm's primary credit exposure on such transactions is to the counterparty to the transaction, the firm would be exposed to the collateral issuer only in the event of counterparty default.

	As of December	
in millions	**2012**	2011
U.S. government and federal agency obligations	**$73,477**	$ 94,603
Non-U.S. government and agency obligations [1]	**64,724**	110,178

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

Note 27.

Legal Proceedings

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

Under ASC 450, an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." Thus, references to the upper end of the range of reasonably possible loss for cases in which the firm is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which the firm believes the risk of loss is more than slight. The amounts reserved against such matters are not significant as compared to the upper end of the range of reasonably possible loss.

With respect to proceedings described below for which management has been able to estimate a range of reasonably possible loss where (i) plaintiffs have claimed an amount of money damages, (ii) the firm is being sued by purchasers in an underwriting and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the amount of securities that the firm sold in the underwritings and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of December 2012 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any factors believed to be relevant to the particular proceeding or proceedings of that type. As of the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such proceedings and for any other proceedings described below where management has been able to estimate a range of reasonably possible aggregate loss to be approximately $3.5 billion.

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

IPO Process Matters. Group Inc. and GS&Co. are among the numerous financial services companies that have been named as defendants in a variety of lawsuits alleging improprieties in the process by which those companies participated in the underwriting of public offerings.

GS&Co. has been named as a defendant in an action commenced on May 15, 2002 in New York Supreme Court, New York County, by an official committee of unsecured creditors on behalf of eToys, Inc., alleging that the firm intentionally underpriced eToys, Inc.'s initial public offering. The action seeks, among other things, unspecified compensatory damages resulting from the alleged lower amount of offering proceeds. On appeal from rulings on GS&Co.'s motion to dismiss, the New York Court of Appeals dismissed claims for breach of contract, professional malpractice and unjust enrichment, but permitted claims for breach of fiduciary duty and fraud to continue. On remand, the lower court granted GS&Co.'s motion for summary judgment and, on December 8, 2011, the appellate court affirmed the lower court's decision. On September 6, 2012, the New York Court of Appeals granted the creditors' motion for leave to appeal.

Group Inc. and certain of its affiliates have, together with various underwriters in certain offerings, received subpoenas and requests for documents and information from various governmental agencies and self-regulatory organizations in connection with investigations relating to the public offering process. Goldman Sachs has cooperated with these investigations.

World Online Litigation. In March 2001, a Dutch shareholders' association initiated legal proceedings for an unspecified amount of damages against GSI and others in Amsterdam District Court in connection with the initial public offering of World Online in March 2000, alleging misstatements and omissions in the offering materials and that the market was artificially inflated by improper public statements and stabilization activities. Goldman Sachs and ABN AMRO Rothschild served as joint global coordinators of the approximately €2.9 billion offering. GSI underwrote 20,268,846 shares and GS&Co. underwrote 6,756,282 shares for a total offering price of approximately €1.16 billion.

The district court rejected the claims against GSI and ABN AMRO, but found World Online liable in an amount to be determined. On appeal, the Netherlands Court of Appeals affirmed in part and reversed in part the decision of the district court, holding that certain of the alleged disclosure deficiencies were actionable as to GSI and ABN AMRO. On further appeal, the Netherlands Supreme Court affirmed the rulings of the Court of Appeals, except that it found certain additional aspects of the offering materials actionable and held that individual investors could potentially hold GSI and ABN AMRO responsible for certain public statements and press releases by World Online and its former CEO. The parties entered into a definitive settlement agreement, dated July 15, 2011, and GSI has paid the full amount of its contribution. In the first quarter of 2012, GSI and ABN AMRO, on behalf of the underwriting syndicate, entered into a settlement agreement with respect to a claim filed by another shareholders' association, and has paid the settlement amount in full. Other shareholders have made demands for compensation of alleged damages, and GSI and other syndicate members are discussing the possibility of settlement with certain of these shareholders.

Adelphia Communications Fraudulent Conveyance Litigation. GS&Co. is named as a defendant in two proceedings commenced in the U.S. Bankruptcy Court for the Southern District of New York, one on July 6, 2003 by a creditors committee, and the second on or about July 31, 2003 by an equity committee of Adelphia Communications, Inc. Those proceedings were consolidated in a single amended complaint filed by the Adelphia Recovery Trust on October 31, 2007. The complaint seeks, among other things, to recover, as fraudulent conveyances, approximately $62.9 million allegedly paid to GS&Co. by Adelphia Communications, Inc. and its affiliates in respect of margin calls made in the ordinary course of business on accounts owned by members of the family that formerly controlled Adelphia Communications, Inc. The district court assumed jurisdiction over the action and, on April 8, 2011, granted GS&Co.'s motion for summary judgment. The plaintiff appealed on May 6, 2011.

Specialist Matters. Spear, Leeds & Kellogg Specialists LLC, Spear, Leeds & Kellogg, L.P. and Group Inc. are among numerous defendants named in purported class actions brought beginning in October 2003 on behalf of investors in the U.S. District Court for the Southern District of New York alleging violations of the federal securities laws and state common law in connection with NYSE floor specialist activities. On October 24, 2012, the parties entered into a definitive settlement agreement, subject to court approval. The firm has reserved the full amount of its proposed contribution to the settlement.

Fannie Mae Litigation. GS&Co. was added as a defendant in an amended complaint filed on August 14, 2006 in a purported class action pending in the U.S. District Court for the District of Columbia. The complaint asserts violations of the federal securities laws generally arising from allegations concerning Fannie Mae's accounting practices in connection with certain Fannie Mae-sponsored REMIC transactions that were allegedly arranged by GS&Co. The complaint does not specify a dollar amount of damages. The other defendants include Fannie Mae, certain of its past and present officers and directors, and accountants. By a decision dated May 8, 2007, the district court granted GS&Co.'s motion to dismiss the claim against it. The time for an appeal will not begin to run until disposition of the claims against other defendants. A motion to stay the action filed by the Federal Housing Finance Agency (FHFA), which took control of the foregoing action following Fannie Mae's conservatorship, was denied on November 14, 2011.

Compensation-Related Litigation. On January 17, 2008, Group Inc., its Board, executive officers and members of its management committee were named as defendants in a purported shareholder derivative action in the U.S. District Court for the Eastern District of New York predicting that the firm's 2008 Proxy Statement would violate the federal securities laws by undervaluing certain stock option awards and alleging that senior management received excessive compensation for 2007. The complaint seeks, among other things, an equitable accounting for the allegedly excessive compensation. Plaintiff's motion for a preliminary injunction to prevent the 2008 Proxy Statement from using options valuations that the plaintiff alleges are incorrect and to require the amendment of SEC Forms 4 filed by certain of the executive officers named in the complaint to reflect the stock option valuations alleged by the plaintiff was denied, and plaintiff's appeal from this denial was dismissed. On February 13, 2009, the plaintiff filed an amended complaint, which added purported direct (i.e., non-derivative) claims based on substantially the same theory. The plaintiff filed a further amended complaint on March 24, 2010, and the defendants' motion to dismiss this further amended complaint was granted on the ground that dismissal of the shareholder plaintiff's prior action relating to the firm's 2007 Proxy Statement based on the failure to make a demand to the Board precluded relitigation of demand futility. On December 19, 2011, the appellate court vacated the order of dismissal, holding only that preclusion principles did not mandate dismissal and remanding for consideration of the alternative grounds for dismissal. On April 18, 2012, plaintiff disclosed that he no longer is a Group Inc. shareholder and thus lacks standing to continue to prosecute the action. On January 7, 2013, the district court dismissed the claim due to the plaintiff's lack of standing and the lack of any intervening shareholder.

On March 24, 2009, the same plaintiff filed an action in New York Supreme Court, New York County, against Group Inc., its directors and certain senior executives alleging violation of Delaware statutory and common law in connection with substantively similar allegations regarding stock option awards. On January 4, 2013, another purported shareholder moved to intervene as plaintiff, which defendants have opposed. On January 15, 2013, the court dismissed the action only as to the original plaintiff with prejudice due to his lack of standing.

Mortgage-Related Matters. On April 16, 2010, the SEC brought an action (SEC Action) under the U.S. federal securities laws in the U.S. District Court for the Southern District of New York against GS&Co. and Fabrice Tourre, a former employee, in connection with a CDO offering made in early 2007 (ABACUS 2007-AC1 transaction), alleging that the defendants made materially false and misleading statements to investors and seeking, among other things, unspecified monetary penalties. Investigations of GS&Co. by FINRA and of GSI by the FSA were subsequently initiated, and Group Inc. and certain of its affiliates have received subpoenas and requests for information from other regulators, regarding CDO offerings, including the ABACUS 2007-AC1 transaction, and related matters.

On July 14, 2010, GS&Co. entered into a consent agreement with the SEC, settling all claims made against GS&Co. in the SEC Action, pursuant to which GS&Co. paid $550 million of disgorgement and civil penalties, and which was approved by the U.S. District Court for the Southern District of New York on July 20, 2010.

On January 6, 2011, ACA Financial Guaranty Corp. filed an action against GS&Co. in respect of the ABACUS 2007-AC1 transaction in New York Supreme Court, New York County. The complaint includes allegations of fraudulent inducement, fraudulent concealment and unjust enrichment and seeks at least $30 million in compensatory damages, at least $90 million in punitive damages and unspecified disgorgement. On April 25, 2011, the plaintiff filed an amended complaint and, on June 3, 2011, GS&Co. moved to dismiss the amended complaint. By a decision dated April 23, 2012, the court granted the motion to dismiss as to the unjust enrichment claim and denied the motion as to the other claims, and on May 29, 2012, GS&Co. appealed the decision to the extent that its motion was denied and filed counterclaims for breach of contract and fraudulent inducement, and third-party claims against ACA Management, LLC for breach of contract, unjust enrichment and indemnification. ACA Financial Guaranty Corp. and ACA Management, LLC moved to dismiss GS&Co.'s counterclaims and third-party claims on August 31, 2012. On January 30, 2013, the court granted ACA's motion for leave to file an amended complaint naming a third party to the ABACUS 2007-AC1 transaction as an additional defendant.

Since April 23, 2010, the Board has received letters from shareholders demanding that the Board take action to address alleged misconduct by GS&Co., the Board and certain officers and employees of Group Inc. and its affiliates. These demands, which the Board has rejected, generally alleged misconduct in connection with the firm's securitization practices, including the ABACUS 2007-AC1 transaction, the alleged failure by Group Inc. to adequately disclose the SEC investigation that led to the SEC Action, and Group Inc.'s 2009 compensation practices. In addition, the Board has received books and records demands from several shareholders for materials relating to, among other subjects, the firm's mortgage servicing and foreclosure activities, participation in federal programs providing assistance to financial institutions and homeowners, loan sales to Fannie Mae and Freddie Mac, mortgage-related activities and conflicts management.

Beginning April 26, 2010, a number of purported securities law class actions have been filed in the U.S. District Court for the Southern District of New York challenging the adequacy of Group Inc.'s public disclosure of, among other things, the firm's activities in the CDO market and the SEC investigation that led to the SEC Action. The purported class action complaints, which name as defendants Group Inc. and certain officers and employees of Group Inc. and its affiliates, have been consolidated, generally allege violations of Sections 10(b) and 20(a) of the Exchange Act and seek unspecified damages. Plaintiffs filed a consolidated amended complaint on July 25, 2011. On October 6, 2011, the defendants moved to dismiss, and by a decision dated June 21, 2012, the district court dismissed the claims based on Group Inc.'s not disclosing that it had received a "Wells" notice from the staff of the SEC related to the ABACUS 2007-AC1 transaction, but permitted the plaintiffs' other claims to proceed.

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

In June 2012, the Board received a demand from a shareholder that the Board investigate and take action relating to the firm's mortgage-related activities and to stock sales by certain directors and executives of the firm. On February 15, 2013, this shareholder filed a putative shareholder derivative action in the New York Supreme Court, New York County, against Group Inc. and certain current or former directors and employees, based on these activities and stock sales. The derivative complaint includes allegations of breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement and corporate waste, and seeks, among other things, unspecified monetary damages, disgorgement of profits and certain corporate governance and disclosure reforms.

GS&Co., Goldman Sachs Mortgage Company (GSMC) and GS Mortgage Securities Corp. (GSMSC) and three current or former Goldman Sachs employees are defendants in a putative class action commenced on December 11, 2008 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2007. The complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory damages and rescission or rescissionary damages. Following dismissals of certain of the plaintiff's claims under the initial and three amended complaints, on May 5, 2011, the court granted plaintiff's motion for entry of a final judgment dismissing all its claims, thereby allowing plaintiff to appeal. The plaintiff appealed from the dismissal with respect to all 17 of the offerings included in its original complaint. By a decision dated September 6, 2012, the U.S. Court of Appeals for the Second Circuit affirmed the district court's dismissal of plaintiff's claims with respect to 10 of the offerings included in plaintiff's original complaint but vacated the dismissal and remanded the case to the district court with instructions to reinstate the plaintiff's claims with respect to the other seven offerings. On October 26, 2012, the defendants filed a petition for certiorari with the U.S. Supreme Court seeking review of the Second Circuit decision. On October 31, 2012, the plaintiff served defendants with a fourth amended complaint relating to those seven offerings, plus seven additional offerings. On June 3, 2010, another investor (who had unsuccessfully sought to intervene in the action) filed a separate putative class action asserting substantively similar allegations relating to one of the offerings included in the initial plaintiff's complaint. The district court twice granted defendants' motions to dismiss this separate action, both times with leave to replead. On July 9, 2012, that separate plaintiff filed a second amended complaint, and the defendants moved to dismiss on September 21, 2012. On December 26, 2012, that separate plaintiff filed a motion to amend the second amended complaint to add claims with respect to two additional offerings included in the initial plaintiff's complaint. The securitization trusts issued, and GS&Co. underwrote, approximately $11 billion principal amount of certificates to all purchasers in the fourteen offerings at issue in the complaints.

Group Inc., GS&Co., GSMC and GSMSC are among the defendants in a separate putative class action commenced on February 6, 2009 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2006. The other original defendants include three current or former Goldman Sachs employees and various rating agencies. The second amended complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory and rescissionary damages. Defendants moved to dismiss the second amended complaint. On January 12, 2011, the district court granted the motion to dismiss with respect to offerings in which plaintiff had not purchased securities as well as all claims against the rating agencies, but denied the motion to dismiss with respect to a single offering in which the plaintiff allegedly purchased securities. These trusts issued, and GS&Co. underwrote, approximately $698 million principal amount of certificates to all purchasers in the offerings at issue in the complaint (excluding those offerings for which the claims have been dismissed). On February 2, 2012, the district court granted the plaintiff's motion for class certification and on June 13, 2012, the U.S. Court of Appeals for the Second Circuit granted defendants' petition to review that ruling. On November 8, 2012, the court approved a settlement between the parties, and GS&Co. has paid the full amount of the settlement into an escrow account. The time for any appeal from the approval of the settlement has expired.

On September 30, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York against GS&Co., Group Inc. and two former GS&Co. employees on behalf of investors in $821 million of notes issued in 2006 and 2007 by two synthetic CDOs (Hudson Mezzanine 2006-1 and 2006-2). The complaint, which was amended on February 4, 2011, asserts federal securities law and common law claims, and seeks unspecified compensatory, punitive and other damages. The defendants moved to dismiss on April 5, 2011, and the motion was granted as to plaintiff's claim of market manipulation and denied as to the remainder of plaintiff's claims by a decision dated March 21, 2012. On May 21, 2012, the defendants counterclaimed for breach of contract and fraud. On December 17, 2012, the plaintiff moved for class certification.

GS&Co., GSMC and GSMSC are among the defendants in a lawsuit filed in August 2011 by CIFG Assurance of North America, Inc. (CIFG) in New York Supreme Court, New York County. The complaint alleges that CIFG was fraudulently induced to provide credit enhancement for a 2007 securitization sponsored by GSMC, and seeks, among other things, the repurchase of $24.7 million in aggregate principal amount of mortgages that CIFG had previously stated to be non-conforming, an accounting for any proceeds associated with mortgages discharged from the securitization and unspecified compensatory damages. On October 17, 2011, the Goldman Sachs defendants moved to dismiss. By a decision dated May 1, 2012, the court dismissed the fraud and accounting claims but denied the motion as to certain breach of contract claims that were also alleged. On June 6, 2012, the Goldman Sachs defendants filed counterclaims for breach of contract. In addition, the parties have each appealed the court's May 1, 2012 decision to the extent adverse. The parties have been ordered to mediate, and proceedings in the trial court have been stayed pending mediation.

In addition, on January 15, 2013, CIFG filed a complaint against GS&Co. in New York Supreme Court, New York County, alleging that GS&Co. falsely represented that a third party would independently select the collateral for a 2006 CDO. CIFG seeks unspecified compensatory and punitive damages, including approximately $10 million in connection with its purchase of notes and over $30 million for payments to discharge alleged liabilities arising from its issuance of a financial guaranty insurance policy guaranteeing payment on a credit default swap referencing the CDO.

Various alleged purchasers of, and counterparties involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including certain Allstate affiliates, Bank Hapoalim B.M., Basis Yield Alpha Fund (Master), Bayerische Landesbank, Cambridge Place Investment Management Inc., the Charles Schwab Corporation, Deutsche Zentral-Genossenschaftbank, the FDIC (as receiver for Guaranty Bank), the Federal Home Loan Banks of Boston, Chicago, Indianapolis and Seattle, the FHFA (as conservator for Fannie Mae and Freddie Mac), HSH Nordbank, IKB Deutsche Industriebank AG, Landesbank Baden-Württemberg, Joel I. Sher (Chapter 11 Trustee) on behalf of TMST, Inc. (TMST), f/k/a Thornburg Mortgage, Inc. and certain TMST affiliates, John Hancock and related parties, Massachusetts Mutual Life Insurance Company, MoneyGram Payment Systems, Inc., National Australia Bank, the National Credit Union Administration, Phoenix Light SF Limited and related parties, Prudential Insurance Company of America and related parties, Royal Park Investments SA/NV, Sealink Funding Limited, Stichting Pensioenfonds ABP, The Union Central Life Insurance Company, Ameritas Life Insurance Corp., Acacia Life Insurance Company, Watertown Savings Bank, and The Western and Southern Life Insurance Co.) have filed complaints or summonses with notice in state and federal court or initiated arbitration proceedings against firm affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material fact and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages. Certain of these complaints also name other firms as defendants.

A number of other entities (including American International Group, Inc. (AIG), Deutsche Bank National Trust Company, John Hancock and related parties, M&T Bank, Norges Bank Investment Management and Selective Insurance Company) have threatened to assert claims of various types against the firm in connection with various mortgage-related transactions, and the firm has entered into agreements with a number of these entities to toll the relevant statute of limitations.

As of the date hereof, the aggregate notional amount of mortgage-related securities sold to plaintiffs in active cases brought against the firm where those plaintiffs are seeking rescission of such securities was approximately $20.7 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities, statutory interest or any other adjustments that may be claimed). This amount does not include the threatened claims noted above, potential claims by these or other purchasers in the same or other mortgage-related offerings that have not actually been brought against the firm, or claims that have been dismissed.

In June 2011, Heungkuk Life Insurance Co. Limited (Heungkuk) filed a criminal complaint against certain past and present employees of the firm in South Korea relating to its purchase of a CDO securitization from Goldman Sachs. Heungkuk had earlier initiated civil litigation against the firm relating to this matter. This civil litigation has now been settled and, on January 23, 2013, Heungkuk withdrew the criminal complaint in its entirety.

Group Inc. and GS Bank USA have entered into a Consent Order and a settlement in principle with the Federal Reserve Board relating to the servicing of residential mortgage loans and foreclosure practices. In addition, GS Bank USA has entered into an Agreement on Mortgage Servicing Practices with the New York State Department of Financial Services, Litton and Ocwen. See Note 18 for information about these settlements.

Group Inc., GS&Co. and GSMC are among the numerous financial services firms named as defendants in a *qui tam* action originally filed by a relator on April 7, 2010 purportedly on behalf of the City of Chicago and State of Illinois in Cook County, Illinois Circuit Court asserting claims under the Illinois Whistleblower Reward and Protection Act and Chicago False Claims Act, based on allegations that defendants had falsely certified compliance with various Illinois laws, which were purportedly violated in connection with mortgage origination and servicing activities. The complaint, which was originally filed under seal, seeks treble damages and civil penalties. Plaintiff filed an amended complaint on December 28, 2011, naming GS&Co. and GSMC, among others, as additional defendants and a second amended complaint on February 8, 2012. On March 12, 2012, the action was removed to the U.S. District Court for the Northern District of Illinois, and on September 17, 2012 the district court granted the plaintiff's motion to remand the action to state court. On November 16, 2012, the defendants moved to dismiss and to stay discovery.

Group Inc., Litton and Ocwen are defendants in a putative class action filed on January 23, 2013 in the U.S. District Court for the Southern District of New York generally challenging the procurement manner and scope of "force-placed" hazard insurance arranged by Litton when homeowners failed to arrange for insurance as required by their mortgages. The complaint asserts claims for breach of contract, breach of fiduciary duty, misappropriation, conversion, unjust enrichment and violation of Florida unfair practices law, and seeks unspecified compensatory and punitive damages as well as declaratory and injunctive relief.

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

The firm expects to be the subject of additional putative shareholder derivative actions, purported class actions, rescission and "put back" claims and other litigation, additional investor and shareholder demands, and additional regulatory and other investigations and actions with respect to mortgage-related offerings, loan sales, CDOs, and servicing and foreclosure activities. See Note 18 for further information regarding mortgage-related contingencies.

Private Equity-Sponsored Acquisitions Litigation. Group Inc. and "GS Capital Partners" are among numerous private equity firms and investment banks named as defendants in a federal antitrust action filed in the U.S. District Court for the District of Massachusetts in December 2007. As amended, the complaint generally alleges that the defendants have colluded to limit competition in bidding for private equity-sponsored acquisitions of public companies, thereby resulting in lower prevailing bids and, by extension, less consideration for shareholders of those companies in violation of Section 1 of the U.S. Sherman Antitrust Act and common law. The complaint seeks, among other things, treble damages in an unspecified amount. Defendants moved to dismiss on August 27, 2008. The district court dismissed claims relating to certain transactions that were the subject of releases as part of the settlement of shareholder actions challenging such transactions, and by an order dated December 15, 2008 otherwise denied the motion to dismiss. On April 26, 2010, the plaintiffs moved for leave to proceed with a second phase of discovery encompassing additional transactions. On August 18, 2010, the court permitted discovery on eight additional transactions, and the plaintiffs filed a fourth amended complaint on October 7, 2010. On January 13, 2011, the court granted defendants' motion to dismiss certain aspects of the fourth amended complaint. On March 1, 2011, the court granted the motion filed by certain defendants, including Group Inc., to dismiss another claim of the fourth amended complaint on the grounds that the transaction was the subject of a release as part of the settlement of a shareholder action challenging the transaction. On June 14, 2012, the plaintiffs filed a fifth amended complaint encompassing additional transactions. On July 18, 2012, the court granted defendants' motion to dismiss certain newly asserted claims on the grounds that certain transactions are subject to releases as part of settlements of shareholder actions challenging those transactions, and denied defendants' motion to dismiss certain additional claims as time-barred. On July 23, 2012, the defendants filed motions for summary judgment.

IndyMac Pass-Through Certificates Litigation. GS&Co. is among numerous underwriters named as defendants in a putative securities class action filed on May 14, 2009 in the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various securitizations of mortgage-related assets violated the disclosure requirements of the federal securities laws. The defendants include IndyMac-related entities formed in connection with the securitizations, the underwriters of the offerings, certain ratings agencies which evaluated the credit quality of the securities, and certain former officers and directors of IndyMac affiliates. On November 2, 2009, the underwriters moved to dismiss the complaint. The motion was granted in part on February 17, 2010 to the extent of dismissing claims based on offerings in which no plaintiff purchased, and the court reserved judgment as to the other aspects of the motion. By a decision dated June 21, 2010, the district court formally dismissed all claims relating to offerings in which no named plaintiff purchased certificates (including all offerings underwritten by GS&Co.), and both granted and denied the defendants' motions to dismiss in various other respects. On November 16, 2012 the district court denied the plaintiffs' motion seeking reinstatement of claims relating to 42 offerings previously dismissed for lack of standing (one of which was co-underwritten by GS&Co.) without prejudice to renewal depending on the outcome of the petition for a writ of certiorari to the U.S. Supreme Court with respect to the Second Circuit's decision described above. On May 17, 2010, four additional investors filed a motion seeking to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). The defendants opposed the motion on the ground that the putative intervenors' claims were time-barred and, on June 21, 2011, the court denied the motion to intervene with respect to, among others, the claims based on the offerings underwritten by GS&Co. Certain of the putative intervenors (including those seeking to assert claims based on two offerings underwritten by GS&Co.) have appealed. GS&Co. underwrote approximately $751 million principal amount of securities to all purchasers in the offerings at issue in the May 2010 motion to intervene.

On July 11, 2008, IndyMac Bank was placed under an FDIC receivership, and on July 31, 2008, IndyMac Bancorp, Inc. filed for Chapter 7 bankruptcy in the U.S. Bankruptcy Court in Los Angeles, California.

RALI Pass-Through Certificates Litigation. GS&Co. is among numerous underwriters named as defendants in a putative securities class action initially filed in September 2008 in New York Supreme Court, and subsequently removed to the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various offerings of mortgage-backed pass-through certificates violated the disclosure requirements of the federal securities laws. In addition to the underwriters, the defendants include Residential Capital, LLC (ResCap), Residential Accredit Loans, Inc. (RALI), Residential Funding Corporation (RFC), Residential Funding Securities Corporation (RFSC), and certain of their officers and directors. On March 31, 2010, the defendants' motion to dismiss was granted in part and denied in part by the district court, resulting in dismissal on the basis of standing of all claims relating to offerings in which no plaintiff purchased securities and, by an order dated January 3, 2013, the district court denied, without prejudice, plaintiffs' motion for reconsideration. In June and July 2010, the lead plaintiff and five additional investors moved to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). On April 28, 2011, the court granted defendants' motion to dismiss as to certain of these claims (including those relating to one offering underwritten by GS&Co. based on a release in an unrelated settlement), but otherwise permitted the intervenor case to proceed. By an order dated January 3, 2013, the district court denied the defendants' motions to dismiss certain of the intervenors' remaining claims as time barred. Class certification of the claims based on the pre-intervention offerings was initially denied by the district court, and that denial was upheld on appeal; however, following remand, on October 15, 2012, the district court certified a class in connection with the pre-intervention offerings. On November 5, 2012, the defendants filed a petition seeking leave from the U.S. Court of Appeals to appeal the certification order. By an order dated January 3, 2013, the district court granted the plaintiffs' application to modify the class definition to include initial purchasers who bought the securities directly from the underwriters or their agents no later than ten trading days after the offering date (rather than just on the offering date). On January 18, 2013, the defendants filed a supplemental petition seeking leave from the U.S. Court of Appeals to appeal the order modifying the class definition.

GS&Co. underwrote approximately $1.28 billion principal amount of securities to all purchasers in the offerings for which claims have not been dismissed. On May 14, 2012, ResCap, RALI and RFC filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York and the action has been stayed with respect to them, RFSC and certain of their officers and directors.

MF Global Securities Litigation. GS&Co. is among numerous underwriters named as defendants in class action complaints filed in the U.S. District Court for the Southern District of New York commencing November 18, 2011. These complaints generally allege that the offering materials for two offerings of MF Global Holdings Ltd. convertible notes (aggregating approximately $575 million in principal amount) in February 2011 and July 2011, among other things, failed to describe adequately the nature, scope and risks of MF Global's exposure to European sovereign debt, in violation of the disclosure requirements of the federal securities laws. On August 20, 2012, the plaintiffs filed a consolidated amended complaint and on October 19, 2012, the defendants filed motions to dismiss the amended complaint. GS&Co. underwrote an aggregate principal amount of approximately $214 million of the notes. On October 31, 2011, MF Global Holdings Ltd. filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Manhattan, New York.

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

Employment-Related Matters. On September 15, 2010, a putative class action was filed in the U.S. District for the Southern District of New York by three former female employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. Group Inc. and GS&Co. filed a motion to stay the claims of one of the named plaintiffs and to compel individual arbitration with that individual, based on an arbitration provision contained in an employment agreement between Group Inc. and the individual. On April 28, 2011, the magistrate judge to whom the district judge assigned the motion denied the motion, and the district court affirmed the magistrate judge's decision on November 15, 2011. Group Inc. and GS&Co. have appealed that decision to the U.S. Court of Appeals for the Second Circuit. On June 13, 2011, Group Inc. and GS&Co. moved to strike the class allegations of one of the three named plaintiffs based on her failure to exhaust administrative remedies. On September 29, 2011, the magistrate judge recommended denial of the motion to strike and, on January 10, 2012, the district court denied the motion to strike. On July 22, 2011, Group Inc. and GS&Co. moved to strike all of the plaintiffs' class allegations, and for partial summary judgment as to plaintiffs' disparate impact claims. By a decision dated January 19, 2012, the magistrate judge recommended that defendants' motion be denied as premature. The defendants filed objections to that recommendation with the district judge and on July 17, 2012, the district court issued a decision granting in part Group Inc.'s and GS&Co.'s motion to strike plaintiffs' class allegations on the ground that plaintiffs lacked standing to pursue certain equitable remedies and denying in part Group Inc.'s and GS&Co.'s motion to strike plaintiffs' class allegations in their entirety as premature.

Investment Management Services. Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients relating to losses allegedly sustained as a result of the firm's investment management services. These claims generally seek, among other things, restitution or other compensatory damages and, in some cases, punitive damages. In addition, Group Inc. and its affiliates are subject from time to time to investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with the firm's investment management services. Goldman Sachs is cooperating with all such investigations and reviews.

Goldman Sachs Asset Management International (GSAMI) is the defendant in an action filed on July 9, 2012 with the High Court of Justice in London by certain entities representing Vervoer, a Dutch pension fund, alleging that GSAMI was negligent in performing its duties as investment manager in connection with the allocation of the plaintiffs' funds among asset managers in accordance with asset allocations provided by plaintiffs and that GSAMI breached its contractual and common law duties to the plaintiffs. Specifically, plaintiffs allege that GSAMI caused their assets to be invested in unsuitable products for an extended period, thereby causing in excess of €67 million in losses, and caused them to be under-exposed for a period of time to certain other investments that performed well, thereby resulting in foregone potential gains. The plaintiffs are seeking unspecified monetary damages. On November 2, 2012, GSAMI served its defense to the allegations and on December 21, 2012, the plaintiffs served their reply to the defense.

Financial Advisory Services. Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients and third parties relating to the firm's financial advisory activities. These claims generally seek, among other things, compensatory damages and, in some cases, punitive damages, and in certain cases allege that the firm did not appropriately disclose or deal with conflicts of interest. In addition, Group Inc. and its affiliates are subject from time to time to investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with conflicts of interest. Goldman Sachs is cooperating with all such investigations and reviews.

Group Inc., GS&Co. and The Goldman, Sachs & Co. L.L.C. are defendants in an action brought by the founders and former majority shareholders of Dragon Systems, Inc. (Dragon) on November 18, 2008, alleging that the plaintiffs incurred losses due to GS&Co.'s financial advisory services provided in connection with the plaintiffs' exchange of their purported $300 million interest in Dragon for stock of Lernout & Hauspie Speech Products, N.V. (L&H) in 2000. L&H filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Wilmington, Delaware on November 29, 2000. The action is pending in the United States District Court for the District of Massachusetts. The complaint, which was amended in November 2011 following the 2009 dismissal of certain of the plaintiffs' initial claims, seeks unspecified compensatory, punitive and other damages, and alleges breach of fiduciary duty, violation of Massachusetts unfair trade practices laws, negligence, negligent and intentional misrepresentation, gross negligence, willful misconduct and bad faith. Former minority shareholders of Dragon have brought a similar action against GS&Co. with respect to their purported $49 million interest in Dragon, and this action has been consolidated with the action described above. All parties moved for summary judgment. By an order dated October 31, 2012, the court granted summary judgment with respect to certain counterclaims and an indemnification claim brought by the Goldman Sachs defendants against one of the shareholders, but denied summary judgment with respect to all other claims. On January 23, 2013, a jury found in favor of the Goldman Sachs defendants on the plaintiffs' claims for negligence, negligent and intentional misrepresentation, gross negligence, and breach of fiduciary duty. The plaintiffs' claims for violation of Massachusetts unfair trade practices laws will be addressed by the district court and have not yet been decided.

Sales, Trading and Clearance Practices. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews, certain of which are industry-wide, by various governmental and regulatory bodies and self-regulatory organizations relating to the sales, trading and clearance of corporate and government securities and other financial products, including compliance with the SEC's short sale rule, algorithmic and quantitative trading, futures trading, transaction reporting, securities lending practices, trading and clearance of credit derivative instruments, commodities trading, private placement practices and compliance with the U.S. Foreign Corrupt Practices Act.

The European Commission announced in April 2011 that it was initiating proceedings to investigate further numerous financial services companies, including Group Inc., in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anti-competitive practices. The proceedings in connection with the supply of data related to credit default swaps are ongoing. Group Inc.'s current understanding is that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely. The firm has received civil investigative demands from the U.S. Department of Justice (DOJ) for information on similar matters. Goldman Sachs is cooperating with the investigations and reviews.

Insider Trading Investigations. From time to time, the firm and its employees are the subject of or otherwise involved in regulatory investigations relating to insider trading, the potential misuse of material nonpublic information and the effectiveness of the firm's insider trading controls and information barriers. It is the firm's practice to cooperate fully with any such investigations.

Research Investigations. From time to time, the firm is the subject of or otherwise involved in regulatory investigations relating to research practices, including research independence and interactions between research analysts and other firm personnel, including investment banking personnel. It is the firm's practice to cooperate fully with any such investigations.

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

Municipal Securities Matters. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations relating to transactions involving municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, underwriting of Build America Bonds and the possible impact of credit default swap transactions on municipal issuers. Goldman Sachs is cooperating with the investigations and reviews.

Group Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) and GS Bank USA are among numerous financial services firms that have been named as defendants in numerous substantially identical individual antitrust actions filed beginning on November 12, 2009 that have been coordinated with related antitrust class action litigation and individual actions, in which no Goldman Sachs affiliate is named, for pre-trial proceedings in the U.S. District Court for the Southern District of New York. The plaintiffs include individual California municipal entities and three New York non-profit entities. All of these complaints against Group Inc., GSMMDP and GS Bank USA generally allege that the Goldman Sachs defendants participated in a conspiracy to arrange bids, fix prices and divide up the market for derivatives used by municipalities in refinancing and hedging transactions from 1992 to 2008. The complaints assert claims under the federal antitrust laws and either California's Cartwright Act or New York's Donnelly Act, and seek, among other things, treble damages under the antitrust laws in an unspecified amount and injunctive relief. On April 26, 2010, the Goldman Sachs defendants' motion to dismiss complaints filed by several individual California municipal plaintiffs was denied. On August 19, 2011, Group Inc., GSMMDP and GS Bank USA were voluntarily dismissed without prejudice from all actions except one brought by a California municipal entity.

On August 21, 2008, GS&Co. entered into a settlement in principle with the Office of the Attorney General of the State of New York and the Illinois Securities Department (on behalf of the North American Securities Administrators Association) regarding auction rate securities. Under the agreement, Goldman Sachs agreed, among other things, (i) to offer to repurchase at par the outstanding auction rate securities that its private wealth management clients purchased through the firm prior to February 11, 2008, with the exception of those auction rate securities where auctions were clearing, (ii) to continue to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors, and (iii) to pay a $22.5 million fine. The settlement is subject to approval by the various states. GS&Co. has entered into consent orders with New York, Illinois and most other states and is in the process of doing so with the remaining states.

On September 4, 2008, Group Inc. was named as a defendant, together with numerous other financial services firms, in two complaints filed in the U.S. District Court for the Southern District of New York alleging that the defendants engaged in a conspiracy to manipulate the auction securities market in violation of federal antitrust laws. The actions were filed, respectively, on behalf of putative classes of issuers of and investors in auction rate securities and seek, among other things, treble damages in an unspecified amount. Defendants' motion to dismiss was granted on January 26, 2010. On March 1, 2010, the plaintiffs appealed from the dismissal of their complaints.

Beginning in February 2012, GS&Co. was named as respondent in four FINRA arbitrations filed, respectively, by the cities of Houston, Texas and Reno, Nevada, a California school district and a North Carolina municipal power authority, based on GS&Co.'s role as underwriter and broker-dealer of the claimants' issuances of an aggregate of over $1.8 billion of auction rate securities from 2003 through 2007 (in the Houston arbitration, two other financial services firms were named as respondents, and in the North Carolina arbitration, one other financial services firm was named). Each claimant alleges that GS&Co. failed to disclose that it had a practice of placing cover bids on auctions, and failed to offer the claimant the option of a formulaic maximum rate (rather than a fixed maximum rate), and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market (at an estimated cost, in the case of Houston, of approximately $90 million). Houston and Reno also allege that GS&Co. advised them to enter into interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses (including, in the case of Reno, a swap termination obligation of over $8 million). The claimants assert claims for breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD, and seek unspecified damages. GS&Co. has moved in federal court to enjoin the Reno and California school district arbitrations pursuant to an exclusive forum selection clause in the transaction documents. On November 26, 2012, this motion was denied with regard to the Reno arbitration and, on February 8, 2013, this motion was granted with regard to the California school district arbitration.

Financial Crisis-Related Matters. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations and litigation relating to the 2008 financial crisis. Goldman Sachs is cooperating with the investigations and reviews.

Note 28.

Employee Benefit Plans

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

Defined Benefit Pension Plans and Postretirement Plans

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

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

The firm recognizes the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation, in the consolidated statements of financial condition. As of December 2012, "Other assets" and "Other liabilities and accrued expenses" included $225 million (related to an overfunded pension plan) and $645 million, respectively, related to these plans. As of December 2011, "Other assets" and "Other liabilities and accrued expenses" included $135 million (related to an overfunded pension plan) and $858 million, respectively, related to these plans.

Defined Contribution Plans

The firm contributes to employer-sponsored U.S. and non-U.S. defined contribution plans. The firm's contribution to these plans was $221 million, $225 million and $193 million for the years ended December 2012, December 2011 and December 2010, respectively.

Note 29.

Employee Incentive Plans

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

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

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

Stock Incentive Plan

The firm sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (SIP), which provides for grants of incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, RSUs, awards with performance conditions and other share-based awards. In the second quarter of 2003, the SIP was approved by the firm's shareholders, effective for grants after April 1, 2003. The SIP was amended and restated, effective December 31, 2008 and further amended on December 20, 2012 to extend its term until Group Inc.'s 2013 Annual Meeting of Shareholders, at which meeting approval of a new equity compensation plan will be voted upon by shareholders.

The total number of shares of common stock that may be delivered pursuant to awards granted under the SIP through the end of the 2008 fiscal year could not exceed 250 million shares. The total number of shares of common stock that may be delivered for awards granted under the SIP in the 2009 fiscal year and each fiscal year thereafter cannot exceed 5% of the issued and outstanding shares of common stock, determined as of the last day of the immediately preceding fiscal year, increased by the number of shares available for awards in previous years but not covered by awards granted in such years. As of December 2012 and December 2011, 188.3 million and 161.0 million shares, respectively, were available for grant under the SIP.

Restricted Stock Units

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

	Restricted Stock Units Outstanding		Weighted Average Grant-Date Fair Value of Restricted Stock Units Outstanding	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
Outstanding, December 2011	14,302,189 [4]	30,840,580	$139.46	$124.33
Granted [1, 2]	**6,967,886**	**4,246,015**	**84.59**	**84.92**
Forfeited	**(1,228,200)**	**(68,350)**	**126.97**	**122.40**
Delivered [3]	**—**	**(30,980,248)**	**—**	**120.35**
Vested [2]	**(11,352,354)**	**11,352,354**	**125.03**	**125.03**
Outstanding, December 2012	**8,689,521** [4]	**15,390,351**	**116.07**	**121.99**

1. The weighted average grant-date fair value of RSUs granted during the years ended December 2012, December 2011 and December 2010 was $84.72, $141.21 and $132.64, respectively. The fair value of the RSUs granted during the year ended December 2012, December 2011 and December 2010 includes a liquidity discount of 21.7%, 12.7% and 13.2%, respectively, to reflect post-vesting transfer restrictions of up to 4 years.

2. The aggregate fair value of awards that vested during the years ended December 2012, December 2011 and December 2010 was $1.57 billion, $2.40 billion and $4.07 billion, respectively.

3. Includes RSUs that were cash settled.

4. Includes restricted stock subject to future service requirements as of December 2012 and December 2011 of 276,317 and 754,482 shares, respectively.

In the first quarter of 2013, the firm granted to its employees 16.7 million year-end RSUs, of which 5.7 million RSUs require future service as a condition of delivery. These awards are subject to additional conditions as outlined in the award agreements. Generally, shares underlying these awards, net of required withholding tax, deliver over a three-year period but are subject to post-vesting transfer restrictions through January 2018. These grants are not included in the above table.

Stock Options

Stock options generally vest as outlined in the applicable stock option agreement. Options granted in February 2010 generally became exercisable in one-third installments in January 2011, January 2012 and January 2013 and will expire in February 2014. In general, options granted prior to February 2010 expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the SIP and the applicable stock option agreement.

The table below presents the activity related to stock options.

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value *(in millions)*	Weighted Average Remaining Life *(years)*
Outstanding, December 2011	47,256,938	$ 97.76	$ 444	6.08
Exercised	**(4,009,948)**	**78.93**		
Forfeited	**(21,600)**	**113.68**		
Expired	**(8,279)**	**78.87**		
Outstanding, December 2012	**43,217,111**	**99.51**	**1,672**	**5.55**
Exercisable, December 2012	**43,203,775**	**99.49**	**1,672**	**5.55**

The total intrinsic value of options exercised during the years ended December 2012, December 2011 and December 2010 was $151 million, $143 million and $510 million, respectively. The table below presents options outstanding.

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life *(years)*
$ 75.00 - $ 89.99	**34,103,907**	**$ 78.78**	**6.00**
90.00 - 104.99	**275,580**	**96.08**	**0.92**
105.00 - 119.99	**—**	**—**	**—**
120.00 - 134.99	**2,791,500**	**131.64**	**2.92**
135.00 - 149.99	**—**	**—**	**—**
150.00 - 164.99	**65,000**	**154.16**	**1.17**
165.00 - 194.99	**—**	**—**	**—**
195.00 - 209.99	**5,981,124**	**202.27**	**4.48**
Outstanding, December 2012	**43,217,111**	**99.51**	**5.55**

The weighted average grant-date fair value of options granted during the year ended December 2010 was $37.58.

The tables below present the primary weighted average assumptions used to estimate fair value as of the grant date based on a Black-Scholes option-pricing model, and share-based compensation and the related excess tax benefit/(provision).

	Year Ended December		
	2012	2011	2010
Risk-free interest rate	**N/A**	N/A	1.6%
Expected volatility	**N/A**	N/A	32.5
Annual dividend per share	**N/A**	N/A	$1.40
Expected life	**N/A**	N/A	3.75 years

	Year Ended December		
in millions	**2012**	2011	2010
Share-based compensation	**$1,338**	$2,843	$4,070
Excess tax benefit related to options exercised	**53**	55	183
Excess tax benefit/(provision) related to share-based awards [1]	**(11)**	138	239

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

As of December 2012, there was $434 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.62 years.

Note 30.

Parent Company

Group Inc. — Condensed Statements of Earnings

	Year Ended December		
in millions	**2012**	2011	2010
Revenues			
Dividends from bank subsidiaries	**$ —**	$ 1,000	$ —
Dividends from nonbank subsidiaries	**3,622**	4,967	6,032
Undistributed earnings of subsidiaries	**3,682**	481	2,884
Other revenues	**1,567**	(3,381)	964
Total non-interest revenues	**8,871**	3,067	9,880
Interest income	**4,751**	4,547	4,153
Interest expense	**4,287**	3,917	3,429
Net interest income	**464**	630	724
Net revenues, including net interest income	**9,335**	3,697	10,604
Operating expenses			
Compensation and benefits	**452**	300	423
Other expenses	**448**	252	238
Total operating expenses	**900**	552	661
Pre-tax earnings	**8,435**	3,145	9,943
Provision/(benefit) for taxes	**960**	(1,297)	1,589
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

Group Inc. — Condensed Statements of Financial Condition

	As of December	
in millions	**2012**	2011
Assets		
Cash and cash equivalents	**$ 14**	$ 14
Loans to and receivables from subsidiaries		
Bank subsidiaries	**4,103**	7,196
Nonbank subsidiaries [1]	**174,609**	180,397
Investments in subsidiaries and other affiliates		
Bank subsidiaries	**20,671**	19,226
Nonbank subsidiaries and other affiliates	**52,646**	48,473
Financial instruments owned, at fair value	**19,132**	20,698
Other assets	**4,782**	7,912
Total assets	**$275,957**	$283,916
Liabilities and shareholders' equity		
Payables to subsidiaries	**$ 657**	$ 693
Financial instruments sold, but not yet purchased, at fair value	**301**	241
Unsecured short-term borrowings		
With third parties [2]	**29,898**	35,368
With subsidiaries	**4,253**	4,701
Unsecured long-term borrowings		
With third parties [3]	**158,761**	166,342
With subsidiaries [4]	**3,574**	1,536
Other liabilities and accrued expenses	**2,797**	4,656
Total liabilities	**200,241**	213,537
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock	**6,200**	3,100
Common stock	**8**	8
Restricted stock units and employee stock options	**3,298**	5,681
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	**(46,850)**	(42,281)
Total shareholders' equity	**75,716**	70,379
Total liabilities and shareholders' equity	**$275,957**	$283,916

Group Inc. — Condensed Statements of Cash Flows

	Year Ended December		
in millions	**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 operating activities			
Undistributed earnings of subsidiaries	**(3,682)**	(481)	(2,884)
Depreciation and amortization	**15**	14	18
Deferred income taxes	**(1,258)**	809	214
Share-based compensation	**81**	244	393
Changes in operating assets and liabilities			
Financial instruments owned, at fair value	**1,464**	3,557	(176)
Financial instruments sold, but not yet purchased, at fair value	**(3)**	(536)	(1,091)
Other, net	**2,621**	1,422	10,852
Net cash provided by operating activities	**6,713**	9,471	15,680
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	**(12)**	(42)	(15)
Repayments of short-term loans by subsidiaries, net of issuances	**6,584**	20,319	(9,923)
Issuance of term loans to subsidiaries	**(17,414)**	(42,902)	(5,532)
Repayments of term loans by subsidiaries	**18,715**	21,850	1,992
Capital distributions from/(contributions to) subsidiaries, net	**(298)**	4,642	(1,038)
Net cash provided by/(used for) investing activities	**7,575**	3,867	(14,516)
Cash flows from financing activities			
Unsecured short-term borrowings, net	**(2,647)**	(727)	3,137
Proceeds from issuance of long-term borrowings	**26,160**	27,251	21,098
Repayment of long-term borrowings, including the current portion	**(35,608)**	(27,865)	(21,838)
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 used for financing activities	**(14,288)**	(13,331)	(2,297)
Net increase/(decrease) in cash and cash equivalents	**—**	7	(1,133)
Cash and cash equivalents, beginning of year	**14**	7	1,140
Cash and cash equivalents, end of year	**$ 14**	$ 14	$ 7

SUPPLEMENTAL DISCLOSURES:

Cash payments for third-party interest, net of capitalized interest, were $5.11 billion, $3.83 billion and $3.07 billion for the years ended December 2012, December 2011 and December 2010, respectively.

Cash payments for income taxes, net of refunds, were $1.59 billion, $1.39 billion and $2.05 billion for the years ended December 2012, December 2011 and December 2010, respectively.

Non-cash activity:

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

1. Primarily includes overnight loans, the proceeds of which can be used to satisfy the short-term obligations of Group Inc.
2. Includes $4.91 billion and $6.25 billion at fair value as of December 2012 and December 2011, respectively.
3. Includes $8.19 billion and $12.91 billion at fair value as of December 2012 and December 2011, respectively.
4. Unsecured long-term borrowings with subsidiaries by maturity date are $434 million in 2014, $191 million in 2015, $2.08 billion in 2016, $107 million in 2017, and $766 million in 2018-thereafter.

Supplemental Financial Information

Quarterly Results (unaudited)

The following represents the firm's unaudited quarterly results for the years ended December 2012 and December 2011. These quarterly results were prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results. These adjustments are of a normal, recurring nature.

	Three Months Ended			
in millions, except per share data	**December 2012**	**September 2012**	**June 2012**	**March 2012**
Total non-interest revenues	**$8,263**	**$7,515**	**$5,537**	**$ 8,968**
Interest income	**2,864**	**2,629**	**3,055**	**2,833**
Interest expense	**1,891**	**1,793**	**1,965**	**1,852**
Net interest income	**973**	**836**	**1,090**	**981**
Net revenues, including net interest income	**9,236**	**8,351**	**6,627**	**9,949**
Operating expenses [1]	**4,923**	**6,053**	**5,212**	**6,768**
Pre-tax earnings	**4,313**	**2,298**	**1,415**	**3,181**
Provision for taxes	**1,421**	**786**	**453**	**1,072**
Net earnings	**2,892**	**1,512**	**962**	**2,109**
Preferred stock dividends	**59**	**54**	**35**	**35**
Net earnings applicable to common shareholders	**$2,833**	**$1,458**	**$ 927**	**$ 2,074**
Earnings per common share				
Basic	**$ 5.87**	**$ 2.95**	**$ 1.83**	**$ 4.05**
Diluted	**5.60**	**2.85**	**1.78**	**3.92**
Dividends declared per common share	**0.50**	**0.46**	**0.46**	**0.35**

	Three Months Ended			
in millions, except per share data	December 2011	September 2011	June 2011	March 2011
Total non-interest revenues	$4,984	$2,231	$5,868	$10,536
Interest income	3,032	3,354	3,681	3,107
Interest expense	1,967	1,998	2,268	1,749
Net interest income	1,065	1,356	1,413	1,358
Net revenues, including net interest income	6,049	3,587	7,281	11,894
Operating expenses [1]	4,802	4,317	5,669	7,854
Pre-tax earnings/(loss)	1,247	(730)	1,612	4,040
Provision/(benefit) for taxes	234	(337)	525	1,305
Net earnings/(loss)	1,013	(393)	1,087	2,735
Preferred stock dividends	35	35	35	1,827
Net earnings/(loss) applicable to common shareholders	$ 978	$ (428)	$1,052	$ 908
Earnings/(loss) per common share				
Basic	$ 1.91	$(0.84)	$ 1.96	$ 1.66
Diluted	1.84	(0.84)	1.85	1.56
Dividends declared per common share	0.35	0.35	0.35	0.35

1. The timing and magnitude of changes in the firm's discretionary compensation accruals can have a significant effect on results in a given quarter.

Supplemental Financial Information

Common Stock Price Range

The table below presents the high and low sales prices per share of the firm's common stock.

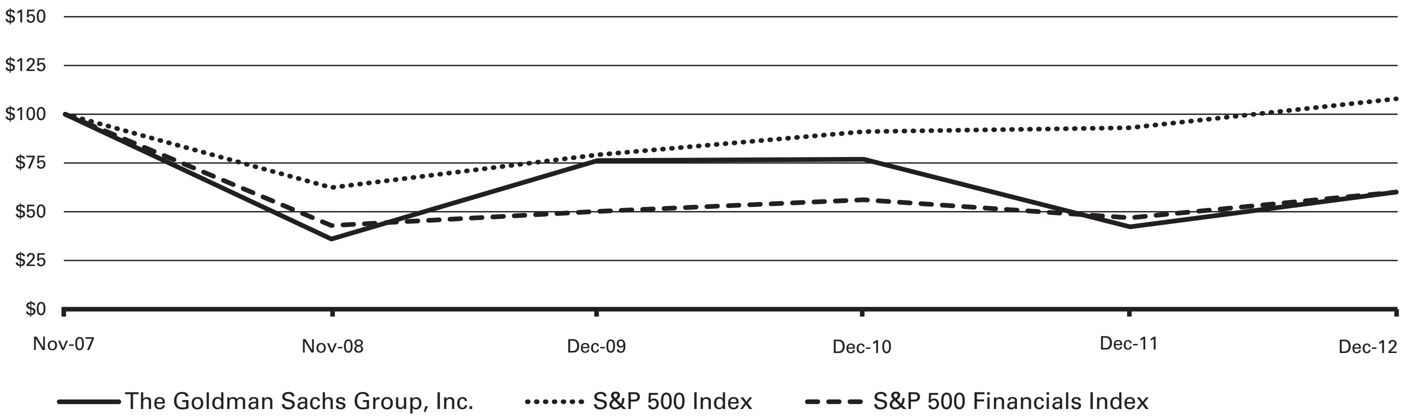
	Year Ended December					
	2012		2011		2010	
	High	**Low**	High	Low	High	Low
First quarter	**$128.72**	**$ 92.42**	$175.34	$153.26	$178.75	$147.81
Second quarter	**125.54**	**90.43**	164.40	128.30	186.41	131.02
Third quarter	**122.60**	**91.15**	139.25	91.40	157.25	129.50
Fourth quarter	**129.72**	**113.84**	118.07	84.27	171.61	144.70

As of February 15, 2013, there were 13,297 holders of record of the firm's common stock.

On February 15, 2013, the last reported sales price for the firm's common stock on the New York Stock Exchange was $154.99 per share.

Common Stock Performance

The following graph compares the performance of an investment in the firm's common stock from November 30, 2007 through December 31, 2012, with the S&P 500 Index and the S&P 500 Financials Index. The graph assumes $100 was invested on November 30, 2007 in each of the firm's common stock, the S&P 500 Index and the S&P 500 Financials Index, and the dividends were reinvested on the date of payment without payment of any commissions. The performance shown in the graph represents past performance and should not be considered an indication of future performance.



The table below shows the cumulative total returns in dollars of the firm's common stock, the S&P 500 Index and the S&P 500 Financials Index for Goldman Sachs' last five fiscal year ends [1], assuming $100 was invested on November 30, 2007 in each of the firm's common stock, the S&P 500 Index and the S&P 500 Financials Index, and the dividends were reinvested on the date of payment without payment of any commissions. The performance shown in the table represents past performance and should not be considered an indication of future performance.

	11/30/07	11/28/08	12/31/09	12/31/10	12/31/11	**12/31/12**
The Goldman Sachs Group, Inc.	$100.00	$35.16	$76.08	$76.49	$41.61	**$ 59.66**
S&P 500 Index	100.00	61.91	79.13	91.04	92.96	**107.84**
S&P 500 Financials Index	100.00	42.42	49.61	55.65	46.18	**59.53**

1. As a result of the firm's change in fiscal year-end during 2009, this table includes 61 months beginning November 30, 2007 and ending December 31, 2012.

Selected Financial Data

	As of or for the					
	Year Ended					One Month Ended
	December 2012	December 2011	December 2010	December 2009	November 2008	December 2008[1]
Income statement data *(in millions)*						
Total non-interest revenues	**$ 30,283**	$ 23,619	$ 33,658	$ 37,766	$ 17,946	$ (502)
Interest income	**11,381**	13,174	12,309	13,907	35,633	1,687
Interest expense	**7,501**	7,982	6,806	6,500	31,357	1,002
Net interest income	**3,880**	5,192	5,503	7,407	4,276	685
Net revenues, including net interest income	**34,163**	28,811	39,161	45,173	22,222	183
Compensation and benefits	**12,944**	12,223	15,376	16,193	10,934	744
U.K. bank payroll tax	**—**	—	465	—	—	—
Other operating expenses	**10,012**	10,419	10,428	9,151	8,952	697
Pre-tax earnings/(loss)	**$ 11,207**	$ 6,169	$ 12,892	$ 19,829	$ 2,336	$ (1,258)
Balance sheet data *(in millions)*						
Total assets	**$938,555**	$923,225	$911,332	$848,942	$884,547	$1,112,225
Other secured financings (long-term)	**8,965**	8,179	13,848	11,203	17,458	18,413
Unsecured long-term borrowings	**167,305**	173,545	174,399	185,085	168,220	185,564
Total liabilities	**862,839**	852,846	833,976	778,228	820,178	1,049,171
Total shareholders' equity	**75,716**	70,379	77,356	70,714	64,369	63,054
Common share data *(in millions, except per share amounts)*						
Earnings/(loss) per common share						
Basic	**$ 14.63**	$ 4.71	$ 14.15	$ 23.74	$ 4.67	$ (2.15)
Diluted	**14.13**	4.51	13.18	22.13	4.47	(2.15)
Dividends declared per common share	**1.77**	1.40	1.40	1.05	1.40	0.47[3]
Book value per common share[2]	**144.67**	130.31	128.72	117.48	98.68	95.84
Average common shares outstanding						
Basic	**496.2**	524.6	542.0	512.3	437.0	485.5
Diluted	**516.1**	556.9	585.3	550.9	456.2	485.5
Selected data *(unaudited)*						
Total staff						
Americas	**16,400**	17,200	19,900	18,900	19,700	19,200
Non-Americas	**16,000**	16,100	15,800	13,600	14,800	14,100
Total staff	**32,400**	33,300	35,700	32,500	34,500	33,300
Assets under management *(in billions)*						
Asset class						
Alternative investments	**$ 133**	$ 142	$ 148	$ 146	$ 146	$ 145
Equity	**133**	126	144	146	112	114
Fixed income	**370**	340	340	315	248	253
Total non-money market assets	**636**	608	632	607	506	512
Money markets	**218**	220	208	264	273	286
Total assets under management	**$ 854**	$ 828	$ 840	$ 871	$ 779	$ 798

1. In connection with becoming a bank holding company, the firm was required to change its fiscal year-end from November to December. December 2008 represents the period from November 29, 2008 to December 26, 2008.

2. Book value per common share is based on common shares outstanding, including RSUs granted to employees with no future service requirements, of 480.5 million, 516.3 million, 546.9 million, 542.7 million, 485.4 million and 485.9 million as of December 2012, December 2011, December 2010, December 2009, November 2008 and December 2008, respectively.

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

Statistical Disclosures

Distribution of Assets, Liabilities and Shareholders' Equity

The table below presents a summary of consolidated average balances and interest rates.

	For the Year Ended December								
	2012			2011			2010		
in millions, except rates	**Average balance**	**Interest**	**Average rate**	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets									
Deposits with banks	**$ 52,500**	**$ 156**	**0.30%**	$ 38,039	$ 125	0.33%	$ 29,371	$ 86	0.29%
U.S.	**49,123**	**132**	**0.27**	32,770	95	0.29	24,988	67	0.27
Non-U.S.	**3,377**	**24**	**0.71**	5,269	30	0.57	4,383	19	0.43
Securities borrowed, securities purchased under agreements to resell and federal funds sold	**331,828**	**(77)**	**(0.02)**	351,896	666	0.19	353,719	540	0.15
U.S.	**191,166**	**(431)**	**(0.23)**	219,240	(249)	(0.11)	243,907	75	0.03
Non-U.S.	**140,662**	**354**	**0.25**	132,656	915	0.69	109,812	465	0.42
Financial instruments owned, at fair value [1, 2]	**310,982**	**9,817**	**3.16**	287,322	10,718	3.73	273,801	10,346	3.78
U.S.	**190,490**	**6,548**	**3.44**	183,920	7,477	4.07	189,136	7,865	4.16
Non-U.S.	**120,492**	**3,269**	**2.71**	103,402	3,241	3.13	84,665	2,481	2.93
Other interest-earning assets [3]	**136,427**	**1,485**	**1.09**	143,270	1,665	1.16	118,364	1,337	1.13
U.S.	**90,071**	**974**	**1.08**	99,042	915	0.92	82,965	689	0.83
Non-U.S.	**46,356**	**511**	**1.10**	44,228	750	1.70	35,399	648	1.83
Total interest-earning assets	**831,737**	**11,381**	**1.37**	820,527	13,174	1.61	775,255	12,309	1.59
Cash and due from banks	**7,357**			4,987			3,709		
Other non-interest-earning assets [2]	**107,702**			118,901			113,310		
Total Assets	**$946,796**			$944,415			$892,274		
Liabilities									
Interest-bearing deposits	**$ 56,399**	**399**	**0.71**	$ 40,266	280	0.70	$ 38,011	304	0.80
U.S.	**48,668**	**362**	**0.74**	33,234	243	0.73	31,418	279	0.89
Non-U.S.	**7,731**	**37**	**0.48**	7,032	37	0.53	6,593	25	0.38
Securities loaned and securities sold under agreements to repurchase	**177,550**	**822**	**0.46**	171,753	905	0.53	160,280	708	0.44
U.S.	**121,145**	**380**	**0.31**	110,235	280	0.25	112,839	355	0.31
Non-U.S.	**56,405**	**442**	**0.78**	61,518	625	1.02	47,441	353	0.74
Financial instruments sold, but not yet purchased, at fair value [1, 2]	**94,740**	**2,438**	**2.57**	102,282	2,464	2.41	89,040	1,859	2.09
U.S.	**41,436**	**852**	**2.06**	52,065	984	1.89	44,713	818	1.83
Non-U.S.	**53,304**	**1,586**	**2.98**	50,217	1,480	2.95	44,327	1,041	2.35
Short-term borrowings [4, 5]	**70,359**	**581**	**0.83**	78,497	526	0.67	55,512	453	0.82
U.S.	**47,614**	**479**	**1.01**	50,659	431	0.85	33,306	394	1.18
Non-U.S.	**22,745**	**102**	**0.45**	27,838	95	0.34	22,206	59	0.27
Long-term borrowings [5, 6]	**176,698**	**3,736**	**2.11**	186,148	3,439	1.85	193,031	3,155	1.63
U.S.	**170,163**	**3,582**	**2.11**	179,004	3,235	1.81	183,338	2,910	1.59
Non-U.S.	**6,535**	**154**	**2.36**	7,144	204	2.86	9,693	245	2.53
Other interest-bearing liabilities [7]	**206,790**	**(475)**	**(0.23)**	203,940	368	0.18	189,008	327	0.17
U.S.	**150,986**	**(988)**	**(0.65)**	149,958	(535)	(0.36)	142,752	(221)	(0.15)
Non-U.S.	**55,804**	**513**	**0.92**	53,982	903	1.67	46,256	548	1.18
Total interest-bearing liabilities	**782,536**	**7,501**	**0.96**	782,886	7,982	1.02	724,882	6,806	0.94
Non-interest-bearing deposits	**324**			140			169		
Other non-interest-bearing liabilities [2]	**91,406**			88,681			92,966		
Total liabilities	**874,266**			871,707			818,017		
Shareholders' equity									
Preferred stock	**4,392**			3,990			6,957		
Common stock	**68,138**			68,718			67,300		
Total shareholders' equity	**72,530**			72,708			74,257		
Total liabilities and shareholders' equity	**$946,796**			$944,415			$892,274		
Interest rate spread			**0.41%**			0.59%			0.65%
Net interest income and net yield on interest-earning assets		**$ 3,880**	**0.47**		$ 5,192	0.63		$ 5,503	0.71
U.S.		**2,556**	**0.49**		3,600	0.67		4,161	0.77
Non-U.S.		**1,324**	**0.43**		1,592	0.56		1,342	0.57
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations [8]									
Assets			**37.38%**			34.80%			30.22%
Liabilities			**25.88**			26.53			24.35

Supplemental Financial Information

1. Consists of cash financial instruments, including equity securities and convertible debentures.
2. Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.
3. Primarily consists of cash and securities segregated for regulatory and other purposes and certain receivables from customers and counterparties.
4. Consists of short-term other secured financings and unsecured short-term borrowings.
5. Interest rates include the effects of interest rate swaps accounted for as hedges.
6. Consists of long-term secured financings and unsecured long-term borrowings.
7. Primarily consists of certain payables to customers and counterparties.
8. Assets, liabilities and interest are attributed to U.S. and non-U.S. based on the location of the legal entity in which the assets and liabilities are held.

Changes in Net Interest Income, Volume and Rate Analysis

The table below presents an analysis of the effect on net interest income of volume and rate changes. In this analysis, changes due to volume/rate variance have been allocated to volume.

	For the Year Ended					
	December 2012 versus December 2011			December 2011 versus December 2010		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
in millions	**Volume**	**Rate**	**Net change**	Volume	Rate	Net change
Interest-earning assets						
Deposits with banks	**$ 32**	**$ (1)**	**$ 31**	$ 28	$ 11	$ 39
U.S.	**45**	**(8)**	**37**	23	5	28
Non-U.S.	**(13)**	**7**	**(6)**	5	6	11
Securities borrowed, securities purchased under agreements to resell and federal funds sold	**83**	**(826)**	**(743)**	186	(60)	126
U.S.	**63**	**(245)**	**(182)**	28	(352)	(324)
Non-U.S.	**20**	**(581)**	**(561)**	158	292	450
Financial instruments owned, at fair value	**689**	**(1,590)**	**(901)**	375	(3)	372
U.S.	**225**	**(1,154)**	**(929)**	(212)	(176)	(388)
Non-U.S.	**464**	**(436)**	**28**	587	173	760
Other interest-earning assets	**(74)**	**(106)**	**(180)**	299	29	328
U.S.	**(97)**	**156**	**59**	149	77	226
Non-U.S.	**23**	**(262)**	**(239)**	150	(48)	102
Change in interest income	**730**	**(2,523)**	**(1,793)**	888	(23)	865
Interest-bearing liabilities						
Interest-bearing deposits	**118**	**1**	**119**	15	(39)	(24)
U.S.	**115**	**4**	**119**	13	(49)	(36)
Non-U.S.	**3**	**(3)**	**—**	2	10	12
Securities loaned and securities sold under agreements to repurchase	**(6)**	**(77)**	**(83)**	136	61	197
U.S.	**34**	**66**	**100**	(7)	(68)	(75)
Non-U.S.	**(40)**	**(143)**	**(183)**	143	129	272
Financial instruments sold, but not yet purchased, at fair value	**(127)**	**101**	**(26)**	313	292	605
U.S.	**(219)**	**87**	**(132)**	139	27	166
Non-U.S.	**92**	**14**	**106**	174	265	439
Short-term borrowings	**(54)**	**109**	**55**	167	(94)	73
U.S.	**(31)**	**79**	**48**	147	(110)	37
Non-U.S.	**(23)**	**30**	**7**	20	16	36
Long-term borrowings	**(200)**	**497**	**297**	(151)	435	284
U.S.	**(186)**	**533**	**347**	(78)	403	325
Non-U.S.	**(14)**	**(36)**	**(50)**	(73)	32	(41)
Other interest-bearing liabilities	**10**	**(853)**	**(843)**	103	(62)	41
U.S.	**(7)**	**(446)**	**(453)**	(26)	(288)	(314)
Non-U.S.	**17**	**(407)**	**(390)**	129	226	355
Change in interest expense	**(259)**	**(222)**	**(481)**	583	593	1,176
Change in net interest income	**$ 989**	**$(2,301)**	**$(1,312)**	$ 305	$(616)	$ (311)

Available-for-sale Securities Portfolio

The table below presents the fair value of available-for-sale securities. As of December 2012, such assets related to the firm's reinsurance business were classified as held for sale and were included in "Other assets." See Note 12 for further information about assets held for sale.

in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities, December 2012				
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$ 467**	**$ —**	**$ —**	**$ 467**
U.S. government and federal agency obligations	**814**	**47**	**(5)**	**856**
Non-U.S. government and agency obligations	**2**	**—**	**—**	**2**
Mortgage and other asset-backed loans and securities	**3,049**	**341**	**(8)**	**3,382**
Corporate debt securities	**3,409**	**221**	**(5)**	**3,625**
State and municipal obligations	**539**	**91**	**(1)**	**629**
Other debt obligations	**112**	**3**	**(2)**	**113**
Total available-for-sale securities	**$8,392**	**$703**	**$ (21)**	**$9,074**
Available-for-sale securities, December 2011				
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 406	$ —	$ —	$ 406
U.S. government and federal agency obligations	582	80	—	662
Non-U.S. government and agency obligations	19	—	—	19
Mortgage and other asset-backed loans and securities	1,505	30	(119)	1,416
Corporate debt securities	1,696	128	(11)	1,813
State and municipal obligations	418	63	—	481
Other debt obligations	67	—	(3)	64
Total available-for-sale securities	$4,693	$301	$(133)	$4,861

The table below presents the fair value, amortized cost and weighted average yields of available-for-sale securities by contractual maturity. Yields are calculated on a weighted average basis.

	As of December 2012									
	Due in One Year or Less		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Total	
$ in millions	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Fair value of available-for-sale securities										
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$467**	**—%**	**$ —**	**—%**	**$ —**	**—%**	**$ —**	**—%**	**$ 467**	**—%**
U.S. government and federal agency obligations	**57**	**—**	**267**	**1**	**88**	**2**	**444**	**4**	**856**	**3**
Non-U.S. government and agency obligations	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**4**	**2**	**4**
Mortgage and other asset-backed loans and securities	**4**	**3**	**218**	**5**	**23**	**6**	**3,137**	**6**	**3,382**	**6**
Corporate debt securities	**74**	**2**	**804**	**3**	**1,567**	**4**	**1,180**	**5**	**3,625**	**4**
State and municipal obligations	**—**	**—**	**10**	**5**	**—**	**—**	**619**	**6**	**629**	**6**
Other debt obligations	**18**	**1**	**6**	**1**	**5**	**5**	**84**	**4**	**113**	**3**
Total available-for-sale securities	**$620**		**$1,305**		**$1,683**		**$5,466**		**$9,074**	
Amortized cost of available-for-sale securities	**$617**		**$1,267**		**$1,593**		**$4,915**		**$8,392**	

	As of December 2011									
	Due in One Year or Less		Due After One Year Through Five Years		Due After Five Years Through Ten Years		Due After Ten Years		Total	
$ in millions	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Fair value of available-for-sale securities										
Commercial paper, certificates of deposit, time deposits and other money market instruments	$406	—%	$ —	—%	$ —	—%	$ —	—%	$ 406	—%
U.S. government and federal agency obligations	72	—	132	3	69	2	389	4	662	3
Non-U.S. government and agency obligations	—	—	9	3	9	6	1	4	19	4
Mortgage and other asset-backed loans and securities	—	—	120	7	19	5	1,277	10	1,416	10
Corporate debt securities	33	5	425	4	848	5	507	6	1,813	5
State and municipal obligations	1	5	12	5	—	—	468	6	481	6
Other debt obligations	—	—	10	4	—	—	54	3	64	3
Total available-for-sale securities	$512		$ 708		$ 945		$2,696		$4,861	
Amortized cost of available-for-sale securities	$512		$ 696		$ 899		$2,586		$4,693	

Deposits

The table below presents a summary of the firm's interest-bearing deposits.

	Average Balances			Average Interest Rates		
	Year Ended December			Year Ended December		
$ in millions	**2012**	2011	2010	**2012**	2011	2010
U.S.:						
Savings [1]	**$32,235**	$25,916	$23,260	**0.42%**	0.42%	0.44%
Time	**16,433**	7,318	8,158	**1.38**	1.84	2.16
Total U.S. deposits	**48,668**	33,234	31,418	**0.74**	0.73	0.89
Non-U.S.:						
Demand	**5,318**	5,378	5,559	**0.30**	0.46	0.34
Time	**2,413**	1,654	1,034	**0.87**	0.73	0.58
Total Non-U.S. deposits	**7,731**	7,032	6,593	**0.48**	0.53	0.38
Total deposits	**$56,399**	$40,266	$38,011	**0.71**	0.70	0.80

1. Amounts are available for withdrawal upon short notice, generally within seven days.

Ratios

The table below presents selected financial ratios.

	Year Ended December		
	2012	2011	2010
Net earnings to average assets	**0.8%**	0.5%	0.9%
Return on average common shareholders' equity [1]	**10.7**	3.7	11.5
Return on average total shareholders' equity [2]	**10.3**	6.1	11.3
Total average equity to average assets	**7.7**	7.7	8.3
Dividend payout ratio [3]	**12.5**	31.0	10.6

1. Based on net earnings applicable to common shareholders divided by average monthly common shareholders' equity.
2. Based on net earnings divided by average monthly total shareholders' equity.
3. Dividends declared per common share as a percentage of diluted earnings per common share.

Short-term and Other Borrowed Funds

The table below presents a summary of the firm's securities loaned and securities sold under agreements to repurchase and short-term borrowings. These borrowings generally mature within one year of the financial statement date and include borrowings that are redeemable at the option of the holder within one year of the financial statement date.

	Securities Loaned and Securities Sold Under Agreements to Repurchase			Short-Term Borrowings [1, 2]		
	As of December			As of December		
$ in millions	**2012**	2011	2010	**2012**	2011	2010
Amounts outstanding at year-end	**$185,572**	$171,684	$173,557	**$67,349**	$78,223	$72,371
Average outstanding during the year	**177,550**	171,753	160,280	**70,359**	78,497	55,512
Maximum month-end outstanding	**198,456**	190,453	173,557	**75,280**	87,281	72,371
Weighted average interest rate						
During the year	**0.46%**	0.53%	0.44%	**0.83%**	0.67%	0.82%
At year-end	**0.44**	0.39	0.44	**0.79**	0.92	0.63

1. Includes short-term secured financings of $23.05 billion, $29.19 billion and $24.53 billion as of December 2012, December 2011 and December 2010, respectively.
2. The weighted average interest rates for these borrowings include the effect of hedging activities.

Cross-border Outstandings

Cross-border outstandings are based on the Federal Financial Institutions Examination Council's (FFIEC) regulatory guidelines for reporting cross-border information and represent the amounts that the firm may not be able to obtain from a foreign country due to country-specific events, including unfavorable economic and political conditions, economic and social instability, and changes in government policies.

Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments the firm holds and is measured based on the potential loss in an event of non-payment by a counterparty. Credit exposure is reduced through the effect of risk mitigants, such as netting agreements with counterparties that permit the firm to offset receivables and payables with such counterparties or obtaining collateral from counterparties. The tables below do not include all the effects of such risk mitigants and do not represent the firm's credit exposure.

Claims in the tables below include cash, receivables, securities purchased under agreements to resell, securities borrowed and cash financial instruments, but exclude derivative instruments and commitments. Securities purchased under agreements to resell and securities borrowed are presented gross, without reduction for related securities collateral held, based on the domicile of the counterparty. Margin loans (included in receivables) are presented based on the amount of collateral advanced by the counterparty.

The tables below present cross-border outstandings for each country in which cross-border outstandings exceed 0.75% of consolidated assets in accordance with the FFIEC guidelines.

	As of December 2012			
in millions	**Banks**	**Governments**	**Other**	**Total**
Country				
Cayman Islands	**$ —**	**$ —**	**$39,283**	**$39,283**
France	**24,333** [1]	**2,370**	**5,819**	**32,522**
Japan	**16,679**	**19**	**8,908**	**25,606**
Germany	**4,012**	**10,976**	**7,912**	**22,900**
Spain	**3,790**	**4,237**	**1,816**	**9,843**
Ireland	**438**	**68**	**7,057**	**7,563** [2]
United Kingdom	**1,422**	**237**	**5,874**	**7,533**
China	**2,564**	**1,265**	**3,564**	**7,393**
Brazil	**1,383**	**3,704**	**2,280**	**7,367**
Switzerland	**3,706**	**230**	**3,133**	**7,069**

	As of December 2011			
in millions	Banks	Governments	Other	Total
Country				
France	$33,916 [1]	$ 2,859	$ 3,776	$40,551
Cayman Islands	—	—	33,742	33,742
Japan	18,745	31	6,457	25,233
Germany	5,458	16,089	3,162	24,709
United Kingdom	2,111	3,349	5,243	10,703
Italy	6,143	3,054	841	10,038 [3]
Ireland	1,148	63	8,801 [2]	10,012
China	6,722	38	2,908	9,668
Switzerland	3,836	40	5,112	8,988
Canada	676	1,019	6,841	8,536
Australia	1,597	470	5,209	7,276

1. Primarily comprised of secured lending transactions with a clearing house which are secured by collateral.
2. Primarily comprised of interests in and receivables from funds domiciled in Ireland, but whose underlying investments are primarily located outside of Ireland, and secured lending transactions.
3. Primarily comprised of secured lending transactions which are primarily secured by German government obligations.

Supplemental Financial Information

	As of December 2010			
in millions	Banks	Governments	Other	Total
Country				
France	$29,250 [1]	$ 7,373	$ 4,860	$41,483
Cayman Islands	7	—	35,850	35,857
Japan	21,881	49	8,002	29,932
Germany	3,767	16,572	2,782	23,121
China	10,849	701	2,931	14,481
United Kingdom	2,829	2,401	6,800	12,030
Switzerland	2,473	151	7,616	10,240
Canada	260	366	6,741	7,367

1. Primarily comprised of secured lending transactions with a clearing house which are secured by collateral.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two years.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by Goldman Sachs' management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fourth quarter of our year ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are set forth in Part II, Item 8 of this Form 10-K.

Item 9B. Other Information

Effective February 28, 2013, the Board approved an amendment to our Amended and Restated By-Laws solely to change two references to the "Corporate Governance and Nominating Committee" to the "Corporate Governance, Nominating and Public Responsibilities Committee," reflecting a change in the name of that Board committee.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information relating to our executive officers is included on page 39 of this Form 10-K. Information relating to our directors, including our audit committee and audit committee financial experts and the procedures by which shareholders can recommend director nominees, and our executive officers will be in our definitive Proxy Statement for our 2013 Annual Meeting of Shareholders, which will be filed within 120 days of the end of 2012 (2013 Proxy Statement) and is incorporated herein by reference. Information relating to our Code of Business Conduct and Ethics, which applies to our senior financial officers, is included under "Available Information" in Part I, Item 1 of this Form 10-K.

Item 11. Executive Compensation

Information relating to our executive officer and director compensation and the compensation committee of the Board will be in the 2013 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information relating to security ownership of certain beneficial owners of our common stock and information relating to the security ownership of our management will be in the 2013 Proxy Statement and is incorporated herein by reference.

The following table provides information as of December 31, 2012, the last day of 2012, regarding securities to be issued on exercise of outstanding stock options or pursuant to outstanding restricted stock units and performance-based awards, and securities remaining available for issuance under our equity compensation plans that were in effect during 2012.

	Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Second Column)
Equity compensation plans approved by security holders	The Goldman Sachs Amended and Restated Stock Incentive Plan [1]	**67,026,957** [2]	**$99.51** [3]	**188,268,143** [4]
Equity compensation plans not approved by security holders	None	—	—	—
Total		**67,026,957** [2]		**188,268,143** [4]

1. The Goldman Sachs Amended and Restated Stock Incentive Plan (SIP) was approved by the shareholders of Group Inc. at our 2003 Annual Meeting of Shareholders and is a successor plan to The Goldman Sachs 1999 Stock Incentive Plan (1999 Plan), which was approved by our shareholders immediately prior to our initial public offering in May 1999 and under which no additional awards have been granted since approval of the SIP. The SIP was amended and restated, effective December 31, 2008 and further amended on December 20, 2012 to extend its term until Group Inc.'s 2013 Annual Meeting of Shareholders, at which meeting approval of a new equity compensation plan will be voted upon by shareholders.
2. Includes: (i) 43,217,111 shares of common stock that may be issued upon exercise of outstanding options; (ii) 23,803,555 shares that may be issued pursuant to outstanding restricted stock units; and (iii) 6,291 shares that may be issued pursuant to outstanding performance-based units granted under the SIP. These awards are subject to vesting and other conditions to the extent set forth in the respective award agreements, and the underlying shares will be delivered net of any required tax withholding.
3. This weighted-average exercise price relates only to the options described in footnote 2. Shares underlying restricted stock units and performance-based units are deliverable without the payment of any consideration, and therefore these awards have not been taken into account in calculating the weighted-average exercise price.
4. Represents shares remaining to be issued under the SIP, excluding shares reflected in the second column. The total number of shares of common stock that may be delivered pursuant to awards granted under the SIP through the end of our 2008 fiscal year could not exceed 250 million shares. The total number of shares of common stock that may be delivered pursuant to awards granted under the SIP in our 2009 fiscal year and each fiscal year thereafter cannot exceed 5% of the issued and outstanding shares of common stock, determined as of the last day of the immediately preceding fiscal year, increased by the number of shares available for awards in previous years but not covered by awards granted in such years. There are no shares remaining to be issued under the 1999 Plan other than those reflected in the second column.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions and director independence will be in the 2013 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services will be in the 2013 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed in this Form 10-K are included in Part II, Item 8 hereof.

2. Exhibits

2.1 Plan of Incorporation (incorporated by reference to the corresponding exhibit to the Registrant's registration statement on Form S-1 (No. 333-74449)).

3.1 Restated Certificate of Incorporation of The Goldman Sachs Group, Inc., amended as of November 20, 2012.

3.2 Amended and Restated By-Laws of The Goldman Sachs Group, Inc., amended as of February 28, 2013.

4.1 Indenture, dated as of May 19, 1999, between The Goldman Sachs Group, Inc. and The Bank of New York, as trustee (incorporated by reference to Exhibit 6 to the Registrant's registration statement on Form 8-A, filed June 29, 1999).

4.2 Subordinated Debt Indenture, dated as of February 20, 2004, between The Goldman Sachs Group, Inc. and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 28, 2003).

4.3 Warrant Indenture, dated as of February 14, 2006, between The Goldman Sachs Group, Inc. and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.34 to the Registrant's Post-Effective Amendment No. 3 to Form S-3, filed on March 1, 2006).

4.4 Senior Debt Indenture, dated as of December 4, 2007, among GS Finance Corp., as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.69 to the Registrant's Post-Effective Amendment No. 10 to Form S-3, filed on December 4, 2007).

Certain instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.

4.5 Senior Debt Indenture, dated as of July 16, 2008, between The Goldman Sachs Group, Inc. and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.82 to the Registrant's Post-Effective Amendment No. 11 to Form S-3 (No. 333-130074), filed July 17, 2008).

4.6 Senior Debt Indenture, dated as of October 10, 2008, among GS Finance Corp., as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.70 to the Registrant's registration statement on Form S-3 (No. 333-154173), filed October 10, 2008).

10.1 The Goldman Sachs Amended and Restated Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 28, 2008). †

10.2 Amendment to The Goldman Sachs Amended and Restated Stock Incentive Plan, effective December 20, 2012. †

10.3 The Goldman Sachs Amended and Restated Restricted Partner Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended February 24, 2006). †

10.4 Form of Employment Agreement for Participating Managing Directors (applicable to executive officers) (incorporated by reference to Exhibit 10.19 to the Registrant's registration statement on Form S-1 (No. 333-75213)). †

10.5 Form of Agreement Relating to Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.20 to the Registrant's registration statement on Form S-1 (No. 333-75213)). †

10.6 Tax Indemnification Agreement, dated as of May 7, 1999, by and among The Goldman Sachs Group, Inc. and various parties (incorporated by reference to Exhibit 10.25 to the Registrant's registration statement on Form S-1 (No. 333-75213)).

10.7	Amended and Restated Shareholders' Agreement, effective as of January 22, 2010, among The Goldman Sachs Group, Inc. and various parties (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009).
10.8	Instrument of Indemnification (incorporated by reference to Exhibit 10.27 to the Registrant's registration statement on Form S-1 (No. 333-75213)).
10.9	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 26, 1999).
10.10	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 26, 1999).
10.11	Form of Indemnification Agreement, dated as of July 5, 2000 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 25, 2000).
10.12	Amendment No. 1, dated as of September 5, 2000, to the Tax Indemnification Agreement, dated as of May 7, 1999 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 25, 2000).
10.13	Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Mr. James A. Johnson (incorporated by reference to Exhibit 10.65 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2000). †
10.14	Letter, dated December 18, 2002, from The Goldman Sachs Group, Inc. to Mr. William W. George (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 29, 2002). †
10.15	Letter, dated June 20, 2003, from The Goldman Sachs Group, Inc. to Mr. Claes Dahlbäck (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 30, 2003). †
10.16	Letter, dated April 6, 2005, from The Goldman Sachs Group, Inc. to Mr. Stephen Friedman (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed April 8, 2005). †
10.17	Letter, dated May 12, 2009, from The Goldman Sachs Group, Inc. to Mr. James J. Schiro (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 26, 2009). †
10.18	Form of Amendment, dated November 27, 2004, to Agreement Relating to Noncompetition and Other Covenants, dated May 7, 1999 (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 26, 2004). †
10.19	The Goldman Sachs Group, Inc. Non-Qualified Deferred Compensation Plan for U.S. Participating Managing Directors (terminated as of December 15, 2008) (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2007). †
10.20	Form of Year-End Option Award Agreement (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 28, 2008). †
10.21	Form of Year-End RSU Award Agreement (French alternative award) (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009). †
10.22	Amendments to 2005 and 2006 Year-End RSU and Option Award Agreements (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2007). †
10.23	Form of Non-Employee Director Option Award Agreement (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009). †
10.24	Form of Non-Employee Director RSU Award Agreement. †
10.25	Ground Lease, dated August 23, 2005, between Battery Park City Authority d/b/a/ Hugh L. Carey Battery Park City Authority, as Landlord, and Goldman Sachs Headquarters LLC, as Tenant (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed August 26, 2005).
10.26	General Guarantee Agreement, dated January 30, 2006, made by The Goldman Sachs Group, Inc. relating to certain obligations of Goldman, Sachs & Co. (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 25, 2005).

10.27	Goldman, Sachs & Co. Executive Life Insurance Policy and Certificate with Metropolitan Life Insurance Company for Participating Managing Directors (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 25, 2006). †
10.28	Form of Goldman, Sachs & Co. Executive Life Insurance Policy with Pacific Life & Annuity Company for Participating Managing Directors, including policy specifications and form of restriction on Policy Owner's Rights (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 25, 2006). †
10.29	Form of Second Amendment, dated November 25, 2006, to Agreement Relating to Noncompetition and Other Covenants, dated May 7, 1999, as amended effective November 27, 2004 (incorporated by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2006). †
10.30	Description of PMD Retiree Medical Program (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended February 29, 2008). †
10.31	Letter, dated June 28, 2008, from The Goldman Sachs Group, Inc. to Mr. Lakshmi N. Mittal (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, filed June 30, 2008). †
10.32	Securities Purchase Agreement, dated September 29, 2008, between The Goldman Sachs Group, Inc. and Berkshire Hathaway Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 29, 2008).
10.33	General Guarantee Agreement, dated December 1, 2008, made by The Goldman Sachs Group, Inc. relating to certain obligations of Goldman Sachs Bank USA (incorporated by reference to Exhibit 4.80 to the Registrant's Post-Effective Amendment No. 2 to Form S-3, filed March 19, 2009).
10.34	Guarantee Agreement, dated November 28, 2008 and amended effective as of January 1, 2010, between The Goldman Sachs Group, Inc. and Goldman Sachs Bank USA (incorporated by reference to Exhibit 10.51 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009).
10.35	Collateral Agreement, dated November 28, 2008, between The Goldman Sachs Group, Inc., Goldman Sachs Bank USA and each other party that becomes a pledgor pursuant thereto (incorporated by reference to Exhibit 10.61 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 28, 2008).
10.36	Form of One-Time RSU Award Agreement. †
10.37	Amendments to Certain Equity Award Agreements (incorporated by reference to Exhibit 10.68 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 28, 2008). †
10.38	Amendments to Certain Non-Employee Director Equity Award Agreements (incorporated by reference to Exhibit 10.69 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 28, 2008). †
10.39	Form of Signature Card for Equity Awards. †
10.40	Form of Year-End RSU Award Agreement (not fully vested). †
10.41	Form of Year-End RSU Award Agreement (fully vested). †
10.42	Form of Year-End RSU Award Agreement (Base and/or Supplemental). †
10.43	Form of Year-End Short-Term RSU Award Agreement. †
10.44	Form of Year-End Restricted Stock Award Agreement. †
10.45	Form of Year-End Restricted Stock Award Agreement (fully vested). †
10.46	Form of Year-End Short-Term Restricted Stock Award Agreement. †
10.47	General Guarantee Agreement, dated March 2, 2010, made by The Goldman Sachs Group, Inc. relating to the obligations of Goldman Sachs Execution & Clearing, L.P. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2010).
10.48	Form of Deed of Gift (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2010). †
10.49	The Goldman Sachs Long-Term Performance Incentive Plan, dated December 17, 2010 (incorporated by reference to the Registrant's Current Report on Form 8-K, filed December 23, 2010). †

10.50	Form of Performance-Based Restricted Stock Unit Award Agreement (incorporated by reference to the Registrant's Current Report on Form 8-K, filed December 23, 2010). †
10.51	Form of Performance-Based Option Award Agreement (incorporated by reference to the Registrant's Current Report on Form 8-K, filed December 23, 2010). †
10.52	Form of Performance-Based Cash Compensation Award Agreement (incorporated by reference to the Registrant's Current Report on Form 8-K, filed December 23, 2010). †
10.53	Amended and Restated General Guarantee Agreement dated November 21, 2011 made by the Goldman Sachs Group, Inc. relating to certain obligations of Goldman Sachs Bank USA (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed November 21, 2011).
10.54	Form of Aircraft Time Sharing Agreement (incorporated by reference to Exhibit 10.61 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011). †
10.55	Description of Compensation Arrangements with Executive Officer (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2012). †
12.1	Statement re: Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
21.1	List of significant subsidiaries of The Goldman Sachs Group, Inc.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a) Certifications.
32.1	Section 1350 Certifications. *
99.1	Report of Independent Registered Public Accounting Firm on Selected Financial Data.
99.2	Debt and trust securities registered under Section 12(b) of the Exchange Act.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Earnings for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, (ii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, (iii) the Consolidated Statements of Financial Condition as of December 31, 2012 and December 31, 2011, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, and (vi) the notes to the Consolidated Financial Statements.

† This exhibit is a management contract or a compensatory plan or arrangement.

* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Harvey M. Schwartz
Name: Harvey M. Schwartz
Title: Chief Financial Officer

Date: February 28, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Lloyd C. Blankfein Lloyd C. Blankfein	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	February 28, 2013
/s/ M. Michele Burns M. Michele Burns	Director	February 28, 2013
/s/ Gary D. Cohn Gary D. Cohn	Director	February 28, 2013
/s/ Claes Dahlbäck Claes Dahlbäck	Director	February 28, 2013
/s/ Stephen Friedman Stephen Friedman	Director	February 28, 2013
/s/ William W. George William W. George	Director	February 28, 2013
/s/ James A. Johnson James A. Johnson	Director	February 28, 2013
/s/ Lakshmi N. Mittal Lakshmi N. Mittal	Director	February 28, 2013
/s/ Adebayo O. Ogunlesi Adebayo O. Ogunlesi	Director	February 28, 2013
/s/ James J. Schiro James J. Schiro	Director	February 28, 2013
/s/ Debora L. Spar Debora L. Spar	Director	February 28, 2013

/s/ Mark Edward Tucker Mark Edward Tucker	Director	February 28, 2013
/s/ David A. Viniar David A. Viniar	Director	February 28, 2013
/s/ Harvey M. Schwartz Harvey M. Schwartz	Chief Financial Officer (Principal Financial Officer)	February 28, 2013
/s/ Sarah E. Smith Sarah E. Smith	Principal Accounting Officer	February 28, 2013

STATUTORY AND GENERAL INFORMATION ABOUT US AND THE GUARANTOR

STATUTORY CONSENTS

Each issue of structured products will have the benefit of the guarantee.

HAS OUR GUARANTOR'S FINANCIAL POSITION CHANGED SINCE LAST FINANCIAL YEAR-END?

Save as disclosed in this base listing document, there has been no material adverse change in the guarantor's financial or trading position since the end of the period reported on in the auditor's report on the most recently published audited financial statements of the guarantor on a consolidated basis, that would have a material adverse effect on the guarantor's ability to perform its obligations in the context of the guarantee in respect of the structured products.

IS THE ISSUER OR OUR GUARANTOR SUBJECT TO ANY LITIGATION?

Save as disclosed in this base listing document, we and the guarantor are not aware, to the best of our and the guarantor's knowledge and belief, of any litigation or claims of material importance in the context of the issue of structured products pending or threatened against us or the guarantor.

INFORMATION ABOUT THE GUARANTOR'S AUDITOR

PricewaterhouseCoopers LLP, independent registered public accounting firm engaged by the guarantor, gave its written consent on 25 March 2013 and has not withdrawn its written consent to the reproduction in this base listing document of its audit report dated 28 February 2013 on the English language version of the guarantor's audited consolidated financial statements for the year ended 31 December 2012 in the form and context in which it is included. The audit report dated 28 February 2013 was not prepared for incorporation in this base listing document and should not be construed as in any way updating or refreshing the aforementioned report since the date of its issue.

PricewaterhouseCoopers LLP does not have any shareholding in us or the guarantor or any of the guarantor's subsidiaries nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of the guarantor or any of the guarantor's subsidiaries.

OUR SERVICE OF PROCESS AGENT

We have authorised Goldman Sachs (Asia) L.L.C., 68/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong to accept on our behalf and on behalf of the guarantor service of process and any other notices required to be served on either us or the guarantor in Hong Kong.

OUR AUTHORISED REPRESENTATIVES

Our authorised representatives are Gary Suen, a managing director of Goldman Sachs (Asia) L.L.C., and Tin-Hsien Tan, a senior compliance officer of Goldman Sachs (Asia) L.L.C., who can be contacted at Goldman Sachs (Asia) L.L.C., 68/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

ANNEX 1

The relevant Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document and subject to completion and amendment, be endorsed on the back of the global warrant certificate or the global CBBC certificate (as applicable). The applicable supplemental listing document in relation to the issue of any series of warrants or CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of warrants or CBBCs. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

TERMS AND CONDITIONS OF THE CASH-SETTLED STOCK WARRANTS

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the instrument dated 28 February 2007 (the "**Instrument**") made by Goldman Sachs Structured Products (Asia) Limited (the "**Issuer**") and the guarantee dated 25 March 2013 (including any supplement or replacement, the "**Guarantee**") made by The Goldman Sachs Group, Inc. (the "**Guarantor**"). Pursuant to a registrar and agent agreement dated 1 November 2005, the Issuer has appointed Goldman Sachs (Asia) L.L.C. as registrar ("**Registrar**") and agent ("**Agent**") for the Warrants.

Copies of the Instrument and the Guarantee are available for inspection at the office of the Agent as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of the Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee the Guarantor has, subject to the terms therein, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at expiry, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by the Registrar in Hong Kong as the holder shall be treated by the Issuer, the Guarantor, the Agent and the Registrar as the absolute owner and holder of the Warrants (which shall be HKSCC Nominees Limited (or its successors) for so long as the Warrants are accepted as eligible securities in CCASS). The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) An irrevocable authorisation is deemed to be given to the Issuer and/or the Agent to deduct any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Expiry Date shall be notified as soon as practicable after determination by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(C) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the Global Warrant Certificate.

(D) Subject to an Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and on a date not later than the Settlement Date in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses), for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means an amount payable in the Settlement Currency (such amount to be calculated by the Issuer) equal to:

In the case of a series of Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Average Price**" shall be the arithmetic mean of the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date.

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by HKSCC from time to time.

"**Entitlement**" means such number of Shares as specified in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6.

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document.

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions.

"**Valuation Date**" means, each of the five Business Days immediately preceding the Expiry Date. If the Issuer and/or Agent determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer and/or the Agent shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder as recorded on the register.

(E) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(F) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent (including the Registrar) or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent (including the Registrar) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement and the Exercise Price shall be adjusted to take effect on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{“Adjustment Factor”} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price shall be rounded to the nearest 0.001.

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement and the Exercise Price will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{"Adjustment Factor"} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(ii) The Adjusted Exercise Price shall be rounded to the nearest 0.001.

(iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement and the Exercise Price shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{"Adjustment Factor"} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Exercise Price immediately prior to the relevant Cash Distribution

S: Closing price of a Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share

CD: Amount of the relevant Cash Distribution per Share

Provided that "OD" shall be deemed to be zero if no ordinary cash dividend is announced by the Company or if the ex-entitlement date of the ordinary cash dividend is different from the ex-entitlement date of the relevant Cash Distribution.

The Adjusted Exercise Price shall be rounded to the nearest 0.001.

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or (ii) determined by the Agent in good faith to be appropriate and commercially reasonable.

(G) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 percent of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 percent of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the

Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Illegality and Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Agent in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

16 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent and Registrar

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED FOREIGN STOCK WARRANTS

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the instrument dated 28 February 2007 (the "**Instrument**") made by Goldman Sachs Structured Products (Asia) Limited (the "**Issuer**") and the guarantee dated 25 March 2013 (including any supplement or replacement, the "**Guarantee**") made by The Goldman Sachs Group, Inc. (the "**Guarantor**"). Pursuant to a registrar and agent agreement dated 1 November 2005, the Issuer has appointed Goldman Sachs (Asia) L.L.C. as registrar ("**Registrar**") and agent ("**Agent**") for the Warrants.

Copies of the Instrument and the Guarantee are available for inspection at the office of the Agent as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of the Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee the Guarantor has, subject to the terms therein, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at expiry, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by the Registrar in Hong Kong as the holder shall be treated by the Issuer, the Guarantor, the Agent and the Registrar as the absolute owner and holder of the Warrants (which shall be HKSCC Nominees Limited (or its successors) for so long as the Warrants are accepted as eligible securities in CCASS). The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) An irrevocable authorisation is deemed to be given to the Issuer and/or the Agent to deduct any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Expiry Date shall be notified as soon as practicable after determination by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(C) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the Global Warrant Certificate.

(D) Subject to an Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and on a date not later than the Settlement Date in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses), for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means an amount payable in the Settlement Currency (such amount to be calculated by the Issuer) equal to:

In the case of a series of Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

converted into the Settlement Currency at the Exchange Rate.

In the case of a series of Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

converted into the Settlement Currency at the Exchange Rate.

"**Average Price**" shall be the arithmetic mean of the closing price of one Share (as published by the Relevant Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date.

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by HKSCC from time to time.

"**Entitlement**" means such number of Shares as specified in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6.

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Relevant Exchange or otherwise) on the Relevant Exchange in (i) the Shares or (ii) any options or futures contracts relating to the Shares, if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material; or

(2) a closure of the Relevant Exchange or a disruption or limitation in trading on the Relevant Exchange due to other unforeseen circumstances.

"**Relevant Exchange Business Day**" means a day (excluding Saturdays and Sundays) on which the Relevant Exchange is scheduled to open for dealings in the Relevant Exchange City and banks are open in the Relevant Exchange City for business.

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document.

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions.

“**Valuation Date**” means, each of the five Relevant Exchange Business Days immediately preceding the Expiry Date. If the Issuer and/or Agent determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Relevant Exchange Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Relevant Exchange Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Relevant Exchange Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(i) the Relevant Exchange Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer and/or the Agent shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder as recorded on the register.

(E) If as a result of an event beyond the control of the Issuer (“**Settlement Disruption Event**”), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(F) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent (including the Registrar) or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent (including the Registrar) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer’s obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement and the Exercise Price shall be adjusted to take effect on the Relevant Exchange Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{“Adjustment Factor”} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Share price, being the closing price of an existing Share, as published by the Relevant Exchange on the last Relevant Exchange Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement and the Exercise Price will be adjusted to take effect on the Relevant Exchange Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{"Adjustment Factor"} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(ii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Relevant Exchange Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement and the Exercise Price shall be adjusted to take effect on the Relevant Exchange Business Day on which trading in the Shares becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{“Adjustment Factor”} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Exercise Price immediately prior to the relevant Cash Distribution

S: Closing price of a Share on the Relevant Exchange Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share

CD: Amount of the relevant Cash Distribution per Share

Provided that "OD" shall be deemed to be zero if no ordinary cash dividend is announced by the Company or if the ex-entitlement date of the ordinary cash dividend is different from the ex-entitlement date of the relevant Cash Distribution.

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or (ii) determined by the Agent in good faith to be appropriate and commercially reasonable.

(G) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 percent of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 percent of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong (as defined below) or such other jurisdiction where the Shares are listed or the issuer of the Shares is incorporated. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited.

11 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12 Delisting of Company

(A) If at any time the Shares cease to be listed on the Relevant Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Relevant Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Illegality and Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Agent in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

16 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent and Registrar

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

TERMS AND CONDITIONS OF THE INDEX WARRANTS

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Index as published by the Index Sponsor are issued in registered form subject to and with the benefit of the instrument dated 28 February 2007 (the "**Instrument**") made by Goldman Sachs Structured Products (Asia) Limited (the "**Issuer**") and the guarantee dated 25 March 2013 (including any supplement or replacement, the "**Guarantee**") made by The Goldman Sachs Group, Inc. (the "**Guarantor**"). Pursuant to a registrar and agent agreement dated 1 November 2005, the Issuer has appointed Goldman Sachs (Asia) L.L.C. as registrar ("**Registrar**") and agent ("**Agent**") for the Warrants.

Copies of the Instrument and the Guarantee are available for inspection at the office of the Agent as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of the Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee the Guarantor has, subject to the terms therein, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at expiry, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by the Registrar in Hong Kong as the holder shall be treated by the Issuer, the Guarantor, the Agent and the Registrar as the absolute owner and holder of the Warrants (which shall be HKSCC Nominees Limited (or its successors) for so long as the Warrants are accepted as eligible securities in CCASS). The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) An irrevocable authorisation is deemed to be given to the Issuer and/or Agent to deduct any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Expiry Date shall be notified as soon as practicable after determination by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(C) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the Global Warrant Certificate.

(D) Subject to an Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and on a date not later than the Settlement Date in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses), for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means an amount payable in the Settlement Currency (such amount to be calculated by the Issuer) equal to:

In the case of a series of Index Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

In the case of a series of Index Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

If applicable, such amount will be either (i) converted from the Reference Currency into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate.

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by HKSCC from time to time.

"**Market Disruption Event**" means:

(1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

(i) the suspension of or material limitation on the trading of a material number of constituent securities that comprise the Index; or

(ii) the suspension of or material limitation on the trading of options or futures contracts relating to the Index on any exchange on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

for the purpose of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange

opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances.

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document.

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with these Conditions.

"**Valuation Date**" means the Expiry Date. If the Issuer and/or Agent determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer and/or the Agent shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event, provided that the Agent, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder as recorded on the register.

(E) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

(F) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent (including the Registrar) or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent (including the Registrar) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustment to the Index

(A) If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the "**Successor Index Sponsor**") acceptable to the Agent or (ii) replaced by a successor index using, in the determination of the Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or that successor index, as the case may be.

(B) If (i) on or prior to a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Agent shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Agent in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or (ii) determined by the Agent in good faith to be appropriate and commercially reasonable.

(D) All determinations made by the Agent pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 10.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 percent of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 percent of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited.

11 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

12 Illegality and Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Agent in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

13 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

14 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent and Registrar

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

TERMS AND CONDITIONS OF THE CASH-SETTLED WARRANTS RELATING TO THE UNITS OF A FUND OR TRUST

1 Form; Status; Guarantee; Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 13) relating to the Units of the Fund or Trust are issued in registered form subject to and with the benefit of the instrument dated 28 February 2007 (the "**Instrument**") made by Goldman Sachs Structured Products (Asia) Limited (the "**Issuer**") and the guarantee dated 25 March 2013 (including any supplement or replacement, the "**Guarantee**") made by The Goldman Sachs Group, Inc. (the "**Guarantor**"). Pursuant to a registrar and agent agreement dated 1 November 2005, the Issuer has appointed Goldman Sachs (Asia) L.L.C. as registrar ("**Registrar**") and agent ("**Agent**") for the Warrants.

Copies of the Instrument and the Guarantee are available for inspection at the office of the Agent as specified below. The Warrantholders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

(B) The settlement obligation of the Issuer in respect of the Warrants represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of the Warrants deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee the Guarantor has, subject to the terms therein, unconditionally and irrevocably guaranteed to the Warrantholders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the issuance of the Warrants after taking account of any set off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, when and as due (whether at expiry, by acceleration or otherwise).

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by the Registrar in Hong Kong as the holder shall be treated by the Issuer, the Guarantor, the Agent and the Registrar as the absolute owner and holder of the Warrants (which shall be HKSCC Nominees Limited (or its successors) for so long as the Warrants are accepted as eligible securities in CCASS). The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2 Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon compliance with Condition 4, to payment of the Cash Settlement Amount (as defined in Condition 4(D)).

(B) The Warrantholder will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(B).

3 Automatic Exercise

(A) Any Warrant in respect of which the Cash Settlement Amount which would be payable by the Issuer if exercised on the Expiry Date shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**").

(B) Any Warrant which has not been automatically exercised in accordance with Condition 3(A) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) In these Conditions, "**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong.

4 Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) An irrevocable authorisation is deemed to be given to the Issuer and/or the Agent to deduct any determined Exercise Expenses from the Cash Settlement Amount. Any Exercise Expenses which have not been determined by the Agent on the Expiry Date shall be notified as soon as practicable after determination by the Agent to the Warrantholder and shall be paid by the Warrantholder forthwith in immediately available funds no later than 3 Business Days after the Warrantholder receives notice of any unpaid expenses.

(C) Following the Expiry Date the Issuer will, with effect from the first Business Day following the Expiry Date cancel and destroy the Global Warrant Certificate.

(D) Subject to an Automatic Exercise in accordance with Condition 3(A), the Issuer will as soon as practicable and on a date not later than the Settlement Date in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of determined Exercise Expenses), for all Warrants deemed exercised, electronically through CCASS by crediting the relevant bank account of the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

Subject to adjustment as provided in Condition 6, "**Cash Settlement Amount**" means an amount payable in the Settlement Currency (such amount to be calculated by the Issuer) equal to:

In the case of a series of Call Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

In the case of a series of Put Warrants:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**Average Price**" shall be the arithmetic mean of the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date.

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by HKSCC from time to time.

"**Entitlement**" means such number of Units as specified in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6.

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Units or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document.

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions.

"**Valuation Date**" means, each of the five Business Days immediately preceding the Expiry Date. If the Issuer and/or Agent determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that already is or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing price used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer and/or the Agent shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Any payment made pursuant to this Condition 4(D) shall be delivered at the risk and expense of the Warrantholder to the Warrantholder as recorded on the register.

(E) If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(F) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Guarantor, the Issuer or its agent (including the Registrar) or nominee and the Warrantholder and neither the Guarantor, the Issuer nor its agent (including the Registrar) or nominee shall owe any duty of a fiduciary nature to the Warrantholder.

None of the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 4(D) above.

5 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 10.

6 Adjustments

Adjustments may be made by the Agent to the terms of the Warrants (including, but not limited to, the Exercise Price and the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Fund or Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement and the Exercise Price shall be adjusted to take effect on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{“Adjustment Factor”} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Exercise Price immediately prior to the Rights Offer

S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Units per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Exercise Price shall be rounded to the nearest 0.001.

(B) (i) If and whenever the Fund or Trust shall make an issue of Units credited as fully paid to the holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Fund or Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement and the Exercise Price will be adjusted to take effect on the Business Day on which trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

"Adjustment Factor" = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Exercise Price immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

(ii) The Adjusted Exercise Price shall be rounded to the nearest 0.001.

(iii) For the purposes of Conditions 6(A) and 6(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(C) If and whenever the Fund or Trust shall subdivide its units or any class of its outstanding units into a greater number of units or consolidate its outstanding units or any class of it into a smaller number of units, the Entitlement shall be increased and the Exercise Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Exercise Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Fund or Trust is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Fund or Trust is the surviving entity in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) or fund(s) (as the case may be) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Fund or Trust, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Fund or Trust.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement and the Exercise Price shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Exercise Price will be adjusted to:

$$\text{Adjusted Exercise Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

Where:

$$\text{“Adjustment Factor”} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Exercise Price immediately prior to the relevant Cash Distribution

S: Closing price of a Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash distribution per Unit

CD: Amount of the relevant Cash Distribution per Unit

Provided that "OD" shall be deemed to be zero if no ordinary cash distribution is announced by the Fund or Trust or if the ex-entitlement date of the ordinary cash distribution is different from the ex-entitlement date of the relevant Cash Distribution.

The Adjusted Exercise Price shall be rounded to the nearest 0.001.

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction) or (ii) determined by the Agent in good faith to be appropriate and commercially reasonable.

(G) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after the determination.

7 Purchase by the Issuer

The Issuer and any of its affiliates may purchase Warrants at any time on or after the date of their issue and any Warrants which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

8 Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of HKSCC Nominees Limited (or its successors). The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

9 Meeting of Warrantholder; Modification

(A) *Meetings of Warrantholder.* Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 10.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 percent of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 percent of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 10.

10 Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited.

11 Termination or Liquidation of the Fund or Trust

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund or Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Fund or Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. The unexercised Warrants will lapse and shall cease to be valid (i) in the case of a Termination, on the effective date of the Termination; (ii) in the case of a voluntary liquidation, on the effective date of the resolution; (iii) in the case of an involuntary liquidation or dissolution, on the date of the relevant court order; or (iv) in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 11, "**Termination**" means (i) the Fund or Trust is terminated, or the Trustee or the manager of the Fund or Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Fund or Trust under the trust deed ("**Trust Deed**") constituting the Fund or Trust or applicable law, or the termination of the Fund or Trust commences; (ii) the Fund is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund or Trust to hold the property of the Fund or Trust in its name and perform its obligations under the Trust Deed; or (iv) the Fund or Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

12 Delisting of Fund or Trust

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 12 shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 10 as soon as practicable after they are determined.

13 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

14 Illegality and Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

   (a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

   (b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

   (each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Agent in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholders in accordance with Condition 10.

15 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

16 Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent and Registrar

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

TERMS AND CONDITIONS OF THE CBBCS RELATING TO SINGLE STOCK

1 Form; Status; Guarantee; Transfer and Title

(A) The callable bull/bear contracts or "CBBCs" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of the instrument dated 25 May 2007 (the "**Instrument**") made by Goldman Sachs Structured Products (Asia) Limited (the "**Issuer**") and the guarantee dated 25 March 2013 (including any supplement or replacement, the "**Guarantee**") made by The Goldman Sachs Group, Inc. (the "**Guarantor**"). Pursuant to a registrar and agent agreement dated 8 June 2006, the Issuer has appointed Goldman Sachs (Asia) L.L.C. as registrar ("**Registrar**") and agent ("**Agent**") for the CBBCs.

Copies of the Instrument and the Guarantee are available for inspection at the office of the Agent as specified below. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms therein, unconditionally and irrevocably guaranteed to the Holders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the CBBCs after taking account of any set-off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, as and when due (whether at expiry, by acceleration or otherwise).

(C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by the Registrar in Hong Kong as the holder shall be treated by the Issuer, the Guarantor, the Agent and the Registrar as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer, the Guarantor nor any of their affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

(A) Every Board Lot of the CBBCs entitles the Holder, upon compliance with Condition 3, to payment of the Cash Settlement Amount.

(B) The Holder will be required to pay the Exercise Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D).

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the date on which the Mandatory Call Event occurs ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be canceled and will not be recognized by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Mandatory Call Event**" occurs when the Spot Price of the Shares is, at any time during a Trading Day in the Observation Period:

(i) in the case of a series of Bull CBBCs, at or below the Call Price; or

(ii) in the case of a series of Bear CBBCs, at or above the Call Price;

"**Observation Period**" means the period from the Observation Commencement Date to the Trading Day immediately before the Expiry Date (both dates inclusive);

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Spot Price**" means:

(i) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(ii) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

"**Trading Rules**" means the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**").

(C) Following the date on which the Mandatory Call Event occurs or the Expiry Date, the Issuer will, with effect from the first Business Day following the Settlement Date cancel and destroy the Global CBBC Certificate.

(D) Following a Mandatory Call Termination or an Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will on a date no later than the Settlement Date in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of any determined Exercise Expenses) for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula:

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of Bull CBBCs:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of Bear CBBCs:

$$\text{“Cash Settlement Amount” per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero;

provided that if the relevant formula above produces an amount that is equal to or less than zero or the Exercise Expenses (if any), then no Cash Settlement Amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency and shall be rounded up to the nearest two decimal places in the Settlement Currency.

"**Closing Price**" shall be the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Entitlement**" means such number of Shares as specified in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early termination of the CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs at expiry;

"**Market Disruption Event**" means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;

(ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

"**Maximum Trade Price**" means the highest Spot Price of the Shares during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price of the Shares and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares during the MCE Valuation Period;

"**Residual Value**" means, subject to adjustment as provided in Condition 5:

(i) in the case of a series of Bull CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of Bear CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document; and

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these Conditions (as the case may be).

"**Valuation Date**" means, the Trading Day immediately preceding the Expiry Date. If the Issuer and/or Agent determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer and/or Agent determines that there is no Market Disruption Event, unless the Agent determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(ii) the Issuer and/or Agent shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Shares on the Stock Exchange and such other factors as the Issuer determines to be relevant.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be under any circumstances be liable for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Guarantor, the Issuer or its agent (including the Registrar) or nominee and the Holder and neither the Stock Exchange, the Guarantor, the Issuer nor its agent (including the Registrar) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange, the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Agent to the terms of the CBBCs (including, but not limited to (i) the Strike Price, (ii) the Call Price and/or (iii) the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Company shall, by way of Rights, offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement, the Strike Price and the Call Price shall be adjusted to take effect on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{“Adjustment Factor”} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Strike Price immediately prior to the Rights Offer

Y: Existing Call Price immediately prior to the Rights Offer

S: Cum-Rights Share price, being the closing price of an existing Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Shares per existing Share (whether a whole or a fraction) each holder of an existing Share is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to a holder of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.

(B) (i) If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement, the Strike Price and the Call Price will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

"Adjustment Factor" = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

Y: Existing Call Price immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

(ii) The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.

(iii) For the purposes of Conditions 5(A) and 5(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(C) If and whenever the Company shall subdivide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, the Entitlement shall be increased and the Strike Price and the Call Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price and the Call Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Agent in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement, the Call Price and the Strike Price shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{“Adjustment Factor”} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

Y: Existing Call Price immediately prior to the relevant Cash Distribution

S: Closing Price of a Share, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash dividend per Share

CD: Amount of the relevant Cash Distribution per Share

Provided that "OD" shall be deemed to be zero if no ordinary cash dividend is announced by the Company or if the ex-entitlement date of the ordinary cash dividend is different from the ex-entitlement date of the relevant Cash Distribution.

The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction) or (ii) determined by the Agent in good faith to be appropriate and commercially reasonable.

(G) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Holder in accordance with Condition 9 as soon as practicable after the determination.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

7 Global CBBC Certificate

A global callable bull/bear contract certificate (the "**Global CBBC Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited. The Global CBBC Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holder; Modification

(A) *Meetings of Holder.* Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

Where the Holder is a clearing house recognised by the Laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder of the CBBC.

(B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited.

10 Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, all CBBCs will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11 Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 11(A), where the Shares are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any such adjustment or amendment and determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with Condition 9 as soon as practicable after they are determined.

12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

13 Illegality and Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Agent in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holders in accordance with Condition 9.

14 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

15 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent and Registrar

Goldman Sachs (Asia) L.L.C.
68/F Cheung Kong Center
2 Queen's Road Central
Hong Kong

TERMS AND CONDITIONS OF THE CBBCS RELATING TO AN INDEX

1 Form; Status; Guarantee; Transfer and Title

(A) The callable bull/bear contracts or "CBBCs" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 10) relating to the Index are issued in registered form subject to and with the benefit of the instrument dated 25 May 2007 (the "**Instrument**") made by Goldman Sachs Structured Products (Asia) Limited (the "**Issuer**") and the guarantee dated 25 March 2013 (including any supplement or replacement, the "**Guarantee**") made by The Goldman Sachs Group, Inc. (the "**Guarantor**"). Pursuant to a registrar and agent agreement dated 8 June 2006, the Issuer has appointed Goldman Sachs (Asia) L.L.C. as registrar ("**Registrar**") and agent ("**Agent**") for the CBBCs.

Copies of the Instrument and the Guarantee are available for inspection at the office of the Agent as specified below. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms therein, unconditionally and irrevocably guaranteed to the Holders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the CBBCs after taking account of any set-off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, as and when due (whether at expiry, by acceleration or otherwise).

(C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by the Registrar in Hong Kong as the holder shall be treated by the Issuer, the Guarantor, the Agent and the Registrar as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer, the Guarantor, the Index Sponsor nor any of their affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

(A) Every Board Lot of the CBBCs entitles the Holder, upon compliance with Condition 3, to payment of the Cash Settlement Amount.

(B) The Holder will be required to pay the Exercise Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D).

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the date on which the Mandatory Call Event occurs ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be canceled and will not be recognized by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Mandatory Call Event**" occurs when the Spot Level of the Index is, at any time during an Index Business Day in the Observation Period:

(i) in the case of a series of Bull CBBCs, at or below the Call Level; or

(ii) in the case of a series of Bear CBBCs, at or above the Call Level;

"**Observation Period**" means the period from the Observation Commencement Date to the Trading Day immediately before the Expiry Date (both dates inclusive);

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Spot Level**" means the spot level of the Index as compiled and published by the Index Sponsor; and

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**").

(C) Following the date on which the Mandatory Call Event occurs or the Expiry Date, the Issuer will, with effect from the first Business Day following the Settlement Date, cancel and destroy the Global CBBC Certificate.

(D) Following a Mandatory Call Termination or an Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will as soon as practicable and on a date no later than the Settlement Date in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount, (following deduction of any determined Exercise Expenses) for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted from the Reference Currency into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of Bull CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(b) in the case of a series of Bear CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) following a Mandatory Call Event:

   (a) in the case of a series of Category R CBBCs, the Residual Value; or

   (b) in the case of a series of Category N CBBCs, zero;

provided that if the relevant formula above produces an amount that is equal to or less than zero or the Exercise Expenses (if any), then no Cash Settlement Amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency and shall be rounded up to the nearest two decimal places in the Settlement Currency.

"**Closing Level**" means the level of the Index specified in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 5;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early termination of the CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs at expiry;

"**Market Disruption Event**" means:

(i) the occurrence or existence, on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading, of any of:

   (1) the suspension of or material limitation on the trading of a material number of constituent securities that comprise the Index; or

   (2) the suspension of or material limitation on the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

   (3) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

   For the purposes of this definition, (a) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (b) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(ii) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Index Exchange due to any unforeseen circumstances.

"**Maximum Index Level**" means the highest Spot Level of the Index during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spots Levels are available. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day, shall each be considered as one trading session only;

"**Minimum Index Level**" means the lowest Spot Level of the Index during the MCE Valuation Period;

"**Residual Value**" means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with the following formula (and if applicable, either (i) converted from the Reference Currency into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of Bull CBBCs:

$$\text{“Residual Value” per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) in the case of a series of Bear CBBCs:

$$\text{“Residual Value” per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document; and

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with these Conditions (as the case may be).

"**Valuation Date**" means the Expiry Date. If the Issuer and/or Agent determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer and/or the Agent shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event, provided that the Agent, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be under any circumstances be liable for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Guarantor, the Issuer, the Index Sponsor, or its agent (including the Registrar) or nominee and the Holder and neither the Stock Exchange, the Guarantor, the Issuer, the Index Sponsor, nor its agent (including the Registrar) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange, the Issuer, the Guarantor, the Index Sponsor, or the Agent shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as to the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with Condition 9.

5 Adjustment to the Index

(A) If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the "**Successor Index Sponsor**") acceptable to the Agent or (ii) replaced by a successor index using, in the determination of the Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or that successor index, as the case may be.

(B) If (i) on or prior to the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Agent shall determine the Closing Level using, in lieu of the level of the Index calculated for the purpose of final settlement of the contract specified in the Supplemental Listing Document, the level for the Index as at the Valuation Date as determined by the Agent in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction) or (ii) determined by the Agent in good faith to be appropriate and commercially reasonable.

(D) All determinations made by the Agent pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 9.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

7 Global CBBC Certificate

A global callable bull/bear contract certificate (the "**Global CBBC Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited. The Global CBBC Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holder; Modification

(A) *Meetings of Holder.* Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

Where the Holder is a clearing house recognised by the Laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder of the CBBC.

(B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited.

10 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

11 Illegality and Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Agent in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holders in accordance with Condition 9.

12 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

13 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

14 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent and Registrar

Goldman Sachs (Asia) L.L.C.
68/F Cheung Kong Center
2 Queen's Road Central
Hong Kong

TERMS AND CONDITIONS OF THE CBBCS RELATING TO THE UNITS OF A FUND OR TRUST

1 Form; Status; Guarantee; Transfer and Title

(A) The callable bull/bear contracts or "CBBCs" (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Units of the Fund or Trust are issued in registered form subject to and with the benefit of the instrument dated 25 May 2007 (the "**Instrument**") made by Goldman Sachs Structured Products (Asia) Limited (the "**Issuer**") and the guarantee dated 25 March 2013 (including any supplement or replacement, the "**Guarantee**") made by The Goldman Sachs Group, Inc. (the "**Guarantor**"). Pursuant to a registrar and agent agreement dated 8 June 2006, the Issuer has appointed Goldman Sachs (Asia) L.L.C. as registrar ("**Registrar**") and agent ("**Agent**") for the CBBCs.

Copies of the Instrument and the Guarantee are available for inspection at the office of the Agent as specified below. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Instrument and the Guarantee.

(B) The settlement obligations of the Issuer in respect of the CBBCs represent general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

In the Guarantee, the Guarantor has, subject to the terms therein, unconditionally and irrevocably guaranteed to the Holders the due and punctual settlement in full of all obligations due and owing by the Issuer arising under the CBBCs after taking account of any set-off, combination of accounts, netting or similar arrangement from time to time exercisable by the Issuer against any person to whom obligations are from time to time being owed, as and when due (whether at expiry, by acceleration or otherwise).

(C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in the Central Clearing and Settlement System ("**CCASS**") in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

(D) Each person who is for the time being shown in the register kept by the Registrar in Hong Kong as the holder shall be treated by the Issuer, the Guarantor, the Agent and the Registrar as the absolute owner and holder of the CBBCs (which shall be HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited for so long as the CBBCs are accepted as eligible securities in CCASS). The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") shall be suspended after the occurrence of a Mandatory Call Event in accordance with the rules of the Stock Exchange. None of the Stock Exchange, the Issuer, the Guarantor nor any of their affiliates shall have any responsibility towards the Holder for any losses suffered in connection with the determination of a Mandatory Call Event, whether or not such losses are a result of the suspension of trading of the CBBCs, notwithstanding that such suspension may have occurred as a result of an error in the determination of the event.

2 CBBCs Rights and Exercise Expenses

(A) Every Board Lot of the CBBCs entitles the Holder, upon compliance with Condition 3, to payment of the Cash Settlement Amount.

(B) The Holder will be required to pay the Exercise Expenses in respect of the Mandatory Call Termination or Automatic Exercise of the CBBCs. To effect such payment, an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 3(D).

(C) An irrevocable authorisation is deemed to be given to the Issuer to deduct any determined Exercise Expenses from the Cash Settlement Amount.

3 Mandatory Call Termination and Automatic Exercise

(A) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the date on which the Mandatory Call Event occurs ("**Mandatory Call Termination**") and the Issuer will give notice of the occurrence of the Mandatory Call Event to the Holders in accordance with Condition 9. Trading in the CBBCs will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be canceled and will not be recognized by the Stock Exchange or the Issuer.

Whereas:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Mandatory Call Event**" occurs when the Spot Price of the Units is, at any time during a Trading Day in the Observation Period:

(i) in the case of a series of Bull CBBCs, at or below the Call Price; or

(ii) in the case of a series of Bear CBBCs, at or above the Call Price;

"**Observation Period**" means the period from the Observation Commencement Date to the Trading Day immediately before the Expiry Date (both dates inclusive);

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Spot Price**" means:

(i) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(ii) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

"**Trading Rules**" means the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time.

(B) Any CBBCs with respect to which a Mandatory Call Event has not occurred during the Observation Period shall be deemed automatically exercised on the Expiry Date ("**Automatic Exercise**").

(C) Following the date on which the Mandatory Call Event occurs or the Expiry Date, the Issuer will, with effect from the first Business Day following the Settlement Date cancel and destroy the Global CBBC Certificate.

(D) Following a Mandatory Call Termination or an Automatic Exercise in accordance with Conditions 3(A) or 3(B), the Issuer will on a date no later than the Settlement Date in accordance with these Conditions procure payment of the aggregate Cash Settlement Amount (following deduction of any determined Exercise Expenses) for all CBBCs terminated or deemed automatically exercised in favour of the Holder as appearing in the register kept by or on behalf of the Issuer.

Any payment of the Cash Settlement Amount made pursuant to this Condition 3(D) shall be delivered at the risk and expense of the Holder to the Holder as recorded on the register, or such bank, broker or agent in Hong Kong (if any) as directed by the Holder.

Whereas:

"**Cash Settlement Amount**" means, subject to adjustment as provided in Condition 5, an amount calculated by the Issuer in accordance with following formula:

(i) if no Mandatory Call Event has occurred:

(a) in the case of a series of Bull CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of Bear CBBCs:

$$\text{"Cash Settlement Amount" per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero;

provided that if the relevant formula above produces an amount that is equal to or less than zero or the Exercise Expenses (if any), then no Cash Settlement Amount shall be payable. The aggregate Cash Settlement Amount payable to a Holder shall be expressed in the Settlement Currency and shall be rounded up to the nearest two decimal places in the Settlement Currency.

"**Closing Price**" shall be the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Entitlement**" means such number of Units as specified in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early termination of the CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs at expiry;

"**Market Disruption Event**" means:

(i) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer and/or Agent, material;

(ii) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal by the Hong Kong Observatory on any day which (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(iii) a limitation or closure of the Stock Exchange due to any unforeseen circumstances.

"**Maximum Trade Price**" means the highest Spot Price of the Units during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price of the Unit and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(b) the afternoon session and the closing auction session (if applicable) of the same day, shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Unit during the MCE Valuation Period;

"**Residual Value**" means, subject to adjustment as provided in Condition 5:

(a) in the case of a series of Bull CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of Bear CBBCs:

$$\text{"Residual Value" per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Currency**" means Hong Kong dollars unless otherwise specified in the relevant Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be); and

"**Valuation Date**" means, the Trading Day immediately preceding the Expiry Date. If the Issuer and/or Agent determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Valuation Date shall be the first succeeding Trading Day on which the Issuer and/or Agent determines that there is no Market Disruption Event, unless the Agent determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(ii) the Issuer and/or Agent shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Units on the Stock Exchange and such other factors as the Issuer determines to be relevant.

(E) If as a result of an event beyond the control of the Issuer, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant bank account of the Holder on the original Settlement Date ("**Settlement Disruption Event**"), the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant bank account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event, nor shall the Issuer be under any circumstances be liable for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

(F) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Stock Exchange, the Guarantor, the Issuer or its agent (including the Registrar) or nominee and the Holder and neither the Stock Exchange, the Guarantor, the Issuer nor its agent (including the Registrar) or nominee shall owe any duty of a fiduciary nature to the Holder.

None of the Stock Exchange, the Issuer, the Guarantor or the Agent shall have any responsibility for any errors or omissions in the calculation and determination of any variables published by it or a third party and used in any calculation or determination made pursuant to these terms and conditions (including the determination as the occurrence of the Mandatory Call Event) or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(D) above.

4 Agent

(A) The Agent will be acting as agent of the Issuer in respect of the CBBCs and will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with Condition 9.

5 Adjustments

Adjustments may be made by the Agent to the terms of the CBBCs (including, but not limited to (i) the Strike Price, (ii) the Call Price and/or (iii) the Entitlement) on the basis of the following provisions:

(A) (i) If and whenever the Fund or Trust shall, by way of Rights, offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement, the Strike Price and the Call Price shall be adjusted to take effect on the Business Day on which the trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{“Adjustment Factor”} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

X: Existing Strike Price immediately prior to the Rights Offer

Y: Existing Call Price immediately prior to the Rights Offer

S: Cum-Rights Unit price, being the closing price of an existing Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Units per existing Unit (whether a whole or a fraction) each holder of an existing Unit is entitled to subscribe or have

For the purposes of these Conditions, "**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to a holder of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(ii) The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.

(B) (i) If and whenever the Fund or Trust shall make an issue of Units credited as fully paid to the holders of Units generally by way of capitalisation of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Fund or Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement, the Strike Price and the Call Price will be adjusted to take effect on the Business Day on which trading in the Units of the Fund or Trust becomes ex-entitlement in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{"Adjustment Factor"} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

X: Existing Strike Price immediately prior to the Bonus Issue

Y: Existing Call Price immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

(ii) The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.

(iii) For the purposes of Conditions 5(A) and 5(B), the Agent may determine that no adjustment will be made if the adjustment to the Entitlement is less than one per cent. of the Entitlement immediately prior to the adjustment, all as determined by the Agent.

(C) If and whenever the Fund or Trust shall subdivide its Units or any class of its outstanding Units into a greater number of Units or consolidate its outstanding Units or any class of it into a smaller number of Units, the Entitlement shall be increased and the Strike Price and the Call Price shall be decreased (in the case of a subdivision) or the Entitlement shall be decreased and the Strike Price and the Call Price shall be increased (in the case of a consolidation) accordingly, in each case on the day on which the relevant subdivision or consolidation shall have taken effect.

(D) If it is announced that the Fund or Trust is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Fund or Trust is the surviving entity in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Agent be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**").

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) or fund(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Agent, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Agent as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) Generally, no adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Fund or Trust, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Fund or Trust.

If and whenever the Fund or Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement, the Call Price and the Strike Price shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (each a "**Dividend Adjustment Date**") in accordance with the following formula:

The Entitlement will be adjusted to:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

The Strike Price will be adjusted to:

$$\text{Adjusted Strike Price} = \frac{1}{\text{Adjustment Factor}} \times X$$

The Call Price will be adjusted to:

$$\text{Adjusted Call Price} = \frac{1}{\text{Adjustment Factor}} \times Y$$

Where:

$$\text{“Adjustment Factor”} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the relevant Cash Distribution

X: Existing Strike Price immediately prior to the relevant Cash Distribution

Y: Existing Call Price immediately prior to the relevant Cash Distribution

S: Closing Price of a Unit, as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately prior to the Dividend Adjustment Date

OD: Amount of ordinary cash distribution per Unit

CD: Amount of the relevant Cash Distribution per Unit

Provided that "OD" shall be deemed to be zero if no ordinary cash distribution is announced by the Fund or Trust or if the ex-entitlement date of the ordinary cash distribution is different from the ex-entitlement date of the relevant Cash Distribution.

The Adjusted Strike Price and the Adjusted Call Price shall be rounded to the nearest 0.001.

(F) Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Agent may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction) or (ii) determined by the Agent in good faith to be appropriate and commercially reasonable.

(G) The Agent shall determine any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Any such adjustment or amendment shall be set out in a notice, which shall be given to the Holder in accordance with Condition 9 as soon as practicable after the determination.

6 Purchase by the Issuer

The Issuer and any of its affiliates may purchase CBBCs at any time on or after the date of their issue and any CBBCs which are so purchased may be surrendered for cancellation or offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer or any such affiliate, as the case may be.

7 Global CBBC Certificate

A global callable bull/bear contract certificate (the "**Global CBBC Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of HKSCC Nominees Limited or another nominee of Hong Kong Securities Clearing Company Limited. The Global CBBC Certificate will not be exchangeable for definitive certificates.

8 Meeting of Holder; Modification

(A) *Meetings of Holder.* Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by the Holder holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Holder) being or representing Holder whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holder shall be binding on all the holders of the CBBCs, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holder being held if passed unanimously.

Where the Holder is a clearing house recognised by the Laws of Hong Kong or its nominee(s), it may authorise such person or person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Holders' meeting provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number of CBBCs in respect of which each such person is so authorised. Each person so authorised will be entitled to exercise the same powers and right, including the right to vote on a show of hands, on behalf of the recognised clearing house or its nominee(s) as that clearing house or its nominee(s) as if he was an individual Holder of the CBBC.

(B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

9 Notices

All notices in English and Chinese to the Holder will be validly given if published on the website of the Hong Kong Exchanges and Clearing Limited.

10 Termination or Liquidation of the Fund or Trust

In the event of a Termination or the liquidation or dissolution of the trustee of the Fund or Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Fund or Trust) or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. The unexercised CBBCs will lapse and shall cease to be valid (i) in the case of a Termination, on the effective date of the Termination; (ii) in the case of a voluntary liquidation, on the effective date of the resolution; (iii) in the case of an involuntary liquidation or dissolution, on the date of the relevant court order; or (iv) in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 10, "**Termination**" means (i) the Fund or Trust is terminated, or the Trustee or the manager of the Fund or Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Fund or Trust under the trust deed ("**Trust Deed**") constituting the Fund or Trust or applicable law, or the termination of the Fund or Trust commences; (ii) the Fund or Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Fund or Trust to hold the property of the Fund or Trust in its name and perform its obligations under the Trust Deed; or (iv) the Fund or Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

11 Delisting of Fund or Trust

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holders or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 11(A), where the Units are or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as it shall consider appropriate in the circumstances.

(C) Any adjustment, amendment or determination made by the Issuer pursuant to this Condition 11 shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 9 as soon as practicable after they are determined.

12 Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further callable bull/bear contracts, upon such terms as to issue price and otherwise as the Issuer may determine so as to form a single series with the CBBCs.

13 Illegality and Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Agent in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holders in accordance with Condition 9.

14 Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer or the Agent under these Conditions will be made in good faith and in a commercially reasonable manner.

15 Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Holder (by its acquisition of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16 Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent and Registrar

Goldman Sachs (Asia) L.L.C.
68/F Cheung Kong Center
2 Queen's Road Central
Hong Kong

ANNEX 2

FORM OF GUARANTEE

The following is the form of the Guarantee made by the Guarantor in respect of our warrants and CBBCs.

GUARANTEE

THIS GUARANTEE is made by way of deed poll on March 25, 2013 by **The Goldman Sachs Group, Inc.**, a corporation duly organized under the laws of the State of Delaware (the "**Guarantor**").

WHEREAS:

A) Goldman Sachs Structured Products (Asia) Limited (the "**Issuer**") may determine to issue from time to time various series of warrants (the "**Warrants**") and callable bull/bear contracts (the "**CBBCs**") pursuant to an instrument by way of deed poll dated February 28, 2007 for each series of Warrants (the "**Warrant Instrument**") and an instrument by way of deed poll dated May 25, 2012 for each series of CBBCs (the "**CBBC Instrument**"). The Warrants and the CBBCs shall together be referred to as the "**Structured Products**" in this Guarantee.

B) The Guarantor has determined to execute this Guarantee of the Issuer's obligations in respect of the Structured Products (the "**Obligations**"), as a primary obligor and not merely as surety, for the benefit of the holders for the time being of the Structured Products (each, a "**Holder**").

C) Terms defined in the Warrant Instrument and the CBBC Instrument shall bear the same meaning in this Guarantee.

THE GUARANTOR hereby agrees as follows:

1. For value received, the Guarantor hereby unconditionally and irrevocably, subject to the provisions of paragraph 4 and 5 hereof, guarantees to each and every Holder the prompt and complete payment when due of the Obligations in accordance with the terms and conditions of the Structured Products, and the Guarantor hereby agrees to cause any such payment to be made promptly when and as the same shall become due and payable as if such payment was made by the Issuer in accordance with the Conditions.

2. The Guarantor hereby waives notice of acceptance of this Guarantee and notice of the Obligations, and waives presentment, demand for payment, protest, notice of dishonour or non-payment of the Obligations, suit or the taking of other action by Holder against, and any other notice to, the Issuer, the Guarantor or others.

3. The obligations of the Guarantor will not be impaired or released by: (1) any change in the terms of the Obligations; (2) the taking or failure to take any action of any kind in respect of any security for the Obligations; (3) the exercising or refraining from exercising any rights against the Issuer or others in respect of the Obligations; or (4) any compromise or subordination of the Obligations, including any security therefor. Any other suretyship defenses are hereby waived by the Guarantor.

4. The Guarantee shall continue in full force and effect until March 25, 2014, unless revoked prior to such date by the Guarantor by giving written notice of termination to the Issuer. Notwithstanding any such termination or expiry of this Guarantee, this Guarantee shall continue in full force and effect with respect to the Obligations which have been incurred prior to such termination or expiry until all such Obligations have been fulfilled.

5. The Guarantor may not assign its rights nor delegate its obligations under this Guarantee, in whole or in part, without prior written consent of each affected Holder, and any purported assignment or delegation absent such consent is void, except for an assignment and delegation of all of the Guarantor's rights and obligations hereunder in whatever form the Guarantor determines may be appropriate to a partnership, corporation, trust or other organization in whatever form that succeeds to all or substantially all, of the Guarantor's assets and business and that assumes such obligations by contract, operation of law or otherwise. Upon any such delegation and assumption of obligations, the Guarantor shall be relieved of and fully discharged from all obligations hereunder, whether such obligations arose before or after such delegation and assumption.

6. The Guarantor further agrees that this Guarantee will continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Obligations, or interest thereon is rescinded or must otherwise be restored or returned by the Holder upon the liquidation, bankruptcy, insolvency, dissolution or reorganization of the Issuer.

7. This Guarantee shall continue to be effective if the Issuer merges or consolidates with or into, or transfers all or substantially all of its assets to, another entity, loses its separate legal identity, is liquidated or ceases to exist.

8. The Guarantor's obligations under this Guarantee are absolute and unconditional and shall not be affected by the validity, regularity or enforceability of any Structured Products, Obligation or any instrument evidencing any Obligation, or by the validity, enforceability, perfection or existence of any collateral therefor or by any other circumstance relating to any Obligation which might otherwise constitute a legal or equitable discharge of or defense of a guarantor or surety, provided that the Guarantor may interpose any counterclaim or setoff which the Issuer is or would have been entitled to interpose and that the Guarantor may interpose any defense which the Issuer is or would have been entitled to interpose (other than any defense arising by reason of any disability, bankruptcy or insolvency of the Issuer, including by reason of any lack of authorization of any instrument evidencing any obligation by the Issuer).

9. The Guarantor has appointed Goldman Sachs (Asia) L.L.C. ("**GSALLC**") as its agent for service of process in Hong Kong. The registered address of GSALLC is 68th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

THE GUARANTEE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH HONG KONG LAW WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW.

THE GUARANTOR IRREVOCABLY AGREES THAT THE COURTS OF HONG KONG ARE TO HAVE EXCLUSIVE JURISDICTION TO SETTLE ANY DISPUTES ARISING FROM OR RELATING TO THIS GUARANTEE.

IN WITNESS whereof this Guarantee has been executed by the Guarantor as a deed poll and delivered on the date specified at the beginning of this Guarantee.

THE GOLDMAN SACHS GROUP, INC.

By: ____

Authorized Officer

ANNEX 3

PURCHASE AND SALE

General

No action has been or will be taken by the Issuer or the Guarantor that would permit a public offering (other than Hong Kong) of any series of structured products or possession or distribution of any offering material in relation to any structured products in any jurisdiction where action for that purpose is required. No offers, sales, re-sales, transfers or deliveries of any structured products, or distribution of any offering material relating to structured products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer or the Guarantor.

United States of America

The structured products and the Guarantee have not been and will not be registered under the Securities Act. Trading in the structured products has not been and will not be approved by the U.S. Securities and Exchange Commission or any state securities commission or on an exchange or board of trade or otherwise by the United States Commodity Futures Trading Commission under the United States Commodity Exchange Act. The structured products may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons at any time. In addition, hedging transactions involving the structured products may not be conducted other than in compliance with the Securities Act. The Issuer will not offer, or sell the structured products at any time within the United States or to, or for the account or benefit of, U.S. persons. Each person, including any dealer, who purchases structured products, whether in an offering, in the secondary market or otherwise, is deemed to have represented to and agreed with the Issuer not to offer, or sell the structured products at any time within the United States or to, or for the account or benefit of, U.S. persons. Each distributor, if any, will have sent to each dealer to which it sells structured products a confirmation or other notice describing the restrictions on sales and offers of structured products within the United States or to, or for the account or benefit of, U.S. persons. As used in this paragraph "**United States**" means the United States of America, its territories or possessions, any state of the United States, the District of Columbia or any other enclave of the United States government, its agencies or instrumentalities, and "**U.S. person**" means (i) any person who is a U.S. person as defined in Regulation S under the Securities Act or (ii) any person or entity other than one of the following:

(i) a natural person who is not a resident of the United States;

(ii) a partnership, corporation or other entity, other than an entity organised principally for passive investment, organised under the laws of a jurisdiction other than the United States and which has its principal place of business in a jurisdiction other than the United States;

(iii) an estate or trust, the income of which is not subject to United States income tax regardless of source;

(iv) an entity organised principally for passive investment such as a pool, investment company or other similar entity, provided that units of participation in the entity held by U.S. persons represent in the aggregate less than 10% of the beneficial interest in the entity, and that such entity was not formed principally for the purpose of facilitating investment by U.S. persons; or

(v) a pension plan for the employees, officers or principals of an entity organised and with its principal place of business outside the United States.

In addition, unless otherwise specified in the Supplemental Listing Document relating to a series of structured products, each purchaser (or transferee) and any person directing such purchase (or transfer) will represent and warrant, or will be deemed to have represented and warranted, on each day from the date on which the purchaser (or transferee) acquires the structured products through and including the date on which the purchaser (or transferee) disposes of its interest in the structured products, that the purchaser (or transferee) is not an "employee benefit plan" within the meaning of Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), that is subject to Section 406 of the ERISA, a "plan" subject to Section 4975(e)(1) of the U.S. Internal Revenue Code of 1986 (the "**Code**"), a person or entity the assets of which include the assets of any such "employee benefit plan" or "plan", or a governmental plan that is subject to any law or regulation that is similar to the provisions of Section 406 of ERISA or Section 4975 of the Code.

No ownership by U.S. Persons

The structured products and the Guarantee may not be legally or beneficially owned by U.S. Persons at any time. Each holder and each beneficial owner of a structured product hereby represents, as a condition to purchasing or owning the structured product or any beneficial interest therein, that neither it nor any person for whose account or benefit the structured products are being purchased is located in the United States, is a U.S. Person or was solicited to purchase the structured products while present in the United States. Each holder and each beneficial owner of a structured product hereby agrees not to offer, sell or deliver any of the structured products at any time, directly or indirectly in the United States or to any U.S. Person.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Issuer represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of structured products to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of structured products to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Issuer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of structured products referred to in (a) to (c) above shall require the Issuer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of structured products to the public" in relation to any structured products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to purchase or subscribe the structured products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" Means Directive 2010/73/EC.

United Kingdom

The Issuer represents and agrees that:

(a) in relation to any structured products which have an expiry of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any structured products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the structured products would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act ("**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any structured products in circumstances in which Section 21(1) of the FSMA does not or where applicable would not, if it was not an authorized person, apply to the Issuer or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any structured products in, from or otherwise involving the United Kingdom.

People's Republic of China

The structured products are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Japan

The structured products have not been and will not be registered under the Financial Instruments and Exchange Acts of Japan (the "**Financial Instruments and Exchange Act**"). Accordingly, the structured products may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Additional

The offer and sale of structured products will also be subject to such other restrictions and requirements as may be set out in the relevant Supplemental Listing Document.

Persons interested in acquiring structured products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of structured products or their redemption; or (iii) the acquisition, holding or disposal of structured products.

PARTIES

Issuer

Goldman Sachs Structured Products (Asia) Limited
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Cayman Islands

Guarantor

The Goldman Sachs Group, Inc.
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Legal Advisers

to the Issuer and the Guarantor

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Guarantor's Auditor

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New York
New York 10017
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