Goldman Sachs Bank USA and Subsidiaries

Consolidated Financial Statements
As of and for the years ended
December 31, 2012 and December 31, 2011

Bank
USA

Goldman Sachs Bank USA | 200 West Street | New York, NY 10282-2198

Management Report

March 28, 2013

To the Federal Deposit Insurance Corporation, Federal Reserve Bank of New York, New York State Department of Financial Services and the Audit Committee of the Board of Directors of Goldman Sachs Bank USA (the "Bank")

Management's Assessment of Internal Control over Financial Reporting

The management of the Bank is responsible for (i) preparing the Bank's annual financial statements in accordance with generally accepted accounting principles, and (ii) establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Call Report.

The Bank's internal control over financial reporting is a process designed under the supervision of the Bank's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles and the instructions for the Call Report, and financial statements for regulatory reporting purposes.

The Bank's internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Bank; (ii) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and directors of the Bank; and (iii) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the Bank'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 and correct, misstatements. Also, projections of any evaluation of effectiveness of 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 and procedures may deteriorate.

Management assessed the effectiveness of the Bank's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with U.S. generally accepted accounting principles and the instructions

for the Call Report, as of December 31, 2012, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*.

Based upon its assessment, management has concluded that, as of December 31, 2012, the Bank's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with U.S. generally accepted accounting principles and the instructions for the Call Report, is effective based on the criteria established in *Internal Control – Integrated Framework*.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Call Report, as of December 31, 2012, has been audited by PricewaterhouseCoopers LLP, an independent public accounting firm, as stated in their report dated March 28, 2013.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Bank is responsible for complying with Federal laws and regulations pertaining to insider loans and Federal and State laws and regulations pertaining to dividend restrictions.

The management of the Bank has assessed the Bank's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2012, and has discussed with its supervisory authority a question regarding the coverage of one of those regulations. Based upon such assessment and discussion, management has concluded that the Bank has complied, in all material respects, with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2012.

Chief Executive Officer
Esta Stecher
Goldman Sachs Bank USA

Chief Financial Officer
Kevin Byrne
Goldman Sachs Bank USA

Independent Auditor's Report

To the Board of Directors and Shareholder of Goldman Sachs Bank USA

We have audited the accompanying consolidated financial statements of Goldman Sachs Bank USA and its subsidiaries (the "Bank"), which comprise the consolidated statements of financial condition as of December 31, 2012 and 2011, and the related consolidated statements of earnings, changes in shareholder's equity and cash flows for the years then ended. We also have audited the Bank's 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).

Management's Responsibility

The Bank's management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, for maintaining internal control over financial reporting including the design, implementation, and maintenance of controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion about the effectiveness of internal control over financial reporting, included under the heading "Management's Assessment of Internal Control over Financial Reporting" in the accompanying Management Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and an opinion on the Bank's internal control over financial reporting based on our audits. We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of internal control over financial reporting involves 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.

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We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Bank's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the Federal Financial Institutions Examination Council *Instructions for Consolidated Reports of Condition and Income*. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity'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 and correct 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Bank 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 COSO.

Other Matter

We have not examined management's assertion regarding its compliance with laws and regulations concerning loans to insiders and federal and state laws and regulations concerning dividend restrictions.

PricewaterhouseCoopers LLP

March 28, 2013

GOLDMAN SACHS BANK USA AND SUBSIDIARIES

Financial Statements

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GOLDMAN SACHS BANK USA AND SUBSIDIARIES

Consolidated Statements of Earnings

in millions	Year Ended December 2012	2011
Revenues		
Interest income	**$ 960**	$ 797
Interest expense	**584**	635
Net interest income	**376**	162
Gains and losses from financial instruments, net	**2,493**	3,054
Other revenues	**270**	262
Total non-interest revenues	**2,763**	3,316
Net revenues, including net interest income	**3,139**	3,478
Operating expenses		
Compensation and benefits	**96**	174
Service charges	**481**	603
Other expenses	**207**	451
Total operating expenses	**784**	1,228
Pre-tax earnings	**2,355**	2,250
Provision for taxes	**906**	915
Net earnings	**$ 1,449**	$ 1,335

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

GOLDMAN SACHS BANK USA AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	As of December	
in millions, except share and per share amounts	**2012**	2011
Assets		
Cash	**$ 59,442**	$ 41,270
Collateralized agreements:		
Securities purchased under agreements to resell (includes $1,692 and $5,248 at fair value as of December 2012 and December 2011, respectively)	**1,695**	5,248
Loans receivable, net	**5,969**	3,096
Receivables from customers and counterparties, brokers, dealers and clearing organizations	**3,730**	5,910
Financial instruments owned, at fair value (includes $6,873 and $5,345 pledged as collateral as of December 2012 and December 2011, respectively)	**46,676**	46,574
Other assets	**1,117**	1,421
Total assets	**$ 118,629**	$103,519
Liabilities and shareholder's equity		
Deposits (includes $3,022 and $2,179 at fair value as of December 2012 and December 2011, respectively)	**$ 66,294**	$ 44,830
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	**15,072**	15,275
Other secured financings (includes $176 and $109 at fair value as of December 2012 and December 2011, respectively)	**276**	209
Payables to customers and counterparties, brokers, dealers and clearing organizations	**4,311**	4,103
Financial instruments sold, but not yet purchased, at fair value	**10,292**	17,641
Other liabilities and accrued expenses (includes $182 and $269 at fair value as of December 2012 and December 2011, respectively)	**1,717**	2,247
Total liabilities	**97,962**	84,305
Commitments, contingencies and guarantees		
Shareholder's equity		
Shareholder's equity (includes common stock, par value $100 per share; 80,000,000 shares authorized, issued and outstanding as of December 2012 and December 2011)	**20,667**	19,214
Total liabilities and shareholder's equity	**$ 118,629**	$103,519

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

GOLDMAN SACHS BANK USA AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholder's Equity

	Year Ended December	
in millions	**2012**	2011
Shareholder's equity		
Shareholder's equity, beginning of year	**$ 19,214**	$ 18,733
Net earnings	**1,449**	1,335
Capital contributions from The Goldman Sachs Group, Inc. [1]	**4**	146
Dividends paid to The Goldman Sachs Group, Inc.	**–**	(1,000)
Shareholder's equity, end of year	**$ 20,667**	$ 19,214

1. Capital contributions for the years ended December 2012 and December 2011 were non-cash. See Note 21 for further information.

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

GOLDMAN SACHS BANK USA AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December	
in millions	**2012**	2011
Cash flows from operating activities		
Net earnings	**$ 1,449**	$ 1,335
Adjustments to reconcile net earnings to net cash provided by operating activities		
Interest expense	**–**	21
Depreciation and amortization	**2**	176
Deferred income taxes	**(15)**	(15)
Gain on sale of business[1]	**(182)**	–
Changes in operating assets and liabilities		
Net receivables from customers and counterparties, brokers, dealers and clearing organizations	**2,387**	(1,665)
Securities purchased under agreements to resell, net of securities sold under agreements to repurchase, at fair value	**3,350**	8,774
Financial instruments owned, at fair value	**(32)**	(3,016)
Financial instruments sold, but not yet purchased, at fair value	**(7,349)**	1,494
Servicing advances receivable, net	**–**	180
Other, net	**516**	884
Net cash provided by operating activities	**126**	8,168
Cash flows from investing activities		
Change in loans receivable, net	**(2,873)**	(691)
Proceeds from sale of business	**182**	520
Net cash used for investing activities	**(2,691)**	(171)
Cash flows from financing activities		
Deposits, net	**21,394**	12,379
Repayment of subordinated borrowings	**–**	(5,000)
Repayment of secured financings	**–**	(2,880)
Dividends paid to The Goldman Sachs Group, Inc.	**–**	(1,000)
Other, net	**(657)**	572
Net cash provided by financing activities	**20,737**	4,071
Net increase in cash	**18,172**	12,068
Cash, beginning of year	**41,270**	29,202
Cash, end of year	**$ 59,442**	$ 41,270

1. The gain on the sale of the hedge fund administration business is included in “Other revenues” in the consolidated statements of earnings.

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest were $550 million and $642 million for the years ended December 2012 and December 2011, respectively.

Cash payments for income taxes, net of refunds, were $681 million and $523 million for the years ended December 2012 and December 2011, respectively.

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

Note 1.
Description of Business

Goldman Sachs Bank USA, together with its consolidated subsidiaries (collectively, the Bank), is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under the amendments to the BHC Act effected by the U.S. Gramm Leach Bliley Act of 1999. The Bank is a Federal Deposit Insurance Corporation (FDIC) insured, New York state-chartered bank and a member of the Federal Reserve System. It 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.

As a condition of the Bank's reorganization in November 2008, Group Inc. agreed to guarantee certain losses, including credit-related losses, relating to assets contributed by Group Inc. on the date of the reorganization (the Guarantee). Group Inc. also agreed to pledge to the Bank certain collateral, including interests in subsidiaries and other illiquid assets. See Note 21 for further discussion of the Guarantee and other transactions with affiliates.

The Bank's activities include the acceptance of client and brokered deposits; lending to high-net-worth individuals, institutional and corporate clients and other counterparties; the origination of bank loans and mortgage loans; entering into interest rate, credit, currency and other derivatives; leveraged finance; structured finance; and agency lending.

The Bank facilitates client transactions and makes markets in fixed income products. The Bank's clients include corporations, financial institutions, investment funds, governments and individuals.

The following activities are conducted in the Bank's significant operating subsidiaries:

Goldman Sachs Mitsui Marine Derivative Products, L.P. (MMDP), a Delaware limited partnership, acts as an intermediary in transactions involving derivative contracts. MMDP is able to provide credit rating enhancement to derivative products due to its partnership with an external party, Mitsui Sumitomo Insurance Co., Ltd. (Mitsui Sumitomo).

Goldman Sachs Mortgage Company, a New York limited partnership, originates commercial mortgage loans and purchases commercial and residential mortgage loans and other consumer loan assets for securitization and market-making. It also provides warehouse financing to third parties.

All subsidiaries of the Bank are wholly-owned by the Bank, with the exception of MMDP, in which Mitsui Sumitomo has a 50% interest.

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 the Bank and all other entities in which the Bank has a controlling financial interest. Intercompany transactions and balances have been eliminated.

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

Note 3.
Significant Accounting Policies

The Bank's significant accounting policies include when and how to measure the fair value of assets and liabilities and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements, and below and Note 11 for policies on consolidation accounting. All other significant accounting policies are either 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
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Consolidation

The Bank consolidates entities in which the Bank has a controlling financial interest. The Bank 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 Bank 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 Bank has a controlling financial interest in a VIE when the Bank 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.

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 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 Bank 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 included in "Gains and losses from financial instruments, net." See Notes 5 through 8 for further information about fair value measurements.

Transfers of Assets

Transfers of assets are accounted for as sales when the Bank 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 Bank'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" or "Loans receivable, net" 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.

Loans Receivable, Net

Loans receivable generally consist of loans held for investment, which are primarily comprised of collateralized loans. Substantially all loans receivable are accounted for at amortized cost, net of an allowance for loan losses. Interest on loans receivable is recognized over the life of the loan and included in "Interest income." See Note 12 for further information about loans receivable.

Receivables from Customers and Counterparties, Brokers, Dealers and Clearing Organizations

Receivables from customers and counterparties, brokers, dealers and clearing organizations generally consist of collateralized receivables related to client transactions including collateral posted in connection with certain derivative transactions. Receivables from customers and counterparties, brokers, dealers and clearing organizations are accounted for at cost net of estimated uncollectible amounts, which generally approximates fair value. Interest on receivables from customers and counterparties, brokers, dealers and clearing organizations is recognized over the life of the transaction and included in "Interest income." Had these receivables been carried at fair value and included in the Bank's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012.

Payables to Customers and Counterparties, Brokers, Dealers and Clearing Organizations

Payables to customers and counterparties, brokers, dealers and clearing organizations primarily consist of collateralized payables related to client transactions including collateral posted in connection with certain derivative transactions. Payables to customers and counterparties, brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. Had these payables been carried at fair value and included in the Bank's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012.

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 are recognized in earnings.

Cash

Cash includes funds held at the Federal Reserve Bank ($58.67 billion and $40.06 billion as of December 2012 and December 2011, respectively) and highly liquid overnight deposits held at other financial institutions.

Within the cash balance held at the Federal Reserve Bank, $77 million and $551 million are maintained to meet regulatory reserve requirements, as of December 2012 and December 2011, respectively.

As of December 2012 and December 2011, cash included $59.33 billion and $40.83 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 Bank adopted the standard on January 1, 2012. Adoption of ASU No. 2011-03 did not affect the Bank'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 Bank adopted the standard on January 1, 2012. Adoption of ASU No. 2011-04 did not materially affect the Bank'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 Bank's financial position as well as enhanced disclosure of the rights of setoff associated with the Bank's recognized derivative instruments, repurchase agreements and reverse repurchase agreements. 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 Bank'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 Bank's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value.

	As of December 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
U.S. government obligations	**$ 6,395**	**$ 1,943**	$ 1,388	$ 2,677
Non-U.S. government obligations	**94**	**75**	3,854	2,837
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate [1]	**4,339**	**–**	1,067	–
Loans and securities backed by residential real estate [2]	**2,042**	**–**	1,436	–
Bank loans and bridge loans	**6,911**	**1,183** [5]	7,137	1,846 [5]
Other [3]	**758**	**–**	404	50
Derivatives [4]	**26,137**	**7,091**	31,288	10,231
Total	**$46,676**	**$10,292**	$46,574	$17,641

1. Includes $4.23 billion in commercial real estate loans and $109 million in commercial mortgage-backed securities as of December 2012. Includes $1.04 billion in commercial real estate loans and $23 million in commercial mortgage-backed securities as of December 2011.
2. Includes $1.94 billion in residential real estate loans and $99 million in residential mortgage-backed securities as of December 2012. Includes only residential real estate loans as of December 2011.
3. Primarily consists of corporate debt securities, other debt obligations and equity investments.
4. 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.
5. Primarily relates to the fair value of unfunded lending commitments for which the fair value option was elected.

Gains and Losses from Financial Instruments, net

The table below presents, by major product type, gains/(losses) related to the Bank'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) are included in "Gains and losses from financial instruments, net" and exclude related interest income and interest expense. See Note 22 for further information about interest income and interest expense.

The gains/(losses) in the table are not representative of the manner in which the Bank manages its businesses because many of the Bank's market-making, lending and other activities 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, many of the Bank's interest rate derivatives are sensitive to changes in foreign currency exchange rates and may be economically hedged with foreign currency contracts.

	Year Ended December	
in millions	**2012**	2011
Interest rates	**$ 2,903**	$ 2,641
Currencies	**(2,143)**	(1,647)
Credit	**1,733**	2,060
Total	**$ 2,493**	$ 3,054

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 Bank 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, debt prices, foreign exchange rates, 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 Bank 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 Bank's financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the 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 the credit quality of the Bank's counterparties, the credit quality of the Bank or its affiliates, 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	**$ 6,509**	$ 5,230
Total level 2 financial assets	**90,499**	103,353
Total level 3 financial assets	**6,787**	7,042
Cash collateral and counterparty netting [1]	**(55,427)**	(63,803)
Total financial assets at fair value	**$ 48,368**	$51,822
Total assets	**$ 118,629**	$ 103,519
Total level 3 financial assets as a percentage of Total assets	**5.7%**	6.8%
Total level 3 financial assets as a percentage of Total financial assets at fair value	**14.0%**	13.6%
Total level 1 financial liabilities	**$ 2,018**	$ 5,514
Total level 2 financial liabilities	**56,452**	62,115
Total level 3 financial liabilities	**2,308**	3,179
Cash collateral and counterparty netting [1]	**(32,034)**	(35,335)
Total financial liabilities at fair value	**$ 28,744**	$ 35,473
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	**8.0%**	9.0%

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.

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 obligations, non-U.S. government obligations, bank loans and bridge loans 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 Bank's fair value measurement policies.

Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and non-U.S. government obligations. These instruments are valued using quoted prices for identical unrestricted instruments in active markets.

The Bank 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 certain mortgage and other asset-backed loans and securities, and certain bank loans and bridge loans and 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 Bank 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 class of level 3 cash instrument.

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Loans 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 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 Bank uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration

Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the Bank'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 recovery rate presented in the table for commercial real estate loans is appropriate for valuing a specific loan but may not be appropriate for valuing any other commercial real estate loan. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the Bank'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[2]) as of December 2012
Loans 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	**$1,065**	Discounted cash flows: • Yield • Recovery rate[3] • Duration (years)[4]	 4.0% to 19.0% (6.9%) 52.0% to 96.2% (92.2%) 0.2 to 7.0 (3.0)
Loans backed by residential real estate • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination	**$73**	Discounted cash flows: • Yield • Cumulative loss rate • Duration (years)[4]	 8.2% to 10.4% (9.3%) 15.2% to 24.7% (20.3%) 2.8 to 3.8 (3.3)
Bank loans and bridge loans	**$2,654**	Discounted cash flows: • Yield • Recovery rate[3] • Duration (years)[4]	 0.3% to 15.2% (4.4%) 38.0% to 85.0% (56.7%) 0.6 to 4.4 (2.5)
Other[1]	**$492**	Discounted cash flows: • Yield • Duration (years)[4]	 1.5% to 8.8% (2.1%) 2.2 to 2.8 (2.6)

1. Primarily consists of corporate debt securities, other debt obligations and equity investments.
2. Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.
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, duration or cumulative loss rate used in the valuation of the Bank's level 3 cash instruments would result in a lower fair value measurement, while an increase in recovery rate would result in a higher fair value measurement. Due to the distinctive nature of each of the Bank'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**
U.S. government obligations	**$6,395**	**$ –**	**$ –**	**$ 6,395**
Non-U.S. government obligations	**94**	**–**	**–**	**94**
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate [1]	**–**	**3,274**	**1,065**	**4,339**
Loans and securities backed by residential real estate [2]	**–**	**1,969**	**73**	**2,042**
Bank loans and bridge loans	**–**	**4,257**	**2,654**	**6,911**
Other [3]	**20**	**246**	**492**	**758**
Total	**$6,509**	**$9,746**	**$4,284**	**$20,539**

	Cash Instrument Liabilities at Fair Value as of December 2012			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. government obligations	**$1,943**	**$ –**	**$ –**	**$1,943**
Non-U.S. government obligations	**75**	**–**	**–**	**75**
Bank loans and bridge loans	**–**	**795**	**388**	**1,183**
Total	**$2,018**	**$ 795**	**$ 388**	**$3,201**

1. Includes $4.23 billion in commercial real estate loans and $109 million in commercial mortgage-backed securities.
2. Includes $1.94 billion in residential real estate loans and $99 million in residential mortgage-backed securities.
3. Primarily consists of corporate debt securities, other debt obligations and equity investments.

	Cash Instrument Assets at Fair Value as of December 2011			
in millions	Level 1	Level 2	Level 3	Total
U.S. government obligations	$1,388	$ –	$ –	$1,388
Non-U.S. government obligations	3,842	12	–	3,854
Mortgage and other asset-backed loans:				
Loans and securities backed by commercial real estate [1]	–	942	125	1,067
Loans backed by residential real estate	–	1,326	110	1,436
Bank loans and bridge loans	–	3,991	3,146	7,137
Other [2]	–	168	236	404
Total	$5,230	$6,439	$3,617	$15,286

	Cash Instrument Liabilities at Fair Value as of December 2011			
in millions	Level 1	Level 2	Level 3	Total
U.S. government obligations	$2,677	$ –	$ –	$2,677
Non-U.S. government obligations	2,837	–	–	2,837
Bank loans and bridge loans	–	1,319	527	1,846
Other	–	50	–	50
Total	$5,514	$1,369	$527	$7,410

1. Includes $1.04 billion in commercial real estate loans and $23 million in commercial mortgage-backed securities.
2. Primarily consists of other corporate debt securities, debt obligations and equity investments.

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. Gains and losses on these instruments are included in "Gains and losses from financial instruments, net."

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 Bank'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 [2]	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Mortgage and other asset-backed loans:									
Loans backed by commercial real estate	$ 125	$ 74	$ 5	$ 939	$ (95)	$ (214)	$231	$ –	$ 1,065
Loans backed by residential real estate	110	8	15	1	(35)	(26)	–	–	73
Bank loans and bridge loans	3,146	93	39	1,571	(1,044)	(774)	65	(442)	2,654
Other [1]	236	3	(6)	429	(39)	(63)	–	(68)	492
Total	**$3,617**	**$178**	**$53**	**$2,940**	**$(1,213)**	**$(1,077)**	**$296**	**$(510)**	**$4,284**

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 [2]	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Total	**$ 527**	**$(27)**	**$(34)**	**$(257)**	**$167**	**$9**	**$61**	**$(58)**	**$388**

1. Primarily consists of corporate debt securities, other debt obligations and equity investments.
2. Includes both originations and secondary market purchases.

The net unrealized gain on level 3 cash instruments of $87 million (reflecting $53 million on cash instrument assets and $34 million on cash instrument liabilities) for the year ended December 2012 primarily consisted of gains on bank loans and bridge loans and mortgage and other asset-backed loans. Unrealized gains during the year ended December 2012 primarily reflected the impact of tighter credit spreads.

Transfers into level 3 during the year ended December 2012 primarily reflected the transfer from level 2 of certain loans backed by commercial real estate principally due to reduced transparency of market prices used to value these loans.

Transfers out of level 3 during the year ended December 2012 primarily reflected transfers to level 2 of certain bank loans and bridge loans principally due to improved transparency of market prices as a result of market transactions in these or similar 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 [3]	Sales	Settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Mortgage and other asset-backed loans and securities:								
Loans and securities backed by commercial real estate [1]	$ 40	$ 3	$ –	$ 107	$ (17)	$ (3)	$ (5)	$ 125
Loans backed by residential real estate	1,126	11	5	42	(193)	(37)	(844)	110
Bank loans and bridge loans	1,705	79	(23)	2,519	(727)	(346)	(61)	3,146
Corporate debt securities	1	–	–	–	(1)	–	–	–
Other [2]	82	19	(44)	302	(20)	(50)	(53)	236
Total	$2,954	$112	$(62)	$2,970	$(958)	$(436)	$(963)	$3,617

	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	Sales	Settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Total	$ 238	$ (14)	$ 129	$ (340)	$ 306	$ 226	$ (18)	$ 527

1. Includes $102 million in commercial real estate loans and $23 million in commercial mortgage-backed securities.
2. Primarily consists of other debt obligations and equity investments.
3. Includes both originations and secondary market purchases.

The net unrealized loss on level 3 cash instrument assets of $191 million (reflecting $62 million on cash instrument assets and $129 million on cash instrument liabilities) for the year ended December 2011 primarily consisted of losses on unfunded bank loans and bridge loans, primarily reflecting the impact of unfavorable credit markets.

Significant transfers in or out of level 3 during the year ended December 2011 included the net transfer out of level 3 of $844 million in loans backed by residential real estate. This was 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.

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). However, the Bank does not generally deal in exchange-traded derivatives.

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

Risk Management. The Bank 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 Bank's holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. In addition, the Bank may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage interest rate exposure in certain fixed-rate deposits.

The Bank enters into various types of derivatives, including:

- **Futures and Forwards.** Contracts that commit counterparties to purchase or sell financial instruments 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, 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 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.

Gains and losses on derivatives not designated as hedges under ASC 815 are included in "Gains and losses from financial instruments, net."

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 Bank's exposure. Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the Bank'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	**$775,092**	**$742,000**	**$38,614,453**	$800,448	$766,454	$41,735,801
Currencies	**59,175**	**49,674**	**2,087,903**	69,003	54,308	1,945,804
Credit	**8,724**	**9,698**	**455,250**	14,135	13,827	499,742
Other	**344**	**231**	**25,205**	147	153	12,104
Subtotal	**843,335**	**801,603**	**41,182,811**	883,733	834,742	44,193,451
Derivatives accounted for as hedges						
Interest rates	**708**	**1**	**17,957**	537	3	1,936
Gross fair value/notional amount of derivatives	**$844,043**	**$801,604**	**$41,200,768**	$884,270	$834,745	$44,195,387
Counterparty netting [1]	**(763,179)**	**(763,179)**		(790,302)	(790,302)	
Cash collateral netting [2]	**(54,727)**	**(31,334)**		(62,680)	(34,212)	
Fair value included in financial instruments owned	**$ 26,137**			$ 31,288		
Fair value included in financial instruments sold, but not yet purchased		**$ 7,091**			$ 10,231	

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 Bank'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.

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 Bank'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.

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 Bank'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), specific interest rate volatilities, certain interest rates, and the basis, or difference, between benchmark interest rates and related indices.

- 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).

Subsequent to the initial valuation of a level 3 derivative, the Bank 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 Bank 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 Bank 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 Bank'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 Bank'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	**$(166)**	Rate	2.45% to 2.50% (2.47% / 2.47%)
		Correlation [2]	22% to 97% (67% / 68%)
		Volatility	37 basis points per annum (bpa) to 59 bpa (48 bpa / 47 bpa)
		Basis	1bp to 19bps (4bps / 3bps)
Currencies	**$(10)**	Correlation [2]	65% to 87% (76% / 79%)
Credit	**$848**	Correlation [2]	66% to 95% (79% / 79%)
		Credit spreads	12 bps to 2,338 bps (213bps / 147bps)[3]
		Recovery rates	54% to 85% (72% / 73%)

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 19% to 66% (Average: 38% / Median: 40%) 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 Bank's level 3 derivative instruments.

- Correlation: Ranges for correlation cover a variety of underliers both within one market (e.g., foreign exchange rates) and across markets (e.g., correlation of a foreign exchange rate and an interest 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.
- Interest rate and basis: The ranges for interest rate and interest rate basis cover variability of markets and maturities.
- 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.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

The following provides a description of the directional sensitivity of the Bank's level 3 fair value measurements to changes in significant unobservable inputs, in isolation. Due to the distinctive nature of each of the Bank'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, and foreign exchange rates), 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.
- Interest rate: In general, for contracts where the holder is receiving a variable interest rate, an increase in interest rates results in a higher fair value measurement.
- Interest rate basis: In general, for contracts where the holder is receiving the interest rate basis, a tighter basis 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.

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 Bank'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	$ –	$ 775,219	$ 581	$ –	$ 775,800
Currencies	–	58,200	975	–	59,175
Credit	–	6,986	1,738	–	8,724
Other	–	317	27	–	344
Gross fair value of derivative assets	$ –	$ 840,722	$ 3,321	–	$ 844,043
Counterparty netting [1]	–	(761,383)	(1,096)	$ (700) [3]	(763,179)
Subtotal	$ –	$ 79,339	$ 2,225	$ (700)	$ 80,864
Cash collateral netting [2]					(54,727)
Fair value included in financial instruments owned					**$ 26,137**

	Derivative Liabilities at Fair Value as of December 2012				
in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$ –	$ 741,254	$ 747	$ –	$ 742,001
Currencies	–	48,689	985	–	49,674
Credit	–	8,808	890	–	9,698
Other	–	227	4	–	231
Gross fair value of derivative liabilities	$ –	$ 798,978	$ 2,626	–	$ 801,604
Counterparty netting [1]	–	(761,383)	(1,096)	$ (700) [3]	(763,179)
Subtotal	$ –	$ 37,595	$ 1,530	$ (700)	$ 38,425
Cash collateral netting [2]					(31,334)
Fair value included in financial instruments sold, but not yet purchased					**$ 7,091**

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	$ –	$ 800,616	$ 369	$ –	$ 800,985
Currencies	–	67,092	1,911	–	69,003
Credit	–	12,019	2,116	–	14,135
Other	–	147	–	–	147
Gross fair value of derivative assets	$ –	$ 879,874	$ 4,396	–	$ 884,270
Counterparty netting [1]	–	(787,651)	(1,528)	$(1,123) [3]	(790,302)
Subtotal	$ –	$ 92,223	$ 2,868	$(1,123)	$ 93,968
Cash collateral netting [2]					(62,680)
Fair value included in financial instruments owned					$ 31,288

	Derivative Liabilities at Fair Value as of December 2011				
in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$ –	$ 765,787	$ 670	$ –	$ 766,457
Currencies	–	52,976	1,332	–	54,308
Credit	–	11,822	2,005	–	13,827
Other	–	153	–	–	153
Gross fair value of derivative liabilities	$ –	$ 830,738	$ 4,007	–	$ 834,745
Counterparty netting [1]	–	(787,651)	(1,528)	$(1,123) [3]	(790,302)
Subtotal	$ –	$ 43,087	$ 2,479	$(1,123)	$ 44,443
Cash collateral netting [2]					(34,212)
Fair value included in financial instruments sold, but not yet purchased					$ 10,231

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 Bank'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	$(301)	$ (47)	$(127)	$ 1	$(27)	$ 82	$ 204	$ 49 [4]	$(166)
Currencies – net	579	(31)	(531)	16	(3)	83	77	(200)	(10)
Credit – net	111	(30)	(172)	24	(31)	54	986	(94)	848
Other – net	–	(8)	22	8	–	–	(2) [3]	3 [4]	23
Total derivatives – net	**$ 389**	**$(116) [1]**	**$(808) [1, 2]**	**$49**	**$(61)**	**$219**	**$1,265**	**$(242)**	**$ 695**

1. The aggregate amount is reported in "Gains and losses from financial instruments, net."
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 $808 million for the year ended December 2012 was primarily attributable to the impact of changes in foreign exchange rates and interest rates and tighter credit spreads on certain currency, interest rate and credit derivatives.

Transfers into level 3 derivatives during the year ended December 2012 primarily reflected transfers from level 2 of certain credit and interest rate derivative assets, principally due to unobservable inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during the year ended December 2012 primarily reflected 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 credit derivative assets, principally due to unobservable inputs no longer being significant to the valuation of 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	$ 22	$ (59)	$ (173)	$ 27	$ (24)	$ 50	$ (144)	$ (301)
Currencies – net	774	11	(383)	27	(1)	(83)	234	579
Credit – net	1,462	(57)	97	5	(14)	(843)	(539)	111
Total derivatives – net	$2,258	$ (105)	$ (459)	$ 59	$ (39)	$ (876)	$ (449)	$ 389

The net unrealized loss on level 3 derivatives of $459 million for the year ended December 2011 was primarily attributable to the impact of changes in interest rates and foreign exchange rates underlying certain currency and interest rate derivatives.

Significant transfers in or out of level 3 derivatives during the year ended December 2011 included a net transfer out of level 3 in credit, 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.

Impact of Credit Spreads on Derivatives

On an ongoing basis, the Bank 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) attributable to the impact of changes in credit exposure and credit spreads (of the Bank's counterparties as well as of the Bank or its affiliates) on derivatives was $(469) million and $159 million for the years ended December 2012 and December 2011, respectively.

Derivatives with Credit-related Contingent Features

Certain of the Bank's derivatives have been transacted under bilateral agreements with counterparties who may require the Bank to post collateral or terminate the transactions based on changes in the credit ratings of the Bank or its affiliates. Typically, such requirements are based on the credit ratings of Group Inc. The Bank 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 Bank or its affiliates 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 credit ratings of the Bank or its affiliates.

	As of December	
in millions	**2012**	2011
Net derivative liabilities under bilateral agreements	**$7,671**	$9,161
Collateral posted	**5,954**	7,055
Additional collateral or termination payments for a one-notch downgrade	**779**	386
Additional collateral or termination payments for a two-notch downgrade	**1,213**	542

Credit Derivatives

The Bank 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 its businesses. Credit derivatives are actively managed based on the Bank'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 Bank economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underlyings. Substantially all of the Bank'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 Bank 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 $187.77 billion and $267.49 billion, respectively, for total net notional purchased protection of $79.72 billion. As of December 2011, written and purchased credit derivatives had total gross notional amounts of $203.72 billion and $296.02 billion, respectively, for total net notional purchased protection of $92.30 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 Bank's credit exposure;
- tenor is based on remaining contractual maturity; and
- the credit spread on the underlying, together with the tenor of the contract, are indicators of payment/performance risk. The Bank 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	**$42,979**	**$103,577**	**$6,305**	**$152,861**	**$143,597**	**$77,909**	**$3,672**	**$1,176**	**$ 2,496**
251-500	**1,507**	**15,535**	**1,215**	**18,257**	**17,487**	**7,304**	**540**	**327**	**213**
501-1,000	**1,153**	**6,382**	**62**	**7,597**	**7,345**	**2,748**	**236**	**259**	**(23)**
Greater than 1,000	**2,916**	**6,125**	**9**	**9,050**	**9,026**	**2,069**	**268**	**1,067**	**(799)**
Total	**$48,555**	**$131,619**	**$7,591**	**$187,765**	**$177,455**	**$90,030**	**$4,716**	**$2,829**	**$1,887**
As of December 2011									
Credit spread on underlying (basis points)									
0-250	$35,679	$ 76,315	$6,383	$118,377	$107,403	$ 68,571	$1,993	$ 1,581	$ 412
251-500	4,816	28,285	2,575	35,676	33,196	18,183	217	1,402	(1,185)
501-1,000	4,681	20,056	442	25,179	21,491	14,467	63	1,202	(1,139)
Greater than 1,000	6,290	17,879	322	24,491	22,697	10,011	55	5,836	(5,781)
Total	$51,466	$142,535	$9,722	$203,723	$184,787	$111,232	$2,328	$10,021	$(7,693)

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 Bank applies hedge accounting for certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate certificates of deposit.

To qualify for hedge accounting, the derivative hedge must be highly effective at reducing the risk from the exposure being hedged. Additionally, the Bank 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 Bank 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 Bank 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 face 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 22 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
Interest rate hedges	**$ 26**	$ 18
Hedged bank deposits	**(98)**	(95)
Hedge ineffectiveness [1]	**(72)**	(77)

1. Primarily consisted of amortization of prepaid interest rate spreads resulting from the passage of time.

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 Bank 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., certain 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). The Bank does not bifurcate hybrid financial instruments and accounts for such instruments 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;
- certain other secured financings, consisting of transfers of assets accounted for as financings rather than sales;
- certain other liabilities, primarily unsecured borrowings included in "Other liabilities and accrued expenses"; and
- certain time deposits (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 Bank'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 Bank's level 3 other financial assets and financial liabilities.

Resale and Repurchase Agreements. The significant inputs to the valuation of resale and repurchase agreements 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 agreements as of December 2012 are as follows:

- Yield: 2.2% to 5.4% (weighted average: 3.1%)
- Duration: 0.4 to 2.8 years (weighted average: 1.3 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 Bank's level 3 resale 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 Bank (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.

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 Bank'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.

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 Bank's other derivative instruments. See Note 7 for further information about derivatives. See Note 15 for further information about deposits.

The Bank'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 Bank's derivative disclosures related to unobservable inputs in Note 7.

Certain Other Liabilities. The significant inputs to the valuation of other liabilities that are recorded at fair value are the amount and timing of expected future cash flows, interest rates and the credit spreads of the Bank or its affiliates.

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 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 purchased under agreements to resell	**$ –**	**$1,414**	**$278**	**$1,692**

	Other Financial Liabilities at Fair Value as of December 2012			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Deposits	**$ –**	**$ 2,663**	**$359**	**$ 3,022**
Securities sold under agreements to repurchase	**–**	**15,072**	**–**	**15,072**
Other secured financings [1]	**–**	**145**	**31**	**176**
Other liabilities and accrued expenses [2]	**–**	**182**	**–**	**182**
Total	**$ –**	**$18,062**	**$390**	**$18,452**

	Other Financial Assets at Fair Value as of December 2011			
in millions	Level 1	Level 2	Level 3	Total
Securities purchased under agreements to resell	$ –	$ 4,691	$ 557	$ 5,248

	Other Financial Liabilities at Fair Value as of December 2011			
in millions	Level 1	Level 2	Level 3	Total
Deposits	$ –	$ 2,166	$ 13	$ 2,179
Securities sold under agreements to repurchase	–	15,275	–	15,275
Other secured financings [1]	–	108	1	109
Other liabilities and accrued expenses [2]	–	110	159	269
Total	$ –	$17,659	$173	$17,832

1. Primarily consists of transfers accounted for as financings rather than sales.
2. Primarily consists of unsecured borrowings.

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 period, its entire gain or loss for the period 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 Bank'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

	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
Other secured financings	1	–	–	17	–	–	(1)	14	–	31
Other liabilities and accrued expenses[1]	159	–	–	–	–	–	(15)	–	(144)	–
Total	$173	$ –	$5	$17	$ –	$326	$(17)	$30	$(144)	$390

1. Primarily consists of unsecured borrowings.

Transfers out of level 3 of other financial liabilities during the year ended December 2012 primarily reflected transfers to level 2 of certain unsecured borrowings, principally due to unobservable inputs no longer being significant to the valuation of these instruments.

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

in millions	Level 3 Other Financial Liabilities at Fair Value for the Year Ended December 2011								
	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
Other secured financings	2,897	11	–	–	–	–	(2,875)[2]	(32)	1
Other liabilities and accrued expenses [1]	187	–	1	–	–	–	(28)	(1)	159
Total	$3,084	$11 [1]	$1 [1]	$ –	$ –	$13	$(2,903)	$(33)	$173

1. Primarily consists of unsecured borrowings.
2. Primarily related to principal repayments of secured debt.

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 Bank electing to apply the fair value option to certain financial assets and financial liabilities. These gains and losses are included in "Gains and losses from financial instruments, net." The table below also includes gains and losses on the embedded derivative component of hybrid financial instruments included in deposits. The gains and losses would have been recognized under other U.S. GAAP even if the Bank 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." See Note 22 for further information about interest income and interest expense.

	Gains/(Losses) on Other Financial Assets and Liabilities at Fair Value Under the Fair Value Option	
	As of December	
in millions	**2012**	2011
Other secured financings	**$ –**	$ 7
Deposits	**26**	16
Other [1]	**17**	2
Total	**$43**	$25

1. Primarily consists of unrealized gains on certain unsecured borrowings.

Excluding the gains and losses on the instruments accounted for under the fair value option described above, "Gains and losses from financial instruments, net" primarily represents gains and losses on "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value."

Note 9.
Collateralized Agreements and Financings

Collateralized agreements are securities purchased under agreements to resell (resale agreements or reverse repurchase agreements). Collateralized financings are securities sold under agreements to repurchase (repurchase agreements) and other secured financings. The Bank 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 Bank 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 22 for further information about interest income and interest expense.

Resale and Repurchase Agreements

A resale agreement is a transaction in which the Bank 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 Bank 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 investment-grade sovereign obligations.

The Bank 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 Bank 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.

Other Secured Financings

In addition to repurchase agreements, the Bank 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 transfers of financial assets accounted for as financings rather than sales (primarily bank loans and mortgage whole loans).

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

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value.

As of December 2012 and December 2011, other secured financings included $276 million and $209 million, respectively, related to transfers of financial assets accounted for as financings rather than sales. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value" and "Loans receivable, net." Of the $276 million in other secured financings outstanding as of December 2012, $145 million had a contractual maturity of one year or less.

As of December 2012 and December 2011, respectively, the aggregate contractual principal amount of other secured financings for which the fair value option was elected approximated their fair value.

Collateral Received and Pledged

The Bank receives financial instruments (e.g., U.S. government, other sovereign and corporate obligations) as collateral, primarily in connection with resale agreements, derivative transactions and customer margin loans.

In many cases, the Bank is permitted to deliver or repledge these financial instruments when entering into repurchase agreements or collateralizing derivative transactions.

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 Bank.

	As of December	
in millions	**2012**	2011
Collateral available to be delivered or repledged	**$17,161**	$20,258
Collateral that was delivered or repledged	**14,792**	18,297

The Bank pledges certain financial instruments owned, at fair value in connection with repurchase agreements and other secured financings. The Bank also pledges loans receivable in connection with other secured financings. These assets are pledged 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 Bank.

	As of December	
in millions	**2012**	2011
Financial instruments owned, at fair value, pledged to counterparties that:		
Had the right to deliver or repledge	**$6,873**	$5,345
Did not have the right to deliver or repledge	**2,016**	1,802
Loans receivable pledged to counterparties that did not have the right to deliver or repledge	**1,294**	100

Note 10.
Securitization Activities

The Bank transfers portfolios of commercial mortgages to its affiliates for purposes of securitization. The Bank records a transfer as a sale when it has relinquished control over the transferred assets. The Bank accounts for transferred assets at fair value prior to the transfer and therefore does not typically recognize significant gains or losses upon the transfer of assets.

The Bank generally receives cash in exchange for the transferred assets. As of December 2012 and December 2011, the Bank had no continuing involvement with transferred assets.

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. See Note 3 for the Bank's consolidation policies, including the definition of a VIE.

The Bank makes investments in and loans to VIEs that hold real estate and distressed loans. The Bank also utilizes VIEs to provide investors with principal-protected, credit-linked and asset-repackaged notes designed to meet their objectives.

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 Bank's variable interests in VIEs include senior debt in residential and commercial mortgage-backed and other asset-backed securitization entities, collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs); loan and lending commitments; and derivatives that may include interest rate, foreign currency and/or credit risk.

The enterprise with a controlling financial interest in a VIE is known as the primary beneficiary and consolidates the VIE. The Bank 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 Bank reassesses its initial evaluation of whether an entity is a VIE when certain reconsideration events occur. The Bank 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 Bank's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the Bank 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 Bank holds variable interests. Nonconsolidated VIEs are aggregated based on principal business activity. The nature of the Bank'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 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 value of all assets held by the Bank related to its variable interests in nonconsolidated VIEs are included in "Financial instruments owned, at fair value."

	Nonconsolidated VIEs			
	As of December 2012			
in millions	Mortgage and other asset-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Total
Assets in VIE	**$2,034** [1]	**$446**	**$585**	**$ 3,065**
Carrying Value of the Bank's Variable Interests				
Assets	**305**	**82**	**264**	**651**
Liabilities	**–**	**–**	**–**	**–**
Maximum Exposure to Loss				
Purchased interests	**–**	**79**	**–**	**79**
Commitments	**–**	**–**	**193**	**193**
Derivatives	**2,039**	**37**	**–**	**2,076**
Loans and investments	**–**	**–**	**264**	**264**
Total	**$2,039**	**$116**	**$457**	**$ 2,612**

1. Relates to CDOs backed by residential mortgage obligations.

in millions	Nonconsolidated VIEs As of December 2011 Mortgage and other asset-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Power-related	Total
Assets in VIE	$2,681 [1]	$108	$834	$18	$3,641
Carrying Value of the Bank's Variable Interests					
Assets	241	11	180	–	432
Liabilities	–	–	–	–	–
Maximum Exposure to Loss					
Commitments and guarantees	–	–	107	37	144
Derivatives	2,640 [2]	107	372	–	3,119
Loans and investments	–	–	124	–	124
Total	$2,640	$107	$603	$37	$3,387

1. Relates to CDOs backed by residential mortgage obligations.
2. Primarily consists of written protection on investment-grade, short-term collateral held by VIEs that have issued CDOs.

Note 12.
Loans

Loans at Fair Value
Loans for which the Bank has elected the fair value option and which are managed on a fair value basis are included in "Financial instruments owned, at fair value." See Note 6 for a discussion of the techniques and significant inputs used in the valuation of loans. The table below presents the components of loans held at fair value:

	As of December	
in millions	**2012**	2011
Consumer loans	**$ 44**	$ 39
Commercial loans	**6,651**	7,133
Mortgage loans	**6,132**	2,430
Other loans	**255**	15
Total	**$13,082**	$9,617

The aggregate contractual principal amount of loans for which the fair value option was elected exceeded the related fair value by $1.43 billion and $930 million as of December 2012 and December 2011. Included in these amounts are loans in non-accrual status (including loans more than 90 days past due) with a principal balance of $7 million and $6 million and a fair value of $4 million and $3 million as of December 2012 and December 2011, respectively.

Loans Receivable, net
Loans carried at amortized cost less an allowance for loan losses are classified as "Loans receivable, net." These loans are primarily comprised of collateralized loans to private wealth management clients and corporate loans. Such loans are placed on non-accrual status if principal or interest is past due on a contractual basis of 90 days or more. At that time, all accrued but unpaid interest is reversed against interest income. There were no loans receivable in non-accrual status at December 2012 or December 2011.

All loans greater than 90 days past due and other loans exhibiting credit quality weakness are evaluated individually for impairment. A loan is determined to be impaired when it is probable that the Bank will not be able to collect all principal and interest due under the contractual terms of the loan. The Bank writes off those loan amounts it considers uncollectible.

The allowance for loan losses is determined using various assumptions, including industry experience and delinquency and loss trends. The allowance is an amount which management believes is adequate to absorb losses inherent in the portfolio that can be reasonably estimated. Management's estimate of loan losses entails considerable judgment about loan collectability based on available information at the reporting dates, and the uncertainties inherent in those assumptions. While management uses the best information available to determine this estimate, future adjustments to the allowance may be necessary based on changes in the economic environment or variances between actual results and the original assumptions used. The allowance for loan losses is reported as a reduction to the loans receivable balance to arrive at loans receivable, net of allowance for loan losses. See Note 18 for information about the allowance for losses on unfunded commitments.

Included in loans receivable, net, are loans held for sale which are accounted for at the lower of cost or market. As of December 2012, the balance of loans accounted for at the lower of cost or market was $69 million. There were no loans accounted for at the lower of cost or market at December 2011.

The table below presents the components of loans receivable, net:

	As of December	
in millions	**2012**	2011
Consumer loans	**$ 419**	$ 341
Commercial loans	**2,738**	909
Mortgage loans	**785**	412
Other loans	**2,047**	1,440
	5,989	3,102
Allowance for loan losses	**(20)**	(6)
Total	**$5,969**	$3,096

As of December 2012 and December 2011, the carrying value of loans receivable, net generally approximated fair value. As of December 2012, had these loans been carried at fair value and included in the fair value hierarchy, $2.38 billion and $3.58 billion would have been classified in level 2 and level 3, respectively.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated impact of changes in instrument-specific credit spreads on loans and loan commitments for which the fair value option was elected was a gain of $1.47 billion and a loss of $1.01 billion for the years ended December 2012 and December 2011, respectively. The Bank attributes changes in the fair value of floating rate loans and loan commitments to changes in instrument-specific credit spreads. Substantially all of the Bank's loans and lending commitments are floating-rate.

Note 13. Sale of Litton Loan Servicing L.P.

Litton Loan Servicing L.P. (Litton), a Delaware limited partnership, serviced primarily sub-prime residential mortgage loans.

During 2011, the Bank classified certain assets and liabilities as held for sale, related to Litton, the Bank's residential mortgage servicing subsidiary, which was sold on September 1, 2011. In connection with the held-for-sale designation, the Bank recognized impairment losses of approximately $166 million ($154 million related to goodwill and $12 million related to intangible assets). These impairment losses, which are included in "Other expenses," represent the excess of (i) the carrying value of the net assets held for sale over (ii) their estimated fair value less estimated cost to sell. On September 1, 2011, Litton's assets and liabilities consisted primarily of servicing advances of $2.47 billion and a loan facility payable to Goldman Sachs Bank USA of $2.42 billion. Upon the sale of Litton, the Bank received total consideration which approximated the Bank's carrying value at date of sale.

In connection with the sale, Group Inc. has, to the extent permitted by law, agreed to reimburse the Bank for all future financial liabilities and costs associated with Litton's activities. As of the date of sale, the fair value of such liabilities and costs was $125 million, for which the Bank has recorded a non-cash capital contribution from Group Inc. See Notes 18 and 21 for further discussion of the liabilities assumed by Group Inc.

The net revenues of Litton were $128 million from January 1, 2011 through the date of sale. Total expenses, net of a benefit for income taxes, were $157 million, from January 1, 2011 through the date of sale.

Note 14. Other Assets

Other assets are generally less liquid in nature. The table below presents other assets by type.

	As of December	
in millions	**2012**	2011
Federal Reserve Board shares	**$ 409**	$ 409
Receivable from affiliates [1]	**326**	553
Prepaid expenses	**203**	199
Income tax-related assets [2]	**165**	246
Other	**14**	14
Total	**$1,117**	$1,421

1. See Note 21 for further information about related party transactions.
2. See Note 24 for further information about income taxes.

Note 15.
Deposits

The table below presents the Bank's deposits by type:

	As of December	
in millions	**2012**	2011
Savings	**$44,402**	$33,911
Time	**21,532**	10,919
Demand	**360**	– [1]
Total	**$66,294**	$44,830

1. The Bank maintained an immaterial amount of demand deposits.

Savings accounts are comprised of money market deposit accounts (MMDA) and negotiable order of withdrawal accounts (NOW). MMDA and NOW are interest-bearing accounts that have no maturity or expiration date. The depositor may be required by the Bank to give written notice of intended withdrawals not less than seven days before such withdrawals are made.

Time deposits consist primarily of brokered certificates of deposit which have stipulated maturity dates and rates of interest. Early withdrawals of time deposits are generally prohibited.

Demand deposit accounts (DDA) are accounts that have no maturity or expiration date and are not subject to restrictions with respect to the timing and number of transactions that deposit holders may execute.

The Bank 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, $18.51 billion and $8.74 billion of time deposits as of December 2012 and December 2011, respectively, were effectively converted from fixed-rate obligations to floating-rate obligations and were recorded at amounts that generally approximate fair value.

While savings, time and demand deposits are carried at amounts that approximate fair value, most deposits 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 Bank's fair value hierarchy in Notes 6, 7, and 8. Had these deposits been included in the Bank's fair value hierarchy, they would have been classified in level 2.

The Bank's time deposits by contractual maturity are as follows:

in millions	**As of December 2012**
2013	**$ 5,248**
2014	**3,866**
2015	**3,285**
2016	**1,687**
2017	**2,377**
2018 – thereafter	**5,069**
Total [1]	**$21,532**

1. 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.

The table below presents the balances of time deposits accounted for under the fair value option:

	As of December			
in millions	**2012**		2011	
	Principal	**Fair Value**	Principal	Fair Value
Maturity < 1 year	**$1,375**	**$1,376**	$1,801	$1,813
Maturity > 1 year	**1,633**	**1,646**	336	366
Total	**$3,008**	**$3,022**	$2,137	$2,179

Note 16.
Subordinated Borrowings

The Bank has an $8.00 billion revolving subordinated loan agreement with Group Inc., which matures in 2018. As of December 2012 and December 2011, respectively, there were no outstanding subordinated borrowings with Group Inc. under the agreement. Amounts borrowed under this agreement bear interest at the federal funds rate plus 3.5% per annum. Any amounts payable under the agreement would be subordinate to the claims of certain other creditors of the Bank, including depositors and regulatory agencies.

Note 17.
Other Liabilities and Accrued Expenses

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

	As of December	
in millions	**2012**	2011
Income tax-related liabilities [1]	**$1,120**	$ 975
Accrued expenses and other	**366**	360
Unsecured borrowings [2, 3]	**231**	912
Total	**$1,717**	$2,247

1. See Note 24 for further information about income taxes.
2. Consists primarily of derivative contracts with a financing element and unsecured borrowings from affiliates.
3. Includes $74 million and $653 million of borrowings with a maturity greater than one year as of December 2012 and December 2011, respectively.

Note 18.
Commitments, Contingencies and Guarantees

Commitments
The table below presents the Bank'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:						
Investment-grade	**$6,605**	**$ 9,099**	**$ 30,617**	**371**	**$46,692**	$47,017
Non-investment-grade	**1,730**	**2,856**	**7,228**	**2,650**	**14,464**	8,148
Warehouse financing	**476**	**90**	**–**	**–**	**566**	247
Total commitments to extend credit	**8,811**	**12,045**	**37,845**	**3,021**	**61,722**	55,412
Contingent and forward starting resale agreements [2]	**236**	**–**	**–**	**–**	**236**	298
Forward starting repurchase agreements [2]	**–**	**–**	**–**	**–**	**–**	34
Letters of credit [3]	**113**	**–**	**–**	**–**	**113**	112
Investment commitments	**–**	**7**	**–**	**99**	**106**	84
Other	**491**	**–**	**–**	**–**	**491**	602
Total commitments	**$9,651**	**$12,052**	**$37,845**	**$3,120**	**$62,668**	$56,542

1. Commitments to extend credit are presented net of amounts syndicated to third parties.
2. These agreements generally settle within three business days.
3. Consists of commitments under letters of credit issued by various banks which the Bank provides to counterparties.

Commitments to Extend Credit
The Bank'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 Bank 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 fair value of commitments accounted for under the fair value option was a liability of $1.20 billion and $1.80 billion as of December 2012 and December 2011, respectively. To the extent that the Bank recognizes losses on these commitments, such losses are recorded within "Gains and losses from financial instruments, net," net of any related underwriting fees.

As of December 2012, approximately $13.27 billion of the Bank's lending commitments were held for investment and were accounted for on an accrual basis. As of December 2012, the carrying value of such lending commitments was a liability of $43 million (which includes an allowance for credit losses of $19 million). As of December 2012, the estimated fair value of such lending commitments was a liability of $356 million. 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 Bank's fair value hierarchy in Notes 6, 7 and 8. Had these commitments been accounted for at fair value and included in the Bank's fair value hierarchy, they would have primarily been classified in level 3 as of December 2012.

Commercial Lending. The Bank's commercial lending commitments are generally extended 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 Bank with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was $30.06 billion and $29.13 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 Bank realizes on such commitments, up to a maximum of approximately $950 million. In addition, subject to the satisfaction of certain conditions, upon the Bank'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 Bank 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 Bank 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 Agreements/Forward Starting Repurchase Agreements

The Bank enters into resale agreements and repurchase agreements that settle at a future date. The Bank also enters into commitments to provide contingent financing to its clients through resale agreements. The Bank'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 Bank's investment commitments consist of commitments to invest in private equity, real estate and other assets.

Contingencies

Legal Proceedings. See Note 19 for information on legal proceedings.

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.** Substantially all of the activity described below, with respect to representations and warranties, occurred prior to the November 2008 reorganization of the Bank. Any losses incurred within the entities contributed during the reorganization are thus reimbursed under the Guarantee (see Notes 1 and 21 for additional information regarding the Guarantee). As such, there will not be an impact to the continuing operations or results of the Bank with respect to these matters.

The Bank has not been a significant originator of residential mortgage loans. The Bank 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 Bank sold approximately $10 billion of loans to government-sponsored enterprises and approximately $11 billion of loans to other third parties. In addition, the Bank 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 were 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 Bank provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the Bank 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 Bank 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 Bank repurchased loans with an unpaid principal balance of less than $10 million. The loss related to the repurchase of these loans incurred by the Bank was reimbursed under the Guarantee for the years ended December 2012 and December 2011.

Ultimately, the Bank'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 Bank could be held liable and, if it is, the Bank's ability to pursue and collect on any claims against the parties who made representations to the Bank; (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 Bank, there is a potential for increasing claims for repurchases. However, the Bank 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.** Losses arising from the foreclosure and other mortgage loan servicing practices and procedures described below have been reimbursed by Group Inc. As a result, no reserves have been recorded by the Bank in connection with these matters. See Note 13 for additional information as to the Group Inc. reimbursement.

The Bank 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, which was sold by the Bank to Ocwen Financial Corporation (Ocwen) in the third quarter of 2011. The Bank 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 Bank'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 Bank 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 Bank has not yet received any claims relating to these indemnities. The Bank 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 Bank 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. As of December 2012, the Bank had not received material claims with respect to these indemnities and no material payments had been made in connection with these claims.

The Bank 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 Bank. Group Inc. and the Bank have entered into a settlement with the Board of Governors of the Federal Reserve System (Federal Reserve Board) relating to foreclosure and servicing matters as described below.

Under the Litton sale agreement the Bank 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.

On September 1, 2011, Group Inc. and the Bank 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 the Bank cease and desist such conduct, and required that Group Inc. and the Bank, and their boards of directors, take various affirmative steps. The Order required (i) Group Inc. and the Bank 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 the Bank.

On January 16, 2013, Group Inc. and the Bank 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 the Bank 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. On February 28, 2013, Group Inc. and the Bank entered into final documentation with the Federal Reserve Board relating to the settlement.

In addition, on September 1, 2011, the Bank entered into an Agreement on Mortgage Servicing Practices with the New York State Banking Department, Litton and Ocwen relating to the servicing of residential mortgage loans, and, in a related agreement with the New York State Banking Department, 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 Bank enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written currency contracts, and interest rate caps, floors and swaptions. Disclosures about derivatives are not required if they may be cash settled and the Bank has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract. The Bank has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties and certain other counterparties. Accordingly, the Bank has not included such contracts in the tables below.

The Bank, 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 Bank 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). 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]	$762	$18,358	$10,145	$6,435	$3,259	$38,197
Securities lending indemnifications [2]	–	31,251	–	–	–	31,251
Other financial guarantees [3]	(1)	427	321	945	947	2,640

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 Bank's overall risk related to its derivative activities. As of December 2011, the carrying value of the net liability related to derivative guarantees was $2.05 billion.
2. Collateral held by the lenders in connection with securities lending indemnifications was $32.11 billion as of December 2012. Because the contractual nature of these arrangements requires the Bank 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 Bank's commitments. As of December 2011, the carrying value of the net liability related to other financial guarantees was $63 million.

Other Representations, Warranties and Indemnifications. The Bank 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 Bank 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 borrowings or derivatives.

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

Note 19.

Legal Proceedings

The Bank is involved in a number of judicial, regulatory and other proceedings concerning matters arising in connection with the conduct of the Bank's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages. For most such cases, however, the Bank expects that it would receive reimbursement from Group Inc. under the Guarantee agreement (see Notes 1 and 21).

Management is generally unable to estimate a range of reasonably possible loss for proceedings 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.

Management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on the Bank's financial condition, though the outcomes could be material to the Bank's operating results for any particular period, depending, in part, upon the operating results for such period.

Note 20.

Regulation and Capital Adequacy

The Bank is regulated as described in Note 1. The Bank 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 requirements are calculated on a consolidated basis (i.e., including the Bank and its subsidiaries).

Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action that is applicable to the Bank, the Bank 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 Bank's capital amounts, as well as its prompt corrective action classification, are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Certain Bank subsidiaries are subject to separate regulation and capital requirements. The Bank's subsidiaries were in compliance with all such requirements as of December 2012 and December 2011.

Under the regulatory framework for prompt corrective action that is applicable to the Bank, in order to be considered a "well-capitalized" depository institution, the Bank 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%. The Bank 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, the Bank 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 that follows, the Bank was in compliance with these minimum capital requirements as of December 2012 and December 2011.

The table below presents information regarding the Bank'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 %

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 Bank's Value-at-Risk (VaR) model, supplemented by other measures to capture risks not reflected in the Bank'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 entity (or if collateral is held, depending on the nature of the collateral).

The Tier 1 Leverage ratio is defined as Tier 1 capital under Basel 1 divided by average adjusted total assets.

The deposits of the Bank 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 Bank 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.

Net assets of the Bank are restricted as to the payment of dividends to Group Inc. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board and the FDIC have authority to prohibit or limit the payment of dividends by the banking organizations they supervise if, in their opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization. As of December 2012 and December 2011, the Bank could have declared dividends of $2.98 billion and $5.21 billion, respectively, to Group Inc. The Bank did not pay dividends during the year ended December 2012. During the year ended December 2011, the Bank paid dividends of $1.00 billion.

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 Bank'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.

The Bank 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 the Bank as an advanced approach banking organization. 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 introduces a new operational risk capital requirement. The Bank will adopt Basel 2 once approved to do so by regulators. The Bank'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 as a floor to determine whether the Bank meets its 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 Bank include (i) revisions to the definition of 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.

In October 2012, the Basel Committee published its final provisions for calculating incremental capital requirements for domestic systemically important banks. These provisions may impact the regulatory capital requirements of the Bank. The exact impact will depend on how they are implemented by the banking regulators in the United States.

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 Bank 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 Bank, as well as its subsidiary MMDP, are registered "swap dealers" under the U.S. Commodity Futures Trading Commission (CFTC) rules and may be subject to additional regulatory capital requirements, but these have not yet been finalized by the CFTC.

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 adds further uncertainty to the Bank's future capital requirements.

Note 21.
Transactions with Related Parties

Transactions between the Bank and Group Inc. and its subsidiaries and affiliates are regulated by the Federal Reserve Board. These regulations generally limit the types and amounts of transactions (including credit extensions from the Bank) that may take place and generally require those transactions to be on terms that are at least as favorable to the Bank as prevailing terms for comparable transactions with non-affiliates. These regulations generally do not apply to transactions between the Bank and its subsidiaries.

Amounts outstanding to/from affiliates, as defined by U.S. GAAP, are presented in the table below:

	As of December	
in millions	**2012**	2011
Assets		
Cash	**$ 80**	$ 409
Securities purchased under agreements to resell, at fair value	**1,415**	4,690
Receivables from customers and counterparties, brokers, dealers and clearing organizations	**984**	1,523
Financial instruments owned, at fair value	**729**	737
Other assets	**326**	553
Total	**$3,534**	$7,912
Liabilities		
Deposits due to affiliates	**$ 3,917**	$ 6,353
Other secured financings, at fair value	**30**	16
Securities sold under agreements to repurchase, at fair value	**15,072**	15,275
Payables to customers and counterparties, brokers, dealers and clearing organizations	**433**	248
Financial instruments sold, but not yet purchased, at fair value	**382**	570
Other liabilities and accrued expenses (includes $161 and $250 at fair value as of December 2012 and December 2011, respectively)	**337**	1,009
Total	**$20,171**	$23,471

Group Inc. Guarantee Agreement

In November 2008, Group Inc. executed a reorganization of the Bank which involved the transfer of assets and operations to the Bank. In connection with this transfer, Group Inc. entered into the Guarantee (see Note 1) with the Bank whereby Group Inc. agreed to (i) purchase from the Bank certain transferred assets or reimburse the Bank for certain losses relating to those assets; (ii) reimburse the Bank for credit-related losses from assets transferred to the Bank; and (iii) protect the Bank or reimburse it for certain losses arising from derivatives and mortgage servicing rights transferred to the Bank.

In accordance with the Guarantee, as of December 2012 and December 2011, Group Inc. was also required to pledge approximately $2.47 billion and $2.65 billion, respectively, of collateral to the Bank.

The Bank generally accounts for the Guarantee as a derivative contract under U.S. GAAP; however, certain components are accounted for as a receivable from affiliate.

As of December 2012 and December 2011, the Bank recorded $5 million and $23 million, respectively, as derivative receivables in "Financial instruments owned, at fair value" with respect to the Guarantee.

As of December 2012 and December 2011, the Bank recorded $48 million and $144 million, respectively, in "Other assets" with respect to reimbursement for losses associated with representations and warranties made by the Bank prior to the date of the Bank's reorganization. See Note 18 for further discussion of contingencies associated with such representations and warranties.

For the years ended December 2012 and December 2011, the Bank recorded gains of $237 million and $101 million, respectively, in "Gains and losses from financial instruments, net" with respect to the Guarantee. For the year ended December 2012, the Bank recorded losses of $95 million in "Other revenues" related to the Guarantee and for the year ended December 2011, the Bank recorded an immaterial amount in "Other revenues" related to the Guarantee.

Interest Income and Expense

The Bank recognizes interest income and interest expense in connection with various affiliated transactions. These transactions include financial instruments purchased under agreements to resell, financial instruments sold under agreements to repurchase, deposits, other liabilities and accrued expenses, and subordinated borrowings. For the years ended December 2012 and December 2011, the Bank recognized net interest income from affiliates of $147 million and $60 million, respectively.

Of the affiliated interest expense recorded for the year ended December 2011, $21 million related to repurchase agreements with affiliates on which the Bank was prohibited, due to historical regulatory restrictions, from paying interest. As a result, such interest payments were made on the Bank's behalf by Group Inc. and were recorded as interest expense with a corresponding capital contribution. This restriction did not apply for the year ended December 2012.

Other Transactions

The Bank enters into various activities with affiliated entities and participates in an allocation process related to the revenues generated by particular businesses. For the year ended December 2012, the Bank allocated $339 million and for the year ended December 2011, the Bank received an allocation of $1.11 billion. These are recorded in "Gains and losses from financial instruments, net."

The Bank receives service charges from affiliates. For the years ended December 2012 and December 2011, the Bank reimbursed affiliates $481 million and $603 million, respectively, for services rendered which are included in "Service charges."

The Bank enters into derivative contracts with Group Inc. and its affiliates in the normal course of business. As of December 2012 and 2011, outstanding derivative contracts with Group Inc. and affiliates totaled $729 million and $737 million, respectively, in "Financial instruments owned, at fair value," and $382 million and $570 million, respectively, in "Financial instruments sold, but not yet purchased, at fair value."

During the year ended December 2010, the Bank entered into an agreement designed to mitigate the exposure of Mitsui Sumitomo to potential liquidity requirements resulting from its partnership interest in MMDP. This arrangement required the Bank to enter into total return swaps (TRS) with Signum Vanguard Limited (Signum VIEs) upon which Signum VIEs issued $800 million of liquidity notes. Signum VIEs invests the note proceeds via the purchase of liquid assets or eligible reference obligations (EROs), the performance of which is referenced by the TRS.

In the event of a default on the part of the Bank or Group Inc., the TRS will terminate and the EROs held by Signum VIEs will be liquidated with the proceeds used to provide Mitsui Sumitomo with access to secured funding. The Bank holds variable interests in Signum VIEs, but does not consolidate the Signum VIEs, as it has determined it is not the primary beneficiary in accordance with the criteria described in Note 11. Accordingly, the balances related to the Bank's exposure to the Signum VIEs are included in the nonconsolidated VIE disclosures in Note 11.

Equity Transactions

For the years ended December 2012 and December 2011, the Bank recorded $4 million and $146 million, respectively, in non-cash capital contributions.

The contributions recorded for the year ended December 2012 were related to the transfer of Group-owned subsidiaries to the Bank. The contributions recorded for the year ended December 2011 were related primarily to liabilities assumed by Group Inc. on behalf of the Bank in connection with the sale of Litton.

During the year ended December 2012, the Bank did not pay dividends to Group Inc. During the year ended December 2011, the Bank paid dividends of $1.00 billion to Group Inc.

Note 22.
Interest Income and Interest Expense

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

	Year Ended December	
in millions	**2012**	2011
Interest income		
Deposits with banks	**$115**	$ 76
Securities purchased under agreements to resell	**38**	52
Financial instruments owned, at fair value	**617**	534
Loans receivable, net	**107**	65
Other interest [1]	**83**	70
Total interest income	**$960**	$ 797
Interest expense		
Deposits	**$412**	$ 259
Securities sold under agreements to repurchase, at fair value	**39**	48
Financial instruments sold, but not yet purchased, at fair value	**111**	162
Long-term borrowings [2]	**–**	51
Other interest [3]	**22**	115
Total interest expense	**$584**	$ 635
Net interest income	**$376**	$ 162

1. Primarily includes interest income on collateral and other interest-earning assets.
2. Consists primarily of interest on subordinated borrowings, other secured financings, and other long-term borrowings from affiliates.
3. Primarily includes interest expense on collateral balances and other interest-bearing liabilities.

Note 23.
Employee Incentive Plans and Employee Benefit Plans

Stock Incentive Plan

Group Inc. 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, restricted stock units (RSUs), awards with performance conditions and other share-based awards. In the second quarter of 2003, the SIP was approved by Group Inc.'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 plan will be voted upon by shareholders.

Restricted Stock Units and Stock Options

Group Inc. grants RSUs to employees of the Bank under the SIP, primarily in connection with year-end compensation. 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. The subsequent amortization of the cost of these RSUs is allocated to the Bank by Group Inc. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. No stock options were granted for the years ended December 2012 and December 2011.

Defined Benefits Plans

Group Inc. maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan was closed to new participants and frozen such that existing participants would not accrue any additional benefits. Group Inc. also 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 Bank's consolidated results of operations.

Defined Contribution Plans

The Bank contributes to Group Inc. employer-sponsored defined contribution plans.

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 Bank reports interest expense related to income tax matters in "Provision for taxes" and income tax penalties in "Other expenses."

The Bank's results of operations are included in the consolidated federal and certain state tax returns of Group Inc. The Bank computes its tax liability as if it was filing a tax return on a modified separate company basis and settles such liability with Group Inc. pursuant to a tax sharing policy. To the extent the Bank generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to a tax sharing policy at such time as Group Inc. would have been able to utilize such losses. During 2012 the Bank's method of allocating state and local income tax liability was modified to reflect its share of the consolidated/combined state and local income tax liability. This change did not have a material effect on the financial condition, earnings or cash flows of the Bank. As of December 2012, the Bank recorded a net tax payable of $1.08 billion, of which $1.16 billion was recorded in "Other liabilities and accrued expenses" offset by $72 million in "Other assets." As of December 2011, the Bank recorded a net tax payable of $842 million, of which $1.20 billion was recorded in "Other liabilities and accrued expenses" offset by $360 million in "Other assets."

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

	Year Ended December	
in millions	**2012**	2011
Current taxes		
U.S. federal	**$ 696**	$ 731
State and local	**225**	199
Total current tax expense	**921**	930
Deferred taxes		
U.S. federal	**(26)**	(15)
State and local	**11**	–
Total deferred tax expense/(benefit)	**(15)**	(15)
Provision for taxes	**$ 906**	$ 915

	Year Ended December	
	2012	2011
U.S. federal statutory income tax rate	**35.0%**	35.0%
State and local taxes, net of U.S. income tax effects	**3.9**	4.4
Group Inc. guarantee agreement	**(2.1)**	(1.7)
Contingent liability assumed by Group Inc. in connection with the sale of Litton	–	1.9
Other	**1.7**	1.1
Effective income tax rate	**38.5%**	40.7%

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 Bank has recorded deferred tax assets of $127 million and $112 million as of December 2012 and December 2011, respectively.

Unrecognized Tax Benefits

The Bank 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, the accrued liability for interest expense related to income tax matters was $19 million. As of December 2011, no interest expense related to income tax matters was recorded. As of December 2012, the Bank recorded a liability for uncertain tax positions of $157 million.

The table below presents the changes in the liability for unrecognized tax benefits, which is recorded in "Other liabilities and accrued expenses."

	As of December	
in millions	**2012**	2011
Balance, beginning of year	**$149**	$ 97
Increases based on tax positions related to the current year	**64**	54
Increases/(decreases) based on tax positions related to prior years	**30**	(2)
Balance, end of year	**$243**	$149
Related deferred income tax asset	**86**	52
Net unrecognized tax benefit [1]	**$157**	$ 97

1. If recognized, the net tax benefit would reduce the Bank's effective income tax rate.

Regulatory Tax Examinations

All years subsequent to and including 2005 for U.S. Federal, New York State and City, 2004 for New Jersey, 2003 for Utah, and 2006 or later for all other states in which the Bank is included in a combined tax filing remain open to examination by the taxing authorities. The Bank believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

Note 25.
Credit Concentrations

Credit concentrations may arise from the Bank's market-making and other activities and may be impacted by changes in economic, industry or political factors. The Bank seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the Bank's activities expose it to many different industries and counterparties, the Bank 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 Bank 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 Bank. As of December 2012 and December 2011, the Bank did not have credit exposure to any other counterparty that exceeded 1% of total assets.

	As of December	
$ in millions	**2012**	2011
U.S. government obligations [1]	**$6,395**	$ 1,388
% of total assets	**5.4%**	1.4%
Non-U.S. government obligations[1, 2]	**$ 94**	$ 3,853
% of total assets	**0.1%**	3.8%

1. Included in "Financial instruments owned, at fair value."
2. Principally related to Italy and the United Kingdom as of both December 2012 and December 2011.

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

The table below presents U.S. government obligations and non-U.S. government obligations that collateralize resale agreements. Because the Bank's primary credit exposure on such transactions is to the counterparty to the transaction, the Bank would be exposed to the collateral issuer only in the event of counterparty default.

	As of December	
in millions	**2012**	2011
U.S. government obligations	**$ 3,842**	$ 2,669
Non-U.S. government obligations [1]	**$ 81**	$ 2,980

1. Principally consisting of securities issued by the governments of Italy, Germany and the United Kingdom.

Note 26.
Subsequent Events

Dividend Payment

On March 21, 2013, the Bank declared a dividend of $2.00 billion to Group Inc. The dividend payment was made on March 25, 2013.