Consolidated Statements of Earnings

in millions, except per share amounts	Year Ended December 2012	2011	2010
Revenues			
Investment banking	**$ 4,941**	$ 4,361	$ 4,810
Investment management	**4,968**	4,691	4,669
Commissions and fees	**3,161**	3,773	3,569
Market making	**11,348**	9,287	13,678
Other principal transactions	**5,865**	1,507	6,932
Total non-interest revenues	**30,283**	23,619	33,658
Interest income	**11,381**	13,174	12,309
Interest expense	**7,501**	7,982	6,806
Net interest income	**3,880**	5,192	5,503
Net revenues, including net interest income	**34,163**	28,811	39,161
Operating expenses			
Compensation and benefits	**12,944**	12,223	15,376
U.K. bank payroll tax	**—**	—	465
Brokerage, clearing, exchange and distribution fees	**2,208**	2,463	2,281
Market development	**509**	640	530
Communications and technology	**782**	828	758
Depreciation and amortization	**1,738**	1,865	1,889
Occupancy	**875**	1,030	1,086
Professional fees	**867**	992	927
Insurance reserves	**598**	529	398
Other expenses	**2,435**	2,072	2,559
Total non-compensation expenses	**10,012**	10,419	10,428
Total operating expenses	**22,956**	22,642	26,269
Pre-tax earnings	**11,207**	6,169	12,892
Provision for taxes	**3,732**	1,727	4,538
Net earnings	**7,475**	4,442	8,354
Preferred stock dividends	**183**	1,932	641
Net earnings applicable to common shareholders	**$ 7,292**	$ 2,510	$ 7,713
Earnings per common share			
Basic	**$ 14.63**	$ 4.71	$ 14.15
Diluted	**14.13**	4.51	13.18
Average common shares outstanding			
Basic	**496.2**	524.6	542.0
Diluted	**516.1**	556.9	585.3

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

Consolidated Statements of Comprehensive Income

in millions	Year Ended December 2012	2011	2010
Net earnings	**$7,475**	$4,442	$8,354
Other comprehensive income/(loss), net of tax:			
Currency translation adjustment, net of tax	**(89)**	(55)	(38)
Pension and postretirement liability adjustments, net of tax	**168**	(145)	88
Net unrealized gains/(losses) on available-for-sale securities, net of tax	**244**	(30)	26
Other comprehensive income/(loss)	**323**	(230)	76
Comprehensive income	**$7,798**	$4,212	$8,430

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

Consolidated Statements of Financial Condition

in millions, except share and per share amounts	As of December 2012	2011
Assets		
Cash and cash equivalents	$ 72,669	$ 56,008
Cash and securities segregated for regulatory and other purposes (includes $30,484 and $42,014 at fair value as of December 2012 and December 2011, respectively)	49,671	64,264
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes $141,331 and $187,789 at fair value as of December 2012 and December 2011, respectively)	141,334	187,789
Securities borrowed (includes $38,395 and $47,621 at fair value as of December 2012 and December 2011, respectively)	136,893	153,341
Receivables from brokers, dealers and clearing organizations	18,480	14,204
Receivables from customers and counterparties (includes $7,866 and $9,682 at fair value as of December 2012 and December 2011, respectively)	72,874	60,261
Financial instruments owned, at fair value (includes $67,177 and $53,989 pledged as collateral as of December 2012 and December 2011, respectively)	407,011	364,206
Other assets (includes $13,426 and $0 at fair value as of December 2012 and December 2011, respectively)	39,623	23,152
Total assets	**$938,555**	**$923,225**
Liabilities and shareholders' equity		
Deposits (includes $5,100 and $4,526 at fair value as of December 2012 and December 2011, respectively)	$ 70,124	$ 46,109
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	171,807	164,502
Securities loaned (includes $1,558 and $107 at fair value as of December 2012 and December 2011, respectively)	13,765	7,182
Other secured financings (includes $30,337 and $30,019 at fair value as of December 2012 and December 2011, respectively)	32,010	37,364
Payables to brokers, dealers and clearing organizations	5,283	3,667
Payables to customers and counterparties	189,202	194,625
Financial instruments sold, but not yet purchased, at fair value	126,644	145,013
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes $17,595 and $17,854 at fair value as of December 2012 and December 2011, respectively)	44,304	49,038
Unsecured long-term borrowings (includes $12,593 and $17,162 at fair value as of December 2012 and December 2011, respectively)	167,305	173,545
Other liabilities and accrued expenses (includes $12,043 and $9,486 at fair value as of December 2012 and December 2011, respectively)	42,395	31,801
Total liabilities	862,839	852,846
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value $0.01 per share; aggregate liquidation preference of $6,200 and $3,100 as of December 2012 and December 2011, respectively	6,200	3,100
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 816,807,400 and 795,555,310 shares issued as of December 2012 and December 2011, respectively, and 465,148,387 and 485,467,565 shares outstanding as of December 2012 and December 2011, respectively	8	8
Restricted stock units and employee stock options	3,298	5,681
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	48,030	45,553
Retained earnings	65,223	58,834
Accumulated other comprehensive loss	(193)	(516)
Stock held in treasury, at cost, par value $0.01 per share; 351,659,015 and 310,087,747 shares as of December 2012 and December 2011, respectively	(46,850)	(42,281)
Total shareholders' equity	75,716	70,379
Total liabilities and shareholders' equity	**$938,555**	**$923,225**

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

Consolidated Statements of Changes in Shareholders' Equity

in millions	Year Ended December 2012	2011	2010
Preferred stock			
Balance, beginning of year	$ 3,100	$ 6,957	$ 6,957
Issued	3,100	—	—
Repurchased	—	(3,857)	—
Balance, end of year	6,200	3,100	6,957
Common stock			
Balance, beginning of year	8	8	8
Issued	—	—	—
Balance, end of year	8	8	8
Restricted stock units and employee stock options			
Balance, beginning of year	5,681	7,706	6,245
Issuance and amortization of restricted stock units and employee stock options	1,368	2,863	4,137
Delivery of common stock underlying restricted stock units	(3,659)	(4,791)	(2,521)
Forfeiture of restricted stock units and employee stock options	(90)	(93)	(149)
Exercise of employee stock options	(2)	(4)	(6)
Balance, end of year	3,298	5,681	7,706
Additional paid-in capital			
Balance, beginning of year	45,553	42,103	39,770
Issuance of common stock	—	103	—
Delivery of common stock underlying share-based awards	3,939	5,160	3,067
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(1,437)	(1,911)	(972)
Preferred stock issuance costs	(13)	—	—
Excess net tax benefit/(provision) related to share-based awards	(11)	138	239
Cash settlement of share-based compensation	(1)	(40)	(1)
Balance, end of year	48,030	45,553	42,103
Retained earnings			
Balance, beginning of year	58,834	57,163	50,252
Net earnings	7,475	4,442	8,354
Dividends and dividend equivalents declared on common stock and restricted stock units	(903)	(769)	(802)
Dividends on preferred stock	(183)	(2,002)	(641)
Balance, end of year	65,223	58,834	57,163
Accumulated other comprehensive loss			
Balance, beginning of year	(516)	(286)	(362)
Other comprehensive income/(loss)	323	(230)	76
Balance, end of year	(193)	(516)	(286)
Stock held in treasury, at cost			
Balance, beginning of year	(42,281)	(36,295)	(32,156)
Repurchased	(4,646)	(6,051)	(4,185)
Reissued	77	65	46
Balance, end of year	(46,850)	(42,281)	(36,295)
Total shareholders' equity	$ 75,716	$ 70,379	$ 77,356

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

Consolidated Statements of Cash Flows

in millions	Year Ended December 2012	2011	2010
Cash flows from operating activities			
Net earnings	**$ 7,475**	$ 4,442	$ 8,354
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities			
Depreciation and amortization	**1,738**	1,869	1,904
Deferred income taxes	**(356)**	726	1,339
Share-based compensation	**1,319**	2,849	4,035
Gain on sale of hedge fund administration business	**(494)**	—	—
Changes in operating assets and liabilities			
Cash and securities segregated for regulatory and other purposes	**10,817**	(10,532)	(17,094)
Net receivables from brokers, dealers and clearing organizations	**(2,838)**	(3,780)	201
Net payables to customers and counterparties	**(17,661)**	13,883	(4,637)
Securities borrowed, net of securities loaned	**23,031**	8,940	19,638
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	**53,527**	122	(10,092)
Financial instruments owned, at fair value	**(48,783)**	5,085	(9,231)
Financial instruments sold, but not yet purchased, at fair value	**(18,867)**	4,243	11,602
Other, net	**3,971**	(5,346)	(11,376)
Net cash provided by/(used for) operating activities	**12,879**	22,501	(5,357)
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	**(961)**	(1,184)	(1,227)
Proceeds from sales of property, leasehold improvements and equipment	**49**	78	72
Business acquisitions, net of cash acquired	**(593)**	(431)	(804)
Proceeds from sales of investments	**1,195**	2,645	1,371
Purchase of available-for-sale securities	**(5,220)**	(2,752)	(1,885)
Proceeds from sales of available-for-sale securities	**4,537**	3,129	2,288
Loans held for investment, net	**(2,741)**	(856)	(800)
Net cash provided by/(used for) investing activities	**(3,734)**	629	(985)
Cash flows from financing activities			
Unsecured short-term borrowings, net	**(1,952)**	(3,780)	1,196
Other secured financings (short-term), net	**1,540**	(1,195)	12,689
Proceeds from issuance of other secured financings (long-term)	**4,687**	9,809	5,500
Repayment of other secured financings (long-term), including the current portion	**(11,576)**	(8,878)	(4,849)
Proceeds from issuance of unsecured long-term borrowings	**27,734**	29,169	20,231
Repayment of unsecured long-term borrowings, including the current portion	**(36,435)**	(29,187)	(22,607)
Derivative contracts with a financing element, net	**1,696**	1,602	1,222
Deposits, net	**24,015**	7,540	(849)
Preferred stock repurchased	**—**	(3,857)	—
Common stock repurchased	**(4,640)**	(6,048)	(4,183)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	**(1,086)**	(2,771)	(1,443)
Proceeds from issuance of preferred stock, net of issuance costs	**3,087**	—	—
Proceeds from issuance of common stock, including stock option exercises	**317**	368	581
Excess tax benefit related to share-based compensation	**130**	358	352
Cash settlement of share-based compensation	**(1)**	(40)	(1)
Net cash provided by/(used for) financing activities	**7,516**	(6,910)	7,839
Net increase in cash and cash equivalents	**16,661**	16,220	1,497
Cash and cash equivalents, beginning of year	**56,008**	39,788	38,291
Cash and cash equivalents, end of year	**$ 72,669**	$ 56,008	$ 39,788

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were $9.25 billion, $8.05 billion and $6.74 billion for the years ended December 2012, December 2011 and December 2010, respectively.

Cash payments for income taxes, net of refunds, were $1.88 billion, $1.78 billion and $4.48 billion for the years ended December 2012, December 2011 and December 2010, respectively.

Non-cash activities:

During the year ended December 2012, the firm assumed $77 million of debt in connection with business acquisitions. During the year ended December 2011, the firm assumed $2.09 billion of debt and issued $103 million of common stock in connection with the acquisition of Goldman Sachs Australia Pty Ltd (GS Australia), formerly Goldman Sachs & Partners Australia Group Holdings Pty Ltd. During the year ended December 2010, the firm assumed $90 million of debt in connection with business acquisitions. In addition, in the first quarter of 2010, the firm recorded an increase of approximately $3 billion in both assets (primarily financial instruments owned, at fair value) and liabilities (primarily unsecured short-term borrowings and other liabilities) upon adoption of Accounting Standards Update (ASU) No. 2009-17, "Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities."

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

Note 1.

Description of Business

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

The firm reports its activities in the following four business segments:

Investment Banking

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

Institutional Client Services

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

Investing & Lending

The firm invests in and originates loans to provide financing to clients. These investments and loans are typically longer-term in nature. The firm makes investments, directly and indirectly through funds that the firm manages, in debt securities and loans, public and private equity securities, real estate, consolidated investment entities and power generation facilities.

Investment Management

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

Note 2.

Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of Group Inc. and all other entities in which the firm has a controlling financial interest. Intercompany transactions and balances have been eliminated.

All references to 2012, 2011 and 2010 refer to the firm's years ended, or the dates, as the context requires, December 31, 2012, December 31, 2011 and December 31, 2010, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Note 3.

Significant Accounting Policies

The firm's significant accounting policies include when and how to measure the fair value of assets and liabilities, accounting for goodwill and identifiable intangible assets, and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements, Note 13 for policies on goodwill and identifiable intangible assets, and below and Note 11 for policies on consolidation accounting. All other significant accounting policies are either discussed below or included in the following footnotes:

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Collateralized Agreements and Financings	Note 9
Securitization Activities	Note 10
Variable Interest Entities	Note 11
Other Assets	Note 12
Goodwill and Identifiable Intangible Assets	Note 13
Deposits	Note 14
Short-Term Borrowings	Note 15
Long-Term Borrowings	Note 16
Other Liabilities and Accrued Expenses	Note 17
Commitments, Contingencies and Guarantees	Note 18
Shareholders' Equity	Note 19
Regulation and Capital Adequacy	Note 20
Earnings Per Common Share	Note 21
Transactions with Affiliated Funds	Note 22
Interest Income and Interest Expense	Note 23
Income Taxes	Note 24
Business Segments	Note 25
Credit Concentrations	Note 26
Legal Proceedings	Note 27
Employee Benefit Plans	Note 28
Employee Incentive Plans	Note 29
Parent Company	Note 30

Consolidation

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

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

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

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

In general, the firm accounts for investments acquired after the fair value option became available, at fair value. In certain cases, the firm applies the equity method of accounting to new investments that are strategic in nature or closely related to the firm's principal business activities, when the firm has a significant degree of involvement in the cash flows or operations of the investee or when cost-benefit considerations are less significant. See Note 12 for further information about equity-method investments.

Investment Funds. The firm has formed numerous investment funds with third-party investors. These funds are typically organized as limited partnerships or limited liability companies for which the firm acts as general partner or manager. Generally, the firm does not hold a majority of the economic interests in these funds. These funds are usually voting interest entities and generally are not consolidated because third-party investors typically have rights to terminate the funds or to remove the firm as general partner or manager. Investments in these funds are included in "Financial instruments owned, at fair value." See Notes 6, 18 and 22 for further information about investments in funds.

Use of Estimates

Preparation of these consolidated financial statements requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, accounting for goodwill and identifiable intangible assets, and the provision for losses that may arise from litigation, regulatory proceedings and tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

Revenue Recognition

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

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

Investment Management. The firm earns management fees and incentive fees for investment management services. Management fees are calculated as a percentage of net asset value, invested capital or commitments, and are recognized over the period that the related service is provided. Incentive fees are calculated as a percentage of a fund's or separately managed account's return, or excess return above a specified benchmark or other performance target. Incentive fees are generally based on investment performance over a 12-month period or over the life of a fund. Fees that are based on performance over a 12-month period are subject to adjustment prior to the end of the measurement period. For fees that are based on investment performance over the life of the fund, future investment underperformance may require fees previously distributed to the firm to be returned to the fund. Incentive fees are recognized only when all material contingencies have been resolved. Management and incentive fee revenues are included in "Investment management" revenues.

Commissions and Fees. The firm earns "Commissions and fees" from executing and clearing client transactions on stock, options and futures markets. Commissions and fees are recognized on the day the trade is executed.

Transfers of Assets

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

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans, certain transfers of assets accounted for as secured loans rather than purchases at fair value, collateral posted in connection with certain derivative transactions, and loans held for investment. Certain of the firm's receivables from customers and counterparties are accounted for at fair value under the fair value option, with changes in fair value generally included in "Market making" revenues. Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts. Interest on receivables from customers and counterparties is recognized over the life of the transaction and included in "Interest income." See Note 8 for further information about receivables from customers and counterparties.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm's prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these receivables and payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012.

Insurance Activities

Certain of the firm's insurance and reinsurance contracts are accounted for at fair value under the fair value option, with changes in fair value included in "Market making" revenues. See Note 8 for further information about the fair values of these insurance and reinsurance contracts. See Note 12 for further information about the firm's reinsurance business classified as held for sale as of December 2012.

Revenues from variable annuity and life insurance and reinsurance contracts not accounted for at fair value generally consist of fees assessed on contract holder account balances for mortality charges, policy administration fees and surrender charges. These revenues are recognized in earnings over the period that services are provided and are included in "Market making" revenues. Changes in reserves, including interest credited to policyholder account balances, are recognized in "Insurance reserves."

Premiums earned for underwriting property catastrophe reinsurance are recognized in earnings over the coverage period, net of premiums ceded for the cost of reinsurance, and are included in "Market making" revenues. Expenses for liabilities related to property catastrophe reinsurance claims, including estimates of losses that have been incurred but not reported, are included in "Insurance reserves."

Foreign Currency Translation

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

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of December 2012 and December 2011, "Cash and cash equivalents" included $6.75 billion and $7.95 billion, respectively, of cash and due from banks, and $65.92 billion and $48.05 billion, respectively, of interest-bearing deposits with banks.

Recent Accounting Developments

Reconsideration of Effective Control for Repurchase Agreements (ASC 860). In April 2011, the FASB issued ASU No. 2011-03, "Transfers and Servicing (Topic 860) — Reconsideration of Effective Control for Repurchase Agreements." ASU No. 2011-03 changes the assessment of effective control by removing (i) the criterion that requires the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 was effective for periods beginning after December 15, 2011. The firm adopted the standard on January 1, 2012. Adoption of ASU No. 2011-03 did not affect the firm's financial condition, results of operations or cash flows.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASC 820). In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurements and Disclosures (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 was effective for periods beginning after December 15, 2011. The firm adopted the standard on January 1, 2012. Adoption of ASU No. 2011-04 did not materially affect the firm's financial condition, results of operations or cash flows.

Derecognition of in Substance Real Estate (ASC 360). In December 2011, the FASB issued ASU No. 2011-10, "Property, Plant, and Equipment (Topic 360) — Derecognition of in Substance Real Estate — a Scope Clarification." ASU No. 2011-10 clarifies that in order to deconsolidate a subsidiary (that is in substance real estate) as a result of a parent no longer controlling the subsidiary due to a default on the subsidiary's nonrecourse debt, the parent also must satisfy the sale criteria in ASC 360-20, "Property, Plant, and Equipment — Real Estate Sales." The ASU was effective for fiscal years beginning on or after June 15, 2012. The firm will apply the provisions of the ASU to such events occurring on or after January 1, 2013. Since the ASU applies only to events occurring on or after January 1, 2013, adoption did not affect the firm's financial condition, results of operations or cash flows.

Disclosures about Offsetting Assets and Liabilities (ASC 210). In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210) — Disclosures about Offsetting Assets and Liabilities." ASU No. 2011-11, as amended by ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," requires disclosure of the effect or potential effect of offsetting arrangements on the firm's financial position as well as enhanced disclosure of the rights of setoff associated with the firm's recognized derivative instruments, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions. ASU No. 2011-11 is effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the firm's financial condition, results of operations or cash flows.

Note 4.

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about the fair value option. The table below presents the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value.

The firm held \$9.07 billion and \$4.86 billion as of December 2012 and December 2011, respectively, of securities accounted for as available-for-sale related to the firm's reinsurance business. As of December 2012, such assets were classified as held for sale and were included in "Other assets." See Note 12 for further information about assets held for sale. As of December 2011, all available-for-sale securities were included in "Financial instruments owned, at fair value."

	As of December 2012		As of December 2011	
in millions	**Financial Instruments Owned**	**Financial Instruments Sold, But Not Yet Purchased**	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Commercial paper, certificates of deposit, time deposits and other money market instruments	**\$ 6,057**	**\$ —**	\$ 13,440	\$ —
U.S. government and federal agency obligations	**93,241**	**15,905**	87,040	21,006
Non-U.S. government and agency obligations	**62,250**	**32,361**	49,205	34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	**9,805**	**—**	6,699	27
Loans and securities backed by residential real estate	**8,216**	**4**	7,592	3
Bank loans and bridge loans	**22,407**	**1,779** [3]	19,745	2,756 [3]
Corporate debt securities	**20,981**	**5,761**	22,131	6,553
State and municipal obligations	**2,477**	**1**	3,089	3
Other debt obligations	**2,251**	**—**	4,362	—
Equities and convertible debentures	**96,454**	**20,406**	65,113	21,326
Commodities [1]	**11,696**	**—**	5,762	—
Derivatives [2]	**71,176**	**50,427**	80,028	58,453
Total	**\$407,011**	**\$126,644**	\$364,206	\$145,013

1. Includes commodities that have been transferred to third parties, which were accounted for as collateralized financings rather than sales, of \$4.29 billion and \$2.49 billion as of December 2012 and December 2011, respectively.

2. Net of cash collateral received or posted under credit support agreements and reported on a net-by-counterparty basis when a legal right of setoff exists under an enforceable netting agreement.

3. Primarily relates to the fair value of unfunded lending commitments for which the fair value option was elected.

Gains and Losses from Market Making and Other Principal Transactions

The table below presents, by major product type, the firm's "Market making" and "Other principal transactions" revenues. These gains/(losses) are primarily related to the firm's financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, including both derivative and non-derivative financial instruments. These gains/(losses) exclude related interest income and interest expense. See Note 23 for further information about interest income and interest expense.

The gains/(losses) in the table are not representative of the manner in which the firm manages its business activities because many of the firm's market-making, client facilitation, and investing and lending strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm's longer-term derivatives are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm's cash instruments and derivatives has exposure to foreign currencies and may be economically hedged with foreign currency contracts.

	Year Ended December		
in millions	**2012**	2011	2010
Interest rates	**$ 4,366**	$ 1,557	$ (2,042)
Credit	**5,506**	2,715	8,679
Currencies	**(1,004)**	901	3,219
Equities	**5,802**	2,788	6,862
Commodities	**575**	1,588	1,567
Other	**1,968** [1]	1,245	2,325
Total	**$17,213**	$10,794	$20,610

1. Includes a gain of approximately $500 million on the sale of the firm's hedge fund administration business, which is included in "Market making" revenues.

Note 5.

Fair Value Measurements

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

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

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

The fair value hierarchy is as follows:

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

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

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

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

See Notes 6 and 7 for further information about fair value measurements of cash instruments and derivatives, respectively, included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value," and Note 8 for further information about fair value measurements of other financial assets and financial liabilities accounted for at fair value under the fair value option.

Financial assets and financial liabilities accounted for at fair value under the fair value option or in accordance with other U.S. GAAP are summarized below.

	As of December	
$ in millions	**2012**	2011
Total level 1 financial assets	**$ 190,737**	$ 136,780
Total level 2 financial assets	**502,293**	587,416
Total level 3 financial assets	**47,095**	47,937
Cash collateral and counterparty netting [1]	**(101,612)**	(120,821)
Total financial assets at fair value	**$ 638,513**	$ 651,312
Total assets	**$ 938,555**	$ 923,225
Total level 3 financial assets as a percentage of Total assets	**5.0%**	5.2%
Total level 3 financial assets as a percentage of Total financial assets at fair value	**7.4%**	7.4%
Total level 1 financial liabilities	**$ 65,994**	$ 75,557
Total level 2 financial liabilities	**318,764**	319,160
Total level 3 financial liabilities	**25,679**	25,498
Cash collateral and counterparty netting [1]	**(32,760)**	(31,546)
Total financial liabilities at fair value	**$ 377,677**	$ 388,669
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	**6.8%**	6.6%

1. Represents the impact on derivatives of cash collateral netting, and counterparty netting across levels of the fair value hierarchy. Netting among positions classified in the same level is included in that level.

Level 3 financial assets as of December 2012 decreased compared with December 2011, primarily reflecting a decrease in derivative assets, partially offset by an increase in private equity investments. The decrease in derivative assets primarily reflected a decline in credit derivative assets, principally due to settlements, unrealized losses and sales, partially offset by net transfers from level 2. Level 3 currency derivative assets also declined compared with December 2011, principally due to unrealized losses and net transfers to level 2. The increase in private equity investments primarily reflected purchases and unrealized gains, partially offset by settlements and net transfers to level 2.

See Notes 6, 7 and 8 for further information about level 3 cash instruments, derivatives and other financial assets and financial liabilities accounted for at fair value under the fair value option, respectively, including information about significant unrealized gains and losses, and transfers in and out of level 3.

Note 6.

Cash Instruments

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

Level 1 Cash Instruments

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

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

Level 2 Cash Instruments

Level 2 cash instruments include commercial paper, certificates of deposit, time deposits, most government agency obligations, certain non-U.S. government obligations, most corporate debt securities, commodities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, restricted or less liquid listed equities, most state and municipal obligations and certain lending commitments.

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

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

Level 3 Cash Instruments

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

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

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Loans and securities backed by commercial real estate • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses and include: • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices • Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds) • Recovery rates implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples • Timing of expected future cash flows (duration)
Loans and securities backed by residential real estate • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles, including relevant indices such as the ABX (an index that tracks the performance of subprime residential mortgage bonds). Significant inputs include: • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral • Market yields implied by transactions of similar or related assets • Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs • Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
Bank loans and bridge loans	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX, LCDX and MCDX (an index that tracks the performance of municipal obligations) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Equities and convertible debentures (including private equity investments and investments in real estate entities)	Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate: • Industry multiples (primarily EBITDA multiples) and public comparables • Transactions in similar instruments • Discounted cash flow techniques • Third-party appraisals The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include: • Market and transaction multiples • Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates • For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest multiple presented in the table for private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 cash instruments.

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

1. Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.
2. The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
3. Recovery rate is a measure of expected future cash flows in a default scenario, expressed as a percentage of notional or face value of the instrument, and reflects the benefit of credit enhancement on certain instruments.
4. Duration is an estimate of the timing of future cash flows and, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

Increases in yield, discount rate, capitalization rate, duration or cumulative loss rate used in the valuation of the firm's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis, multiples, long-term growth rate or compound annual growth rate would result in a higher fair value measurement. Due to the distinctive nature of each of the firm's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.

Fair Value of Cash Instruments by Level

The tables below present, by level within the fair value hierarchy, cash instrument assets and liabilities, at fair value. Cash instrument assets and liabilities are included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value," respectively.

	Cash Instrument Assets at Fair Value as of December 2012			
in millions	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 2,155	$ 3,902	$ —	$ 6,057
U.S. government and federal agency obligations	42,856	50,385	—	93,241
Non-U.S. government and agency obligations	46,715	15,509	26	62,250
Mortgage and other asset-backed loans and securities [1]:				
Loans and securities backed by commercial real estate	—	6,416	3,389	9,805
Loans and securities backed by residential real estate	—	6,597	1,619	8,216
Bank loans and bridge loans	—	11,172	11,235	22,407
Corporate debt securities [2]	111	18,049	2,821	20,981
State and municipal obligations	—	1,858	619	2,477
Other debt obligations [2]	—	1,066	1,185	2,251
Equities and convertible debentures	72,875	8,724	14,855 [3]	96,454
Commodities	—	11,696	—	11,696
Total	$164,712	$135,374	$35,749	$335,835

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

1. Includes $489 million and $446 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.

2. Includes $284 million and $1.76 billion of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations in level 2 and level 3, respectively.

3. Includes $12.67 billion of private equity investments, $1.58 billion of investments in real estate entities and $600 million of convertible debentures.

in millions	Cash Instrument Assets at Fair Value as of December 2011 Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 3,255	$ 10,185	$ —	$ 13,440
U.S. government and federal agency obligations	29,263	57,777	—	87,040
Non-U.S. government and agency obligations	42,854	6,203	148	49,205
Mortgage and other asset-backed loans and securities [1]:				
Loans and securities backed by commercial real estate	—	3,353	3,346	6,699
Loans and securities backed by residential real estate	—	5,883	1,709	7,592
Bank loans and bridge loans	—	8,460	11,285	19,745
Corporate debt securities [2]	133	19,518	2,480	22,131
State and municipal obligations	—	2,490	599	3,089
Other debt obligations [2]	—	2,911	1,451	4,362
Equities and convertible debentures	39,955	11,491	13,667 [3]	65,113
Commodities	—	5,762	—	5,762
Total	$115,460	$134,033	$34,685	$284,178

in millions	Cash Instrument Liabilities at Fair Value as of December 2011 Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	$ 20,940	$ 66	$ —	$ 21,006
Non-U.S. government and agency obligations	34,339	547	—	34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	—	27	—	27
Loans and securities backed by residential real estate	—	3	—	3
Bank loans and bridge loans	—	1,891	865	2,756
Corporate debt securities [4]	—	6,522	31	6,553
State and municipal obligations	—	3	—	3
Equities and convertible debentures	20,069	1,248	9	21,326
Total	$ 75,348	$ 10,307	$ 905	$ 86,560

1. Includes $213 million and $595 million of CDOs backed by real estate in level 2 and level 3, respectively.

2. Includes $403 million and $1.19 billion of CDOs and CLOs backed by corporate obligations in level 2 and level 3, respectively.

3. Includes $12.07 billion of private equity investments, $1.10 billion of investments in real estate entities and $497 million of convertible debentures.

4. Includes $27 million of CDOs and CLOs backed by corporate obligations in level 3.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. During the year ended December 2012, transfers into level 2 from level 1 of cash instruments were $1.85 billion, including transfers of non-U.S. government obligations of $1.05 billion, reflecting the level of market activity in these instruments, and transfers of equity securities of $806 million, primarily reflecting the impact of transfer restrictions. Transfers into level 1 from level 2 of cash instruments were $302 million, including transfers of non-U.S. government obligations of $180 million, reflecting the level of market activity in these instruments, and transfers of equity securities of $102 million, where the firm was able to obtain quoted prices for certain actively traded instruments.

Level 3 Rollforward

If a cash instrument asset or liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3.

Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

The tables below present changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the year.

Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2012

in millions	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases [1]	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Non-U.S. government and agency obligations	$ 148	$ 2	$ (52)	$ 16	$ (40)	$ (45)	$ 1	$ (4)	$ 26
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,346	238	232	1,613	(910)	(1,389)	337	(78)	3,389
Loans and securities backed by residential real estate	1,709	146	276	703	(844)	(380)	65	(56)	1,619
Bank loans and bridge loans	11,285	592	322	4,595	(2,794)	(2,738)	1,178	(1,205)	11,235
Corporate debt securities	2,480	331	266	1,143	(961)	(438)	197	(197)	2,821
State and municipal obligations	599	26	2	96	(90)	(22)	8	—	619
Other debt obligations	1,451	64	(25)	759	(355)	(125)	39	(623) [2]	1,185
Equities and convertible debentures	13,667	292	992	3,071	(702)	(1,278)	965	(2,152)	14,855
Total	$34,685	$1,691 [3]	$2,013 [3]	$11,996	$(6,696)	$(6,415)	$2,790	$(4,315)	$35,749

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

in millions	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases [1]	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Total	$ 905	$ (19)	$ (54)	$ (530)	$ 366	$ 45	$ 63	$ (134)	$ 642

1. Includes both originations and secondary market purchases.
2. Primarily reflects transfers related to the firm's reinsurance business of level 3 "Other debt obligations" within cash instruments at fair value to level 3 "Other assets," within other financial assets at fair value, as this business was classified as held for sale as of December 2012. See Note 8 for further information.
3. The aggregate amounts include approximately $617 million, $2.13 billion and $962 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

The net unrealized gain on level 3 cash instruments of $2.07 billion (reflecting $2.01 billion on cash instrument assets and $54 million on cash instrument liabilities) for the year ended December 2012 primarily consisted of gains on private equity investments, mortgage and other asset-backed loans and securities, bank loans and bridge loans, and corporate debt securities. Unrealized gains during the year ended December 2012 primarily reflected the impact of an increase in global equity prices and tighter credit spreads.

Transfers into level 3 during the year ended December 2012 primarily reflected transfers from level 2 of certain bank loans and bridge loans, and private equity investments, principally due to a lack of market transactions in these instruments.

Transfers out of level 3 during the year ended December 2012 primarily reflected transfers to level 2 of certain private equity investments and bank loans and bridge loans. Transfers of private equity investments to level 2 were principally due to improved transparency of market prices as a result of market transactions in these instruments. Transfers of bank loans and bridge loans to level 2 were principally due to market transactions in these instruments and unobservable inputs no longer being significant to the valuation of certain loans.

in millions	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases[1]	Sales	Settlements	Net transfers in and/or (out) of level 3	Balance, end of year
	Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2011							
Non-U.S. government obligations	$ —	$ 25	$ (63)	$ 27	$ (123)	$ (8)	$ 290	$ 148
Mortgage and other asset-backed loans and securities:								
Loans and securities backed by commercial real estate	3,976	222	80	1,099	(1,124)	(831)	(76)	3,346
Loans and securities backed by residential real estate	2,501	253	(81)	768	(702)	(456)	(574)	1,709
Bank loans and bridge loans	9,905	540	(216)	6,725	(2,329)	(1,554)	(1,786)	11,285
Corporate debt securities	2,737	391	(132)	1,319	(1,137)	(697)	(1)	2,480
State and municipal obligations	754	12	(1)	448	(591)	(13)	(10)	599
Other debt obligations	1,274	124	(17)	560	(388)	(212)	110	1,451
Equities and convertible debentures	11,060	240	338	2,731	(1,196)	(855)	1,349	13,667
Total	$32,207	$1,807[2]	$ (92)[2]	$13,677	$(7,590)	$(4,626)	$ (698)	$34,685

in millions	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases[1]	Sales	Settlements	Net transfers in and/or (out) of level 3	Balance, end of year
	Level 3 Cash Instrument Liabilities at Fair Value for the Year Ended December 2011							
Total	$ 446	$ (27)	$ 218	$ (491)	$ 475	$ 272	$ 12	$ 905

1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately $(202) million, $623 million and $1.29 billion reported in "Market making," "Other principal transactions" and "Interest income," respectively.

The net unrealized loss on level 3 cash instruments of $310 million (reflecting losses of $92 million on cash instrument assets and $218 million on cash instrument liabilities) for the year ended December 2011 primarily consisted of losses on bank loans and bridge loans and corporate debt securities, primarily reflecting the impact of unfavorable credit markets and losses on relationship lending. These losses were partially offset by gains in private equity investments, where prices were generally corroborated through market transactions in similar financial instruments during the year.

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

- Bank loans and bridge loans: net transfer out of level 3 of $1.79 billion, primarily due to transfers to level 2 of certain loans due to improved transparency of market prices as a result of market transactions in these or similar loans, partially offset by transfers to level 3 of other loans primarily due to reduced transparency of market prices as a result of less market activity in these loans.
- Equities and convertible debentures: net transfer into level 3 of $1.35 billion, primarily due to transfers to level 3 of certain private equity investments due to reduced transparency of market prices as a result of less market activity in these financial instruments, partially offset by transfers to level 2 of other private equity investments due to improved transparency of market prices as a result of market transactions in these financial instruments.
- Loans and securities backed by residential real estate: net transfer out of level 3 of $574 million, principally due to transfers to level 2 of certain loans due to improved transparency of market prices used to value these loans, as well as unobservable inputs no longer being significant to the valuation of these loans.

Investments in Funds That Calculate Net Asset Value Per Share

Cash instruments at fair value include investments in funds that are valued based on the net asset value per share (NAV) of the investment fund. The firm uses NAV as its measure of fair value for fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value.

The firm's investments in funds that calculate NAV primarily consist of investments in firm-sponsored funds where the firm co-invests with third-party investors. The private equity, credit and real estate funds are primarily closed-end funds in which the firm's investments are not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated and it is estimated that substantially all of the underlying assets of existing funds will be liquidated over the next seven years. The firm continues to manage its existing funds taking into account the transition periods under the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), although the rules have not yet been finalized.

The firm's investments in hedge funds are generally redeemable on a quarterly basis with 91 days' notice, subject to a maximum redemption level of 25% of the firm's initial investments at any quarter-end. The firm currently plans to comply with the Volcker Rule by redeeming certain of its interests in hedge funds. The firm redeemed approximately $1.06 billion of these interests in hedge funds during the year ended December 2012.

The table below presents the fair value of the firm's investments in, and unfunded commitments to, funds that calculate NAV.

	As of December 2012		As of December 2011	
in millions	Fair Value of Investments	Unfunded Commitments	Fair Value of Investments	Unfunded Commitments
Private equity funds [1]	$ 7,680	$2,778	$ 8,074	$3,514
Credit funds [2]	3,927	2,843	3,596	3,568
Hedge funds [3]	2,167	—	3,165	—
Real estate funds [4]	2,006	870	1,531	1,613
Total	$15,780	$6,491	$16,366	$8,695

1. These funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations and growth investments.

2. These funds generally invest in loans and other fixed income instruments and are focused on providing private high-yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.

3. These funds are primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage.

4. These funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and direct property.

Note 7.

Derivatives and Hedging Activities

Derivative Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives, or they may be listed and traded on an exchange (exchange-traded).

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

Risk Management. The firm also enters into derivatives to actively manage risk exposures that arise from market-making and investing and lending activities in derivative and cash instruments. The firm's holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. The offsetting impact of this economic hedging is reflected in the same business segment as the related revenues. In addition, the firm may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage foreign currency exposure on the net investment in certain non-U.S. operations and to manage interest rate exposure in certain fixed-rate unsecured long-term and short-term borrowings, and deposits.

The firm enters into various types of derivatives, including:

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

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

Substantially all gains and losses on derivatives not designated as hedges under ASC 815 are included in "Market making" and "Other principal transactions."

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

in millions	As of December 2012		As of December 2011	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Exchange-traded	$ 3,772	$ 2,937	$ 5,880	$ 3,172
Over-the-counter	67,404	47,490	74,148	55,281
Total	$71,176	$50,427	$80,028	$58,453

The table below presents the fair value and the notional amount of derivative contracts by major product type on a gross basis. Gross fair values in the table below exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash collateral received or posted under credit support agreements, and therefore are not representative of the firm's exposure. Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the firm's derivative activity; however, they do not represent anticipated losses.

in millions	As of December 2012			As of December 2011		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives not accounted for as hedges						
Interest rates	$ 584,584	$ 545,605	$34,891,763	$ 624,189	$ 582,608	$38,111,097
Credit	85,816	74,927	3,615,757	150,816	130,659	4,032,330
Currencies	72,128	60,808	3,833,114	88,654	71,736	3,919,525
Commodities	23,320	24,350	774,115	35,966	38,050	799,925
Equities	49,483	43,681	1,202,181	64,135	51,928	1,433,087
Subtotal	815,331	749,371	44,316,930	963,760	874,981	48,295,964
Derivatives accounted for as hedges						
Interest rates	23,772	66	128,302	21,981	13	109,860
Currencies	21	86	8,452	124	21	8,307
Subtotal	23,793	152	136,754	22,105	34	118,167
Gross fair value/notional amount of derivatives	$ 839,124	$ 749,523	$44,453,684	$ 985,865	$ 875,015	$48,414,131
Counterparty netting [1]	(668,460)	(668,460)		(787,733)	(787,733)	
Cash collateral netting [2]	(99,488)	(30,636)		(118,104)	(28,829)	
Fair value included in financial instruments owned	$ 71,176			$ 80,028		
Fair value included in financial instruments sold, but not yet purchased		$ 50,427			$ 58,453	

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

Valuation Techniques for Derivatives

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

Interest Rate. In general, the prices and other inputs used to value interest rate derivatives are transparent, even for long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialized nations are characterized by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the prices and other inputs are generally observable.

Credit. Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.

Currency. Prices for currency derivatives based on the exchange rates of leading industrialized nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

Commodity. Commodity derivatives include transactions referenced to energy (e.g., oil and natural gas), metals (e.g., precious and base) and soft commodities (e.g., agricultural). Price transparency varies based on the underlying commodity, delivery location, tenor and product quality (e.g., diesel fuel compared to unleaded gasoline). In general, price transparency for commodity derivatives is greater for contracts with shorter tenors and contracts that are more closely aligned with major and/or benchmark commodity indices.

Equity. Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

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

Level 1 Derivatives

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

Level 2 Derivatives

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

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

Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. Inputs to the valuations of level 2 derivatives can be verified to market transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Level 3 Derivatives

Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs.

- For the majority of the firm's interest rate and currency derivatives classified within level 3, significant unobservable inputs include correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates) and specific interest rate volatilities.
- For level 3 credit derivatives, significant level 3 inputs include illiquid credit spreads, which are unique to specific reference obligations and reference entities, recovery rates and certain correlations required to value credit and mortgage derivatives (e.g., the likelihood of default of the underlying reference obligation relative to one another).
- For level 3 equity derivatives, significant level 3 inputs generally include equity volatility inputs for options that are very long-dated and/or have strike prices that differ significantly from current market prices. In addition, the valuation of certain structured trades requires the use of level 3 inputs for the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class such as commodities.
- For level 3 commodity derivatives, significant level 3 inputs include volatilities for options with strike prices that differ significantly from current market prices and prices or spreads for certain products for which the product quality or physical location of the commodity is not aligned with benchmark indices.

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

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivatives and are used to adjust the mid-market valuations, produced by derivative pricing models, to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments (CVA) and funding valuation adjustments, which account for the credit and funding risk inherent in derivative portfolios. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

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

Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the firm's level 3 derivatives. These ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation presented in the table for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 derivatives.

Level 3 Derivative Product Type	Net Level 3 Assets/(Liabilities) as of December 2012 *(in millions)*	Significant Unobservable Inputs of Derivative Pricing Models	Range of Significant Unobservable Inputs (Average / Median) [1] as of December 2012
Interest rates	**$(355)**	Correlation [2]	22% to 97% (67% / 68%)
		Volatility	37 basis points per annum (bpa) to 59 bpa (48 bpa / 47 bpa)
Credit	**$6,228**	Correlation [2]	5% to 95% (50% / 50%)
		Credit spreads	9 bps to 2,341 bps (225 bps / 140 bps) [3]
		Recovery rates	15% to 85% (54% / 53%)
Currencies	**$35**	Correlation [2]	65% to 87% (76% / 79%)
Commodities	**$(304)**	Volatility	13% to 53% (30% / 29%)
		Spread per million British Thermal units (MMBTU) of natural gas	$(0.61) to $6.07 ($0.02 / $0.00)
		Price per megawatt hour of power	$17.30 to $57.39 ($33.17 / $32.80)
		Price per barrel of oil	$86.64 to $98.43 ($92.76 / $93.62)
Equities	**$(1,248)**	Correlation [2]	48% to 98% (68% / 67%)
		Volatility	15% to 73% (31% / 30%)

1. Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average.
2. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (51)% to 66% (Average: 30% / Median: 35%) as of December 2012.
3. The difference between the average and the median for the credit spreads input indicates that the majority of the inputs fall in the lower end of the range.

Range of Significant Unobservable Inputs

The following provides further information about the ranges of unobservable inputs used to value the firm's level 3 derivative instruments.

- Correlation: Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of a commodity price and a foreign exchange rate), as well as across regions. Generally, cross-asset correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.
- Volatility: Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.
- Credit spreads and recovery rates: The ranges for credit spreads and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of unobservable inputs.
- Commodity prices and spreads: The ranges for commodity prices and spreads cover variability in products, maturities and locations, as well as peak and off-peak prices.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

The following provides a description of the directional sensitivity of the firm's level 3 fair value measurements to changes in significant unobservable inputs, in isolation. Due to the distinctive nature of each of the firm's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

- Correlation: In general, for contracts where the holder benefits from the convergence of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation results in a higher fair value measurement.
- Volatility: In general, for purchased options an increase in volatility results in a higher fair value measurement.
- Credit spreads and recovery rates: In general, the fair value of purchased credit protection increases as credit spreads increase or recovery rates decrease. Credit spreads and recovery rates are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation, and macro-economic conditions.
- Commodity prices and spreads: In general, for contracts where the holder is receiving a commodity, an increase in the spread (price difference from a benchmark index due to differences in quality or delivery location) or price results in a higher fair value measurement.

Fair Value of Derivatives by Level

The tables below present the fair value of derivatives on a gross basis by level and major product type. Gross fair values in the tables below exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under credit support agreements both in and across levels of the fair value hierarchy, and therefore are not representative of the firm's exposure.

	Derivative Assets at Fair Value as of December 2012				
in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$13	$ 608,151	$ 192	$ —	$ 608,356
Credit	—	74,907	10,909	—	85,816
Currencies	—	71,157	992	—	72,149
Commodities	—	22,697	623	—	23,320
Equities	43	48,698	742	—	49,483
Gross fair value of derivative assets	56	825,610	13,458	—	839,124
Counterparty netting [1]	—	(662,798)	(3,538)	(2,124) [3]	(668,460)
Subtotal	$56	$ 162,812	$ 9,920	$(2,124)	$ 170,664
Cash collateral netting [2]					(99,488)
Fair value included in financial instruments owned					**$ 71,176**

	Derivative Liabilities at Fair Value as of December 2012				
in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$14	$ 545,110	$ 547	$ —	$ 545,671
Credit	—	70,246	4,681	—	74,927
Currencies	—	59,937	957	—	60,894
Commodities	—	23,423	927	—	24,350
Equities	50	41,641	1,990	—	43,681
Gross fair value of derivative liabilities	64	740,357	9,102	—	749,523
Counterparty netting [1]	—	(662,798)	(3,538)	(2,124) [3]	(668,460)
Subtotal	$64	$ 77,559	$ 5,564	$(2,124)	$ 81,063
Cash collateral netting [2]					(30,636)
Fair value included in financial instruments sold, but not yet purchased					**$ 50,427**

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

3. Represents the netting of receivable balances with payable balances for the same counterparty across levels of the fair value hierarchy under enforceable netting agreements.

in millions	Derivative Assets at Fair Value as of December 2011				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$ 33	$ 645,923	$ 214	$ —	$ 646,170
Credit	—	137,110	13,706	—	150,816
Currencies	—	86,752	2,026	—	88,778
Commodities	—	35,062	904	—	35,966
Equities	24	62,684	1,427	—	64,135
Gross fair value of derivative assets	57	967,531	18,277	—	985,865
Counterparty netting [1]	—	(778,639)	(6,377)	(2,717) [3]	(787,733)
Subtotal	$ 57	$ 188,892	$11,900	$(2,717)	$ 198,132
Cash collateral netting [2]					(118,104)
Fair value included in financial instruments owned					$ 80,028

in millions	Derivative Liabilities at Fair Value as of December 2011				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	$ 24	$ 582,012	$ 585	$ —	$ 582,621
Credit	—	123,253	7,406	—	130,659
Currencies	—	70,573	1,184	—	71,757
Commodities	—	36,541	1,509	—	38,050
Equities	185	49,884	1,859	—	51,928
Gross fair value of derivative liabilities	209	862,263	12,543	—	875,015
Counterparty netting [1]	—	(778,639)	(6,377)	(2,717) [3]	(787,733)
Subtotal	$209	$ 83,624	$ 6,166	$(2,717)	$ 87,282
Cash collateral netting [2]					(28,829)
Fair value included in financial instruments sold, but not yet purchased					$ 58,453

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

3. Represents the netting of receivable balances with payable balances for the same counterparty across levels of the fair value hierarchy under enforceable netting agreements.

Level 3 Rollforward

If a derivative was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are reported at the beginning of the reporting period in which they occur.

Gains and losses on level 3 derivatives should be considered in the context of the following:

- A derivative with level 1 and/or level 2 inputs is classified in level 3 in its entirety if it has at least one significant level 3 input.
- If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified as level 3.
- Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to level 1 or level 2 derivatives and/or level 1, level 2 and level 3 cash instruments. As a result, gains/(losses) included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

The tables below present changes in fair value for all derivatives categorized as level 3 as of the end of the year.

Level 3 Derivative Assets and Liabilities at Fair Value for the Year Ended December 2012

in millions	Asset/ (liability) balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of year
Interest rates — net	$ (371)	$ (60)	$ 19	$ 7	$ (28)	$ 71	$ 68	$ (61)	$ (355)
Credit — net	6,300	246	(701)	138	(270)	(1,597)	2,503	(391)	6,228
Currencies — net	842	(17)	(502)	17	(5)	(144)	65	(221)	35
Commodities — net	(605)	(11)	228	63	(410)	307	(41) [3]	165 [4]	(304)
Equities — net	(432)	(80)	(276)	123	(724)	267	(50) [3]	(76)	(1,248)
Total derivatives — net	**$5,734**	**$ 78 [1]**	**$(1,232) [1, 2]**	**$348**	**$(1,437)**	**$(1,096)**	**$2,545**	**$(584)**	**$4,356**

1. The aggregate amounts include approximately $(903) million and $(251) million reported in "Market making" and "Other principal transactions," respectively.
2. Principally resulted from changes in level 2 inputs.
3. Reflects a net transfer to level 3 of derivative liabilities.
4. Reflects a net transfer to level 2 of derivative liabilities.

The net unrealized loss on level 3 derivatives of $1.23 billion for the year ended December 2012 was primarily attributable to the impact of tighter credit spreads, changes in foreign exchange rates and increases in global equity prices on certain derivatives, partially offset by the impact of a decline in volatility on certain commodity derivatives.

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

Transfers out of level 3 derivatives during the year ended December 2012 primarily reflected transfers to level 2 of certain credit derivative assets, principally due to unobservable inputs no longer being significant to the valuation of these derivatives, transfers to level 2 of certain currency derivative assets, principally due to unobservable correlation inputs no longer being significant to the valuation of these derivatives, and transfers to level 2 of certain commodity derivative liabilities, principally due to increased transparency of volatility inputs used to value these derivatives.

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
	Level 3 Derivative Assets and Liabilities at Fair Value for the Year Ended December 2011							
Interest rates — net	$ 194	$ (38)	$ (305)	$ 23	$ (29)	$ 84	$(300)	$ (371)
Credit — net	7,040	46	2,525	348	(1,310)	(1,713)	(636)	6,300
Currencies — net	1,098	(26)	(351)	29	(25)	(54)	171	842
Commodities — net	220	(35)	259	125	(835)	150	(489)	(605)
Equities — net	(990)	184	151	382	(683)	159	365	(432)
Total derivatives — net	$7,562	$131 [1]	$2,279 [1, 2]	$907	$(2,882)	$(1,374)	$(889)	$5,734

1. The aggregate amounts include approximately $2.35 billion and $62 million reported in "Market making" and "Other principal transactions," respectively.

2. Principally resulted from changes in level 2 inputs.

The net unrealized gain on level 3 derivatives of $2.28 billion for the year ended December 2011 was primarily attributable to the impact of changes in interest rates and exchange rates underlying certain credit derivatives. Unrealized gains on level 3 derivatives were substantially offset by unrealized losses on derivatives classified within level 2 which economically hedge derivatives classified within level 3.

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

- Credit — net: net transfer out of level 3 of $636 million, primarily reflecting transfers to level 2 of certain credit derivative assets principally due to unobservable inputs no longer being significant to the valuation of these derivatives, and transfers into level 3 of certain credit derivative liabilities due to reduced transparency of the correlation inputs used to value these derivatives. The impact of these transfers was partially offset by transfers into level 3 of certain credit and mortgage derivative assets, primarily due to reduced transparency of the correlation inputs used to value these derivatives.
- Commodities — net: net transfer out of level 3 of $489 million, primarily reflecting transfers to level 2, due to increased transparency of market prices used to value certain commodity derivative assets as a result of market activity in similar instruments, and unobservable inputs becoming less significant to the valuation of other commodity derivative assets. In addition, certain commodity derivative liabilities were transferred into level 3 due to reduced transparency of volatility inputs used to value these derivatives.

Impact of Credit Spreads on Derivatives

On an ongoing basis, the firm realizes gains or losses relating to changes in credit risk through the unwind of derivative contracts and changes in credit mitigants.

The net gain/(loss), including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was $(735) million, $573 million and $68 million for the years ended December 2012, December 2011 and December 2010, respectively.

Bifurcated Embedded Derivatives

The table below presents the fair value and the notional amount of derivatives that have been bifurcated from their related borrowings. These derivatives, which are recorded at fair value, primarily consist of interest rate, equity and commodity products and are included in "Unsecured short-term borrowings" and "Unsecured long-term borrowings." See Note 8 for further information.

in millions	As of December 2012	2011
Fair value of assets	$ 320	$ 422
Fair value of liabilities	398	304
Net asset/(liability)	$ (78)	$ 118
Notional amount	$10,567	$9,530

OTC Derivatives

The tables below present the fair values of OTC derivative assets and liabilities by tenor and by product type. Tenor is based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives.

in millions

	OTC Derivatives as of December 2012			
Assets Product Type	**0 -12 Months**	**1 - 5 Years**	**5 Years or Greater**	**Total**
Interest rates	$10,318	$28,445	$ 80,449	$119,212
Credit	2,190	12,244	7,970	22,404
Currencies	11,100	8,379	11,044	30,523
Commodities	3,840	3,862	304	8,006
Equities	3,757	7,730	6,957	18,444
Netting across product types [1]	(2,811)	(5,831)	(5,082)	(13,724)
Subtotal	$28,394	$54,829	$101,642	184,865
Cross maturity netting [2]				(17,973)
Cash collateral netting [3]				(99,488)
Total				$ 67,404

Liabilities Product Type	**0 - 12 Months**	**1 - 5 Years**	**5 Years or Greater**	**Total**
Interest rates	$ 6,266	$17,860	$ 32,422	$ 56,548
Credit	809	7,537	3,168	11,514
Currencies	8,586	4,849	5,782	19,217
Commodities	3,970	3,119	2,267	9,356
Equities	3,775	5,476	3,937	13,188
Netting across product types [1]	(2,811)	(5,831)	(5,082)	(13,724)
Subtotal	$20,595	$33,010	$ 42,494	96,099
Cross maturity netting [2]				(17,973)
Cash collateral netting [3]				(30,636)
Total				$ 47,490

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.

2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.

3. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

in millions	OTC Derivatives as of December 2011			
Assets Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	$10,931	$32,194	$ 82,480	$ 125,605
Credit	3,054	15,468	13,687	32,209
Currencies	11,253	11,592	16,023	38,868
Commodities	5,286	5,931	147	11,364
Equities	6,663	7,768	7,468	21,899
Netting across product types [1]	(3,071)	(6,033)	(6,027)	(15,131)
Subtotal	$34,116	$66,920	$113,778	214,814
Cross maturity netting [2]				(22,562)
Cash collateral netting [3]				(118,104)
Total				$ 74,148

Liabilities Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	$ 5,787	$18,607	$37,739	$ 62,133
Credit	1,200	6,957	3,894	12,051
Currencies	9,826	5,514	6,502	21,842
Commodities	6,322	5,174	2,727	14,223
Equities	3,290	4,018	4,246	11,554
Netting across product types [1]	(3,071)	(6,033)	(6,027)	(15,131)
Subtotal	$23,354	$34,237	$49,081	106,672
Cross maturity netting [2]				(22,562)
Cash collateral netting [3]				(28,829)
Total				$ 55,281

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.
2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.
3. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

Derivatives with Credit-Related Contingent Features

Certain of the firm's derivatives have been transacted under bilateral agreements with counterparties who may require the firm to post collateral or terminate the transactions based on changes in the firm's credit ratings. The firm assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of the firm at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. The table below presents the aggregate fair value of net derivative liabilities under such agreements (excluding application of collateral posted to reduce these liabilities), the related aggregate fair value of the assets posted as collateral, and the additional collateral or termination payments that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in the firm's credit ratings.

	As of December	
in millions	**2012**	2011
Net derivative liabilities under bilateral agreements	**$27,885**	$35,066
Collateral posted	**24,296**	29,002
Additional collateral or termination payments for a one-notch downgrade	**1,534**	1,303
Additional collateral or termination payments for a two-notch downgrade	**2,500**	2,183

Credit Derivatives

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

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

Credit Default Swaps. Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.

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

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

Credit Options. In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right, but does not assume the obligation, to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

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

As of December 2012, written and purchased credit derivatives had total gross notional amounts of $1.76 trillion and $1.86 trillion, respectively, for total net notional purchased protection of $98.33 billion. As of December 2011, written and purchased credit derivatives had total gross notional amounts of $1.96 trillion and $2.08 trillion, respectively, for total net notional purchased protection of $116.93 billion.

The table below presents certain information about credit derivatives. In the table below:

- fair values exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under credit support agreements, and therefore are not representative of the firm's credit exposure;
- tenor is based on expected duration for mortgage-related credit derivatives and on remaining contractual maturity for other credit derivatives; and
- the credit spread on the underlying, together with the tenor of the contract, are indicators of payment/ performance risk. The firm is less likely to pay or otherwise be required to perform where the credit spread and the tenor are lower.

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives		
$ in millions	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives [1]	Other Purchased Credit Derivatives [2]	Asset	Liability	Net Asset/ (Liability)
As of December 2012									
Credit spread on underlying (basis points)									
0 - 250	**$360,289**	**$ 989,941**	**$103,481**	**$1,453,711**	**$1,343,561**	**$201,459**	**$28,817**	**$ 8,249**	**$ 20,568**
251 - 500	**13,876**	**126,659**	**35,086**	**175,621**	**157,371**	**19,063**	**4,284**	**7,848**	**(3,564)**
501 - 1,000	**9,209**	**52,012**	**5,619**	**66,840**	**60,456**	**8,799**	**769**	**4,499**	**(3,730)**
Greater than 1,000	**11,453**	**49,721**	**3,622**	**64,796**	**57,774**	**10,812**	**568**	**21,970**	**(21,402)**
Total	**$394,827**	**$1,218,333**	**$147,808**	**$1,760,968**	**$1,619,162**	**$240,133**	**$34,438**	**$ 42,566**	**$ (8,128)**
As of December 2011									
Credit spread on underlying (basis points)									
0 - 250	$282,851	$ 794,193	$141,688	$1,218,732	$1,122,296	$180,316	$17,572	$ 16,907	$ 665
251 - 500	42,682	269,687	69,864	382,233	345,942	47,739	4,517	20,810	(16,293)
501 - 1,000	29,377	140,389	21,819	191,585	181,003	23,176	138	15,398	(15,260)
Greater than 1,000	30,244	114,103	22,995	167,342	147,614	28,734	512	57,201	(56,689)
Total	$385,154	$1,318,372	$256,366	$1,959,892	$1,796,855	$279,965	$22,739	$110,316	$(87,577)

1. Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they economically hedge written credit derivatives with identical underlyings.

2. This purchased protection represents the notional amount of purchased credit derivatives in excess of the notional amount included in "Offsetting Purchased Credit Derivatives."

Hedge Accounting

The firm applies hedge accounting for (i) certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate unsecured long-term and short-term borrowings and certain fixed-rate certificates of deposit and (ii) certain foreign currency forward contracts and foreign currency-denominated debt used to manage foreign currency exposures on the firm's net investment in certain non-U.S. operations.

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

Interest Rate Hedges

The firm designates certain interest rate swaps as fair value hedges. These interest rate swaps hedge changes in fair value attributable to the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting a substantial portion of fixed-rate obligations into floating-rate obligations.

The firm applies a statistical method that utilizes regression analysis when assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and the risk being hedged (i.e., interest rate risk). An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

For qualifying fair value hedges, gains or losses on derivatives are included in "Interest expense." The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses resulting from hedge ineffectiveness are included in "Interest expense." When a derivative is no longer designated as a hedge, any remaining difference between the carrying value and par value of the hedged item is amortized to interest expense over the remaining life of the hedged item using the effective interest method. See Note 23 for further information about interest income and interest expense.

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged borrowings and bank deposits, and the hedge ineffectiveness on these derivatives.

	Year Ended December		
in millions	**2012**	2011	2010
Interest rate hedges	**$(2,383)**	$ 4,679	$ 1,617
Hedged borrowings and bank deposits	**665**	(6,300)	(3,447)
Hedge ineffectiveness [1]	**(1,718)**	(1,621)	(1,836)

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

The gain/(loss) excluded from the assessment of hedge effectiveness was not material for the years ended December 2012, December 2011 and December 2010.

Net Investment Hedges

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

For qualifying net investment hedges, the gains or losses on the hedging instruments, to the extent effective, are included in "Currency translation adjustment, net of tax" within the consolidated statements of comprehensive income.

The table below presents the gains/(losses) from net investment hedging.

	Year Ended December		
in millions	**2012**	2011	2010
Currency hedges	**$(233)**	$ 160	$(261)
Foreign currency-denominated debt hedges	**347**	(147)	(498)

The gain/(loss) related to ineffectiveness was not material for the years ended December 2012, December 2011 and December 2010. The loss reclassified to earnings from accumulated other comprehensive income was not material for the years ended December 2012 and December 2010, and was $186 million for the year ended December 2011.

As of December 2012 and December 2011, the firm had designated $2.77 billion and $3.11 billion, respectively, of foreign currency-denominated debt, included in "Unsecured long-term borrowings" and "Unsecured short-term borrowings," as hedges of net investments in non-U.S. subsidiaries.

Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

In addition to all cash and derivative instruments included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value," the firm has elected to account for certain of its other financial assets and financial liabilities at fair value under the fair value option.

The primary reasons for electing the fair value option are to:

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

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

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

- repurchase agreements and substantially all resale agreements;
- securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;
- substantially all other secured financings, including transfers of assets accounted for as financings rather than sales and certain other nonrecourse financings;
- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;
- certain unsecured long-term borrowings, including prepaid commodity transactions and certain hybrid financial instruments;
- certain receivables from customers and counterparties, including certain margin loans and transfers of assets accounted for as secured loans rather than purchases;
- certain insurance and reinsurance contract assets and liabilities and certain guarantees;
- certain subordinated liabilities issued by consolidated VIEs; and
- certain time deposits issued by the firm's bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments.

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

See below for information about the significant inputs used to value other financial assets and financial liabilities at fair value, including the ranges of significant unobservable inputs used to value the level 3 instruments within these categories. These ranges represent the significant unobservable inputs that were used in the valuation of each type of other financial assets and financial liabilities at fair value. The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one instrument. For example, the highest yield presented below for resale and repurchase agreements is appropriate for valuing a specific agreement in that category but may not be appropriate for valuing any other agreements in that category. Accordingly, the range of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 other financial assets and financial liabilities.

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are collateral funding spreads, the amount and timing of expected future cash flows and interest rates. The ranges of significant unobservable inputs used to value level 3 resale and repurchase agreements as of December 2012 are as follows:

- Yield: 1.7% to 5.4% (weighted average: 1.9%)
- Duration: 0.4 to 4.5 years (weighted average: 4.1 years)

Generally, increases in yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm's level 3 resale and repurchase agreements, the interrelationship of inputs is not necessarily uniform across such agreements.

See Note 9 for further information about collateralized agreements.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, collateral funding spreads, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. The ranges of significant unobservable inputs used to value level 3 other secured financings as of December 2012 are as follows:

- Yield: 0.3% to 20.0% (weighted average: 4.2%)
- Duration: 0.3 to 10.8 years (weighted average: 2.4 years)

Generally, increases in yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm's level 3 other secured financings, the interrelationship of inputs is not necessarily uniform across such financings.

See Note 9 for further information about collateralized financings.

Unsecured Short-term and Long-term Borrowings. The significant inputs to the valuation of unsecured short-term and long-term borrowings at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of the firm, as well as commodity prices in the case of prepaid commodity transactions. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the firm's other derivative instruments. See Note 7 for further information about derivatives. See Notes 15 and 16 for further information about unsecured short-term and long-term borrowings, respectively.

Certain of the firm's unsecured short-term and long-term instruments are included in level 3, substantially all of which are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these borrowings, these inputs are incorporated in the firm's derivative disclosures related to unobservable inputs in Note 7.

Insurance and Reinsurance Contracts. Insurance and reinsurance contracts at fair value are primarily included in "Receivables from customers and counterparties" and "Other liabilities and accrued expenses." In addition, assets related to the firm's reinsurance business that were classified as held for sale as of December 2012 are included in "Other assets." The insurance and reinsurance contracts for which the firm has elected the fair value option are contracts that can be settled only in cash and that qualify for the fair value option because they are recognized financial instruments. These contracts are valued using market transactions and other market evidence where possible, including market-based inputs to models, calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant inputs are interest rates, inflation rates, volatilities, funding spreads, yield and duration, which incorporates policy lapse and projected mortality assumptions. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified in level 3. The range of significant unobservable inputs used to value level 3 insurance and reinsurance contracts as of December 2012 is as follows:

- Funding spreads: 64 bps to 105 bps (weighted average: 85 bps)
- Yield: 4.4% to 15.1% (weighted average: 6.2%)
- Duration: 5.3 to 8.8 years (weighted average: 7.6 years)

Generally, increases in funding spreads, yield or duration, in isolation, would result in a lower fair value measurement.

Receivables from Customers and Counterparties. Receivables from customers and counterparties at fair value, excluding insurance and reinsurance contracts, are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads. The range of significant unobservable inputs used to value level 3 receivables from customers and counterparties as of December 2012 is as follows:

- Funding spreads: 57 bps to 145 bps (weighted average: 105 bps)

Generally, an increase in funding spreads would result in a lower fair value measurement.

Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Such receivables are primarily comprised of customer margin loans and collateral posted in connection with certain derivative transactions. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these items been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2012. Receivables from customers and counterparties not accounted for at fair value also includes loans held for investment, which are primarily comprised of collateralized loans to private wealth management clients and corporate loans. As of December 2012 and December 2011, the carrying value of such loans was $6.50 billion and $3.76 billion, respectively, which generally approximated fair value. As of December 2012, had these loans been carried at fair value and included in the fair value hierarchy, $2.41 billion and $4.06 billion would have been classified in level 2 and level 3, respectively.

Deposits. The significant inputs to the valuation of time deposits are interest rates and the amount and timing of future cash flows. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the firm's other derivative instruments. See Note 7 for further information about derivatives. See Note 14 for further information about deposits.

The firm's deposits that are included in level 3 are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these deposits, these inputs are incorporated in the firm's derivative disclosures related to unobservable inputs in Note 7.

Fair Value of Other Financial Assets and Financial Liabilities by Level

The tables below present, by level within the fair value hierarchy, other financial assets and financial liabilities accounted for at fair value primarily under the fair value option.

in millions	Other Financial Assets at Fair Value as of December 2012			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes [1]	$21,549	$ 8,935	$ —	$ 30,484
Securities purchased under agreements to resell	—	141,053	278	141,331
Securities borrowed	—	38,395	—	38,395
Receivables from customers and counterparties	—	7,225	641	7,866
Other assets [2]	4,420	8,499	507 [3]	13,426
Total	$25,969	$204,107	$ 1,426	$231,502

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

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes $21.55 billion of level 1 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.
2. Consists of assets classified as held for sale related to the firm's reinsurance business, primarily consisting of securities accounted for as available-for-sale and insurance separate account assets which are accounted for at fair value under other U.S. GAAP. Such assets were previously included in "Financial instruments owned, at fair value" and "Securities segregated for regulatory and other purposes," respectively.
3. Consists of insurance contracts and derivatives classified as held for sale. See "Insurance and Reinsurance Contracts" above and Note 7 for further information about valuation techniques and inputs related to insurance contracts and derivatives, respectively.
4. Includes $692 million of liabilities classified as held for sale related to the firm's reinsurance business accounted for at fair value under the fair value option.

in millions	Other Financial Assets at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes [1]	$21,263	$ 20,751	$ —	$ 42,014
Securities purchased under agreements to resell	—	187,232	557	187,789
Securities borrowed	—	47,621	—	47,621
Receivables from customers and counterparties	—	8,887	795	9,682
Total	$21,263	$264,491	$ 1,352	$287,106

in millions	Other Financial Liabilities at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Deposits	$ —	$ 4,513	$ 13	$ 4,526
Securities sold under agreements to repurchase	—	162,321	2,181	164,502
Securities loaned	—	107	—	107
Other secured financings	—	28,267	1,752	30,019
Unsecured short-term borrowings	—	14,560	3,294	17,854
Unsecured long-term borrowings	—	14,971	2,191	17,162
Other liabilities and accrued expenses	—	490	8,996	9,486
Total	$ —	$225,229	$18,427	$243,656

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes $21.26 billion of level 1 and $528 million of level 2 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, principally consisting of U.S. Treasury securities, money market instruments and insurance separate account assets.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 during the year ended December 2012. The tables below present information about transfers between level 2 and level 3.

Level 3 Rollforward

If a financial asset or financial liability was transferred to level 3 during a reporting year, its entire gain or loss for the year is included in level 3.

The tables below present changes in fair value for other financial assets and financial liabilities accounted for at fair value categorized as level 3 as of the end of the year. Level 3 other financial assets and liabilities are frequently economically hedged with cash instruments and derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1, 2 or 3 cash instruments or derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

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

in millions	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Securities purchased under agreements to resell	$ 557	$ 7	$ —	$ 116	$—	$ —	$ (402)	$ —	$ —	$ 278
Receivables from customers and counterparties	795	—	37	199	—	—	(17)	—	(373)	641
Other assets	—	—	82	—	—	—	(23)	448	—	507
Total	**$ 1,352**	**$ 7** [1]	**$ 119** [1]	**$ 315**	**$—**	**$ —**	**$ (442)**	**$448**	**$ (373)**	**$ 1,426**

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

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

in millions	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Deposits	$ 13	$ —	$ 5	$ —	$—	$ 326	$ (1)	$ 16	$ —	$ 359
Securities sold under agreements to repurchase, at fair value	2,181	—	—	—	—	—	(254)	—	—	1,927
Other secured financings	1,752	12	(51)	—	—	854	(1,155)	—	—	1,412
Unsecured short-term borrowings	3,294	(13)	204	(13)	—	762	(1,206)	240	(684)	2,584
Unsecured long-term borrowings	2,191	31	286	—	—	329	(344)	225	(801)	1,917
Other liabilities and accrued expenses	8,996	78	941	1,617	—	—	(360)	2	—	11,274
Total	**$18,427**	**$108** [1]	**$1,385** [1]	**$1,604**	**$—**	**$2,271**	**$(3,320)**	**$483**	**$(1,485)**	**$19,473**

1. The aggregate amounts include losses of approximately $1.37 billion, $113 million and $15 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.

The net unrealized loss on level 3 other financial liabilities of $1.39 billion for the year ended December 2012 primarily reflected the impact of tighter funding spreads and changes in foreign exchange rates on certain insurance liabilities, and an increase in global equity prices and tighter credit spreads on certain hybrid financial instruments.

Transfers into level 3 of other financial assets during the year ended December 2012 reflected transfers of level 3 assets classified as held for sale related to the firm's reinsurance business, which were previously included in level 3 "Financial instruments owned, at fair value."

Transfers out of level 3 of other financial assets during the year ended December 2012 reflected transfers to level 2 of certain insurance receivables primarily due to increased transparency of the mortality inputs used to value these receivables.

Transfers into level 3 of other financial liabilities during the year ended December 2012 primarily reflected transfers from level 2 of certain hybrid financial instruments, principally due to decreased transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during the year ended December 2012 primarily reflected transfers to level 2 of certain hybrid financial instruments, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments, and unobservable inputs no longer being significant to the valuation of other instruments.

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
Receivables from customers and counterparties	298	—	54	468	—	—	(25)	—	795
Total	$ 398	$ 2[1]	$ 54[1]	$1,088	$—	$ —	$ (190)	$ —	$ 1,352

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

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
Securities sold under agreements to repurchase, at fair value	2,060	—	—	—	—	299	(178)	—	2,181
Other secured financings	8,349	8	3	—	—	483	(4,062)	(3,029)	1,752
Unsecured short-term borrowings	3,476	(15)	(340)	(5)	—	815	(1,080)	443	3,294
Unsecured long-term borrowings	2,104	25	5	—	—	441	(193)	(191)	2,191
Other liabilities and accrued expenses	2,409	—	1,095	5,840	—	—	(348)	—	8,996
Total	$18,398	$18[1]	$ 763[1]	$5,835	$—	$2,051	$(5,861)	$(2,777)	$18,427

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

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

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

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

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

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

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

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

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

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

Loans and Lending Commitments

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

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

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

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

Long-term Debt Instruments

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

Impact of Credit Spreads on Loans and Lending Commitments

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

Impact of Credit Spreads on Borrowings

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

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

Note 9.

Collateralized Agreements and Financings

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

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

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

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

1. Substantially all resale and repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.

2. As of December 2012 and December 2011, $38.40 billion and $47.62 billion of securities borrowed, and $1.56 billion and $107 million of securities loaned were at fair value, respectively.

Resale and Repurchase Agreements

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

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

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

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

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

Securities Borrowed and Loaned Transactions

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

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

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

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

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

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

Other Secured Financings

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

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

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

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

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

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

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

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

1. The weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.

2. Includes $8.68 billion and $9.36 billion related to transfers of financial assets accounted for as financings rather than sales as of December 2012 and December 2011, respectively. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value" of $8.92 billion and $9.51 billion as of December 2012 and December 2011, respectively.

3. Includes $17.24 billion and $14.33 billion of other secured financings collateralized by financial instruments owned, at fair value as of December 2012 and December 2011, respectively, and includes $13.53 billion and $20.79 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of December 2012 and December 2011, respectively.

4. Primarily real estate and cash.

The table below presents other secured financings by maturity.

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

Collateral Received and Pledged

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

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

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

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

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

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

Note 10.

Securitization Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 11.

Variable Interest Entities

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

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

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

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

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

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

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

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

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

VIE Consolidation Analysis

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

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

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

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

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

Nonconsolidated VIEs

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

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

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

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

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

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

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

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

1. The aggregate amounts include $3.25 billion and $4.17 billion as of December 2012 and December 2011, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.

2. Assets in VIE and maximum exposure to loss include $3.57 billion and $1.72 billion, respectively, as of December 2012, and $6.15 billion and $2.62 billion, respectively, as of December 2011, related to CDOs backed by mortgage obligations.

Consolidated VIEs

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

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

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

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

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

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

Note 12.

Other Assets

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

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

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

Assets Held for Sale

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

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

Property, Leasehold Improvements and Equipment

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

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

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

Impairments

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

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

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

Note 13.

Goodwill and Identifiable Intangible Assets

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

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

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

Goodwill

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

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

The quantitative goodwill impairment test consists of two steps.

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

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

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

Relative value techniques apply average observable price-to-earnings multiples of comparable competitors to certain reporting units' net earnings. For other reporting units, fair value is estimated using price-to-book multiples based on residual income techniques, which consider a reporting unit's return on equity in excess of the firm's cost of equity capital. The net book value of each reporting unit reflects an allocation of total shareholders' equity and represents the estimated amount of shareholders' equity required to support the activities of the reporting unit under guidelines issued by the Basel Committee on Banking Supervision (Basel Committee) in December 2010.

Identifiable Intangible Assets

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

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

1. Primarily includes commodity-related customer contracts and relationships, permits and access rights.

2. Primarily related to the firm's reinsurance business, which is classified as held for sale. See Note 12 for further information.

3. Primarily includes the firm's exchange-traded fund lead market maker rights and NYSE DMM rights.

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

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

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

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

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

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

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

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

Note 14.
Deposits

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

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

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

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

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

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

Note 15.

Short-Term Borrowings

Short-term borrowings were comprised of the following:

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

See Note 9 for further information about other secured financings.

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

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

The table below presents unsecured short-term borrowings.

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

1. As of December 2012, no borrowings guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP) were outstanding and the program had expired for new issuances. Includes $8.53 billion as of December 2011, issued by Group Inc. and guaranteed by the FDIC under the TLGP.

2. Includes $24.65 billion and $27.95 billion as of December 2012 and December 2011, respectively, issued by Group Inc.

3. The weighted average interest rates for these borrowings include the effect of hedging activities and exclude financial instruments accounted for at fair value under the fair value option. See Note 7 for further information about hedging activities.

Note 16.

Long-Term Borrowings

Long-term borrowings were comprised of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

Subordinated Borrowings

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

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

1. Weighted average interest rate after giving effect to fair value hedges used to convert these fixed-rate obligations into floating-rate obligations. See Note 7 for further information about hedging activities. See below for information about interest rates on junior subordinated debt.

2. Par amount and carrying amount of subordinated debt issued by Group Inc. was $13.85 billion and $16.80 billion, respectively, as of December 2012, and $13.75 billion and $16.80 billion, respectively, as of December 2011.

Junior Subordinated Debt

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

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

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

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

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

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

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

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

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

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

Note 17.

Other Liabilities and Accrued Expenses

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

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

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

The table below presents insurance-related liabilities by type.

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

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

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

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

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

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

Note 18.

Commitments, Contingencies and Guarantees

Commitments

The table below presents the firm's commitments.

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

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

Commitments to Extend Credit

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

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

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

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

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

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

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

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

Investment Commitments

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

Leases

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

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

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

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

Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Guarantees

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

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

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

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

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

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

1. These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore these amounts do not reflect the firm's overall risk related to its derivative activities. As of December 2011, the carrying value of the net liability related to derivative guarantees was $11.88 billion.

2. Collateral held by the lenders in connection with securities lending indemnifications was $27.89 billion as of December 2012. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.

3. Other financial guarantees excludes certain commitments to issue standby letters of credit that are included in "Commitments to extend credit." See table in "Commitments" above for a summary of the firm's commitments. As of December 2011, the carrying value of the net liability related to other financial guarantees was $205 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 19.
Shareholders' Equity

Common Equity

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

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

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

Preferred Equity

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

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

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

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

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

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

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

The table below presents preferred dividends declared on preferred stock.

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

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

Accumulated Other Comprehensive Income/(Loss)

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

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

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

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

Note 20.

Regulation and Capital Adequacy

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, the firm is subject to consolidated regulatory capital requirements that are computed in accordance with the Federal Reserve Board's risk-based capital requirements (which are based on the 'Basel 1' Capital Accord of the Basel Committee). These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). The firm's U.S. bank depository institution subsidiaries, including GS Bank USA, are subject to similar capital requirements.

Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action that is applicable to GS Bank USA, the firm and its U.S. bank depository institution subsidiaries must meet specific capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory reporting practices. The firm and its U.S. bank depository institution subsidiaries' capital amounts, as well as GS Bank USA's prompt corrective action classification, are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

Group Inc.

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

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

	As of December	
$ in millions	**2012**	2011
Tier 1 capital	**$ 66,977**	$ 63,262
Tier 2 capital	**$ 13,429**	$ 13,881
Total capital	**$ 80,406**	$ 77,143
Risk-weighted assets	**$399,928**	$457,027
Tier 1 capital ratio	**16.7%**	13.8%
Total capital ratio	**20.1%**	16.9%
Tier 1 leverage ratio	**7.3%**	7.0%

RWAs under the Federal Reserve Board's risk-based capital requirements are calculated based on the amount of market risk and credit risk. RWAs for market risk are determined by reference to the firm's Value-at-Risk (VaR) model, supplemented by other measures to capture risks not reflected in the firm's VaR model. Credit risk for on-balance sheet assets is based on the balance sheet value. For off-balance sheet exposures, including OTC derivatives and commitments, a credit equivalent amount is calculated based on the notional amount of each trade. All such assets and exposures are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or a qualifying securities firm or other entity (or if collateral is held, depending on the nature of the collateral).

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

Regulatory Reform

Changes to the market risk capital rules of the U.S. federal bank regulatory agencies (the Agencies) became effective on January 1, 2013. These changes require the addition of several new model-based capital requirements, as well as an increase in capital requirements for securitization positions, and are designed to implement the new market risk framework of the Basel Committee, as well as the prohibition on the use of external credit ratings, as required by the Dodd-Frank Act. This revised market risk framework is a significant part of the regulatory capital changes that will ultimately be included in the firm's capital ratios under the guidelines issued by the Basel Committee in December 2010 (Basel 3). These changes resulted in increased regulatory capital requirements for market risk, and will be reflected in all of the firm's Basel-based capital ratios for periods beginning on or after January 1, 2013.

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

The "Collins Amendment" of the Dodd-Frank Act requires advanced approach banking organizations to continue, upon adoption of Basel 2, to calculate risk-based capital ratios under both Basel 2 and Basel 1. For each of the Tier 1 and Total capital ratios, the lower of the Basel 1 and Basel 2 ratios calculated will be used to determine whether such advanced approach banking organizations meet their minimum risk-based capital requirements. Furthermore, the June 2012 proposals described below include provisions which, if enacted as proposed, would modify these minimum risk-based capital requirements.

In June 2012, the Agencies proposed further modifications to their capital adequacy regulations to address aspects of both the Dodd-Frank Act and Basel 3. If enacted as proposed, the most significant changes that would impact the firm include (i) revisions to the definition of Tier 1 capital, including new deductions from Tier 1 capital, (ii) higher minimum capital and leverage ratios, (iii) a new minimum ratio of Tier 1 common equity to RWAs, (iv) new capital conservation and counter-cyclical capital buffers, (v) an additional leverage ratio that includes measures of off-balance sheet exposures, (vi) revisions to the methodology for calculating RWAs, particularly for credit risk capital requirements for derivatives and (vii) a new "standardized approach" to the calculation of RWAs that would replace the Federal Reserve's current Basel 1 risk-based capital framework in 2015, including for purposes of calculating the requisite capital floor under the Collins Amendment. In November 2012, the Agencies announced that the proposed effective date of January 1, 2013 for these modifications would be deferred, but have not indicated a revised effective date. These proposals incorporate the phase-out of Tier 1 capital treatment for the firm's junior subordinated debt issued to trusts; such capital would instead be eligible as Tier 2 capital under the proposals. Under the Collins Amendment, this phase-out was scheduled to begin on January 1, 2013. Due to the aforementioned deferral of the effective date of the proposed capital rules, however, the application of this phase-out remains uncertain at this time.

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

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

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

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

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

Bank Subsidiaries

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

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

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

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

GS Bank USA is also currently working to implement the Basel 2 framework, as implemented by the Federal Reserve Board. GS Bank USA will adopt Basel 2 once approved to do so by regulators.

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

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

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

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

Broker-Dealer Subsidiaries

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

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

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

Insurance Subsidiaries

The firm has U.S. insurance subsidiaries that are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed. In addition, certain of the firm's insurance subsidiaries outside of the U.S. are regulated by the FSA and certain are regulated by the Bermuda Monetary Authority. The firm's insurance subsidiaries were in compliance with all regulatory capital requirements as of December 2012 and December 2011.

Other Non-U.S. Regulated Subsidiaries

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

Restrictions on Payments

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

Note 21.

Earnings Per Common Share

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

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

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

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

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

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

Note 22.

Transactions with Affiliated Funds

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

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

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

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

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

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

Note 23.

Interest Income and Interest Expense

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

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

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

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

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

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

Note 24.

Income Taxes

Provision for Income Taxes

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

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

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

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

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

Deferred Income Taxes

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

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

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

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

2. Before netting within tax jurisdictions.

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

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

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

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

Unrecognized Tax Benefits

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

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

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

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

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

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

Regulatory Tax Examinations

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

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

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

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

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

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

Note 25.

Business Segments

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

Basis of Presentation

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

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

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

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

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

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

		For the Years Ended or as of December		
in millions		**2012**	2011	2010
Investment Banking	Net revenues	**$ 4,926**	$ 4,355	$ 4,810
	Operating expenses	**3,330**	2,995	3,459
	Pre-tax earnings	**$ 1,596**	$ 1,360	$ 1,351
	Segment assets	**$ 1,712**	$ 1,983	$ 1,870
Institutional Client Services	Net revenues [1]	**$ 18,124**	$ 17,280	$ 21,796
	Operating expenses	**12,480**	12,837	14,994
	Pre-tax earnings	**$ 5,644**	$ 4,443	$ 6,802
	Segment assets	**$825,496**	$813,660	$799,775
Investing & Lending	Net revenues	**$ 5,891**	$ 2,142	$ 7,541
	Operating expenses	**2,666**	2,673	3,361
	Pre-tax earnings/(loss)	**$ 3,225**	$ (531)	$ 4,180
	Segment assets	**$ 98,600**	$ 94,330	$ 95,373
Investment Management	Net revenues	**$ 5,222**	$ 5,034	$ 5,014
	Operating expenses	**4,294**	4,020	4,082
	Pre-tax earnings	**$ 928**	$ 1,014	$ 932
	Segment assets	**$ 12,747**	$ 13,252	$ 14,314
Total	**Net revenues**	**$ 34,163**	$ 28,811	$ 39,161
	Operating expenses	**22,956**	22,642	26,269
	Pre-tax earnings	**$ 11,207**	$ 6,169	$ 12,892
	Total assets	**$938,555**	$923,225	$911,332

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

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

- charitable contributions of $169 million, $103 million and $345 million for the years ended December 2012, December 2011 and December 2010, respectively; and
- real estate-related exit costs of $17 million, $14 million and $28 million for the years ended December 2012, December 2011 and December 2010, respectively. Real estate-related exit costs are included in "Depreciation and amortization" and "Occupancy" in the consolidated statements of earnings.

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

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

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

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

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

Geographic Information

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

Geographic results are generally allocated as follows:

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

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

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

1. Substantially all relates to the U.S.

2. EMEA (Europe, Middle East and Africa).

3. Asia also includes Australia and New Zealand.

4. Net revenues in Asia in 2011 primarily reflect lower net revenues in Investing & Lending, principally due to losses from public equities, reflecting a significant decline in equity markets in Asia during 2011.

5. Consists of charitable contributions of $169 million, $103 million and $345 million for the years ended December 2012, December 2011 and December 2010, respectively, and real estate-related exit costs of $17 million, $14 million and $28 million for the years ended December 2012, December 2011 and December 2010, respectively. Net provisions for litigation and regulatory proceedings, previously included in Corporate, have now been allocated to the geographic regions. Reclassifications have been made to previously reported geographic region amounts to conform to the current presentation.

Note 26.
Credit Concentrations

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

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

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

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

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

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

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

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

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

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

Note 27.

Legal Proceedings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RALI Pass-Through Certificates Litigation. GS&Co. is among numerous underwriters named as defendants in a putative securities class action initially filed in September 2008 in New York Supreme Court, and subsequently removed to the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various offerings of mortgage-backed pass-through certificates violated the disclosure requirements of the federal securities laws. In addition to the underwriters, the defendants include Residential Capital, LLC (ResCap), Residential Accredit Loans, Inc. (RALI), Residential Funding Corporation (RFC), Residential Funding Securities Corporation (RFSC), and certain of their officers and directors. On March 31, 2010, the defendants' motion to dismiss was granted in part and denied in part by the district court, resulting in dismissal on the basis of standing of all claims relating to offerings in which no plaintiff purchased securities and, by an order dated January 3, 2013, the district court denied, without prejudice, plaintiffs' motion for reconsideration. In June and July 2010, the lead plaintiff and five additional investors moved to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). On April 28, 2011, the court granted defendants' motion to dismiss as to certain of these claims (including those relating to one offering underwritten by GS&Co. based on a release in an unrelated settlement), but otherwise permitted the intervenor case to proceed. By an order dated January 3, 2013, the district court denied the defendants' motions to dismiss certain of the intervenors' remaining claims as time barred. Class certification of the claims based on the pre-intervention offerings was initially denied by the district court, and that denial was upheld on appeal; however, following remand, on October 15, 2012, the district court certified a class in connection with the pre-intervention offerings. On November 5, 2012, the defendants filed a petition seeking leave from the U.S. Court of Appeals to appeal the certification order. By an order dated January 3, 2013, the district court granted the plaintiffs' application to modify the class definition to include initial purchasers who bought the securities directly from the underwriters or their agents no later than ten trading days after the offering date (rather than just on the offering date). On January 18, 2013, the defendants filed a supplemental petition seeking leave from the U.S. Court of Appeals to appeal the order modifying the class definition. GS&Co. underwrote approximately $1.28 billion principal amount of securities to all purchasers in the offerings for which claims have not been dismissed. On May 14, 2012, ResCap, RALI and RFC filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York and the action has been stayed with respect to them, RFSC and certain of their officers and directors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 28.

Employee Benefit Plans

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

Defined Benefit Pension Plans and Postretirement Plans

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

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

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

Defined Contribution Plans

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

Note 29.

Employee Incentive Plans

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

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

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

Stock Incentive Plan

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

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

Restricted Stock Units

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

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

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

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

3. Includes RSUs that were cash settled.

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

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

Stock Options

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

The table below presents the activity related to stock options.

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

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

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

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

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

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

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

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

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

Note 30.

Parent Company

Group Inc. — Condensed Statements of Earnings

in millions	Year Ended December 2012	2011	2010
Revenues			
Dividends from bank subsidiaries	$ —	$ 1,000	$ —
Dividends from nonbank subsidiaries	3,622	4,967	6,032
Undistributed earnings of subsidiaries	3,682	481	2,884
Other revenues	1,567	(3,381)	964
Total non-interest revenues	8,871	3,067	9,880
Interest income	4,751	4,547	4,153
Interest expense	4,287	3,917	3,429
Net interest income	464	630	724
Net revenues, including net interest income	9,335	3,697	10,604
Operating expenses			
Compensation and benefits	452	300	423
Other expenses	448	252	238
Total operating expenses	900	552	661
Pre-tax earnings	8,435	3,145	9,943
Provision/(benefit) for taxes	960	(1,297)	1,589
Net earnings	7,475	4,442	8,354
Preferred stock dividends	183	1,932	641
Net earnings applicable to common shareholders	$7,292	$ 2,510	$ 7,713

Group Inc. — Condensed Statements of Financial Condition

in millions	As of December 2012	2011
Assets		
Cash and cash equivalents	$ 14	$ 14
Loans to and receivables from subsidiaries		
Bank subsidiaries	4,103	7,196
Nonbank subsidiaries [1]	174,609	180,397
Investments in subsidiaries and other affiliates		
Bank subsidiaries	20,671	19,226
Nonbank subsidiaries and other affiliates	52,646	48,473
Financial instruments owned, at fair value	19,132	20,698
Other assets	4,782	7,912
Total assets	$275,957	$283,916
Liabilities and shareholders' equity		
Payables to subsidiaries	$ 657	$ 693
Financial instruments sold, but not yet purchased, at fair value	301	241
Unsecured short-term borrowings		
With third parties [2]	29,898	35,368
With subsidiaries	4,253	4,701
Unsecured long-term borrowings		
With third parties [3]	158,761	166,342
With subsidiaries [4]	3,574	1,536
Other liabilities and accrued expenses	2,797	4,656
Total liabilities	200,241	213,537
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock	6,200	3,100
Common stock	8	8
Restricted stock units and employee stock options	3,298	5,681
Additional paid-in capital	48,030	45,553
Retained earnings	65,223	58,834
Accumulated other comprehensive loss	(193)	(516)
Stock held in treasury, at cost	(46,850)	(42,281)
Total shareholders' equity	75,716	70,379
Total liabilities and shareholders' equity	$275,957	$283,916

Group Inc. — Condensed Statements of Cash Flows

in millions	Year Ended December 2012	2011	2010
Cash flows from operating activities			
Net earnings	$ 7,475	$ 4,442	$ 8,354
Adjustments to reconcile net earnings to net cash provided by operating activities			
Undistributed earnings of subsidiaries	(3,682)	(481)	(2,884)
Depreciation and amortization	15	14	18
Deferred income taxes	(1,258)	809	214
Share-based compensation	81	244	393
Changes in operating assets and liabilities			
Financial instruments owned, at fair value	1,464	3,557	(176)
Financial instruments sold, but not yet purchased, at fair value	(3)	(536)	(1,091)
Other, net	2,621	1,422	10,852
Net cash provided by operating activities	6,713	9,471	15,680
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	(12)	(42)	(15)
Repayments of short-term loans by subsidiaries, net of issuances	6,584	20,319	(9,923)
Issuance of term loans to subsidiaries	(17,414)	(42,902)	(5,532)
Repayments of term loans by subsidiaries	18,715	21,850	1,992
Capital distributions from/(contributions to) subsidiaries, net	(298)	4,642	(1,038)
Net cash provided by/(used for) investing activities	7,575	3,867	(14,516)
Cash flows from financing activities			
Unsecured short-term borrowings, net	(2,647)	(727)	3,137
Proceeds from issuance of long-term borrowings	26,160	27,251	21,098
Repayment of long-term borrowings, including the current portion	(35,608)	(27,865)	(21,838)
Preferred stock repurchased	—	(3,857)	—
Common stock repurchased	(4,640)	(6,048)	(4,183)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(1,086)	(2,771)	(1,443)
Proceeds from issuance of preferred stock, net of issuance costs	3,087	—	—
Proceeds from issuance of common stock, including stock option exercises	317	368	581
Excess tax benefit related to share-based compensation	130	358	352
Cash settlement of share-based compensation	(1)	(40)	(1)
Net cash used for financing activities	(14,288)	(13,331)	(2,297)
Net increase/(decrease) in cash and cash equivalents	—	7	(1,133)
Cash and cash equivalents, beginning of year	14	7	1,140
Cash and cash equivalents, end of year	$ 14	$ 14	$ 7

SUPPLEMENTAL DISCLOSURES:

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

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

Non-cash activity:

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

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