

GOLDMAN SACHS GROUP INC

Form 10-K

February 28, 2012

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

For the fiscal year ended December 31, 2011

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
200 West Street
New York, N.Y.
(Address of principal executive offices)

13-4019460
(I.R.S. Employer
Identification No.)
10282
(Zip Code)

(212) 902-1000

(Registrant's telephone number, including area code)

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

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Title of each class:	Name of each exchange on which registered:
Common stock, par value \$.01 per share	New York Stock Exchange
Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series A	New York Stock Exchange
Depository Shares, Each Representing 1/1,000th Interest in a Share of 6.20% Non-Cumulative Preferred Stock, Series B	New York Stock Exchange
Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series C	New York Stock Exchange
Depository Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series D	New York Stock Exchange
5.793% Fixed-to-Floating Rate Normal Automatic Preferred Enhanced Capital Securities of Goldman Sachs Capital II (and Registrant's guarantee with respect thereto)	New York Stock Exchange
Floating Rate Normal Automatic Preferred Enhanced Capital Securities of Goldman Sachs Capital III (and Registrant's guarantee with respect thereto)	New York Stock Exchange
Medium-Term Notes, Series B, Index-Linked Notes due February 2013; Index-Linked Notes due April 2013; and Index-Linked Notes due May 2013	NYSE Amex
Medium-Term Notes, Series A, Index-Linked Notes due 2037 of GS Finance Corp. (and Registrant's guarantee with respect thereto)	NYSE Arca
Medium-Term Notes, Series B, Index-Linked Notes due 2037	NYSE Arca
Medium-Term Notes, Series D, 7.50% Notes due 2019	New York Stock Exchange
6.125% Notes due 2060	New York Stock Exchange
6.50% Notes due 2061	New York Stock Exchange

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

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

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

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

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

As of June 30, 2011, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$66.6 billion.

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As of February 17, 2012, there were 494,904,018 shares of the registrant's common stock outstanding.

Documents incorporated by reference: Portions of The Goldman Sachs Group, Inc.'s Proxy Statement for its 2012 Annual Meeting of Shareholders are incorporated by reference in the Annual Report on Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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PART I

Item 1. Business

Introduction

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

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

References to "this Form 10-K" are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. All references to 2011, 2010 and 2009 refer to our fiscal years ended, or the dates, as the context requires, December 31, 2011, December 31, 2010 and December 31, 2009, respectively.

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

As of December 2011, we had offices in over 30 countries and 48% of our total staff was based outside the Americas (which includes the countries in North and South America). Our clients are located worldwide, and we are an active participant in financial markets around the world. In 2011, we generated 38% of our net revenues outside the Americas. For more information on our geographic results, see Note 25 to the consolidated financial statements in Part II, Item 8 of this Form 10-K.

Our Business Segments and Segment Operating Results

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

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The table below presents our segment operating results.

<i>\$ in millions</i>		Year Ended December ¹			% of 2011 Net Revenues
		2011	2010	2009	
Investment Banking	Net revenues	\$ 4,355	\$ 4,810	\$ 4,984	15%
	Operating expenses	2,962	3,511	3,482	
	Pre-tax earnings	\$ 1,393	\$ 1,299	\$ 1,502	
Institutional Client Services	Net revenues	\$ 17,280	\$ 21,796	\$ 32,719	60%
	Operating expenses	12,697	14,291	13,691	
	Pre-tax earnings	\$ 4,583	\$ 7,505	\$ 19,028	
Investing & Lending	Net revenues	\$ 2,142	\$ 7,541	\$ 2,863	7%
	Operating expenses	2,673	3,361	3,523	
	Pre-tax earnings/(loss)	\$ (531)	\$ 4,180	\$ (660)	
Investment Management	Net revenues	\$ 5,034	\$ 5,014	\$ 4,607	18%
	Operating expenses	4,018	4,051	3,673	
	Pre-tax earnings	\$ 1,016	\$ 963	\$ 934	
Total	Net revenues	\$ 28,811	\$ 39,161	\$ 45,173	
	Operating expenses ²	22,642	26,269	25,344	
	Pre-tax earnings	\$ 6,169	\$ 12,892	\$ 19,829	

1. Financial information concerning our business segments for 2011, 2010 and 2009 is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Financial Statements and Supplementary Data, which are in Part II, Items 7 and 8, respectively, of this Form 10-K. See Note 25 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for a further breakdown of our net revenues.

2. Includes the following expenses that have not been allocated to our segments: (i) net provisions for a number of litigation and regulatory proceedings of \$175 million, \$682 million and \$104 million for the years ended December 2011, December 2010 and December 2009, respectively; (ii) charitable contributions of \$103 million, \$345 million and \$810 million for the years ended December 2011, December 2010 and December 2009, respectively; and (iii) real estate-related exit costs of \$14 million, \$28 million and \$61 million for the years ended December 2011, December 2010 and December 2009, respectively.

Investment Banking

Investment Banking serves corporate and government clients around the world. We provide financial advisory services and help companies raise capital to strengthen and grow their businesses. We seek to develop and maintain long-term relationships with a diverse global group of institutional clients, including governments, states and municipalities. Our goal is to deliver to our clients the entire resources of the firm in a seamless fashion, with investment banking serving as the main initial point of contact with Goldman Sachs.

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

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

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

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

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

Institutional Client Services

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

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

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

Institutional Client Services and our other businesses are supported by our Global Investment Research division, which, as of December 2011, provided fundamental research on more than 3,700 companies worldwide and more than 40 national economies, as well as on industries, currencies and commodities.

Institutional Client Services generates revenues in four ways:

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

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

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

We provide financing to our clients for their securities trading activities, as well as securities lending and other prime brokerage services. Institutional Client Services activities are organized by asset class and include both cash and derivative instruments. Cash refers to trading the underlying instrument (such as a stock, bond or barrel of oil). Derivative refers to instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors (such as an option, which is the right or obligation to buy or

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sell a certain bond or stock index on a specified date in the future at a certain price, or an interest rate swap, which is the agreement to convert a fixed rate of interest into a floating rate or vice versa).

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

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

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

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

Currencies. Most currencies, including growth-market currencies.

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

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

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

We also structure and execute derivatives on indices, industry groups, financial measures and individual company stocks. We develop strategies and provide information about portfolio hedging and restructuring and asset allocation transactions for our clients. We also work with our clients to create specially tailored instruments to enable sophisticated investors to establish or liquidate

investment positions or undertake hedging strategies. We are one of the leading participants in the trading and development of equity derivative instruments.

Our exchange-based market-making activities include making markets in stocks and exchange-traded funds. In the United States, we are one of the leading Designated Market Makers (DMMs) for stocks traded on the NYSE. For ETFs, we are registered market makers on NYSE Arca. In listed options, we are registered as a primary or lead market maker or otherwise make markets on the International Securities Exchange, the Chicago Board Options Exchange, NYSE Arca, the Boston Options Exchange, the Philadelphia Stock Exchange and NYSE Amex. In futures and options on futures, we are market makers on the Chicago Mercantile Exchange and the Chicago Board of Trade.

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

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

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

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

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Other Prime Brokerage Services. We earn fees by providing clearing, custody and settlement services globally. In addition, we help our hedge fund and other clients maintain the infrastructure that supports their investing activity by providing a suite of services from the moment a client begins the process of establishing a new investing business. We provide a technology platform and reporting which enables clients to monitor their security portfolios, and manage risk exposures.

Investing & Lending

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

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

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

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

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

Investment Management

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

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

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

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

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

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Assets under management include only those client assets where we earn a fee for managing assets on a discretionary basis. This includes net assets in our mutual funds, hedge funds and private equity funds (including real estate funds), and separately managed accounts for institutional and individual investors. Assets under management do not include the self-directed assets of our clients, including brokerage accounts, or interest-bearing deposits held through our bank depository institution subsidiaries.

Incentive Fees. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund's or a separately managed account's return, or when the return exceeds a specified benchmark or other performance targets. Such fees include overrides, which

consist of the increased share of the income and gains derived primarily from our private equity funds when the return on a fund's investments over the life of the fund exceeds certain threshold returns. Incentive fees are recognized when all material contingencies are resolved.

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

The tables below present assets under management by asset class and by distribution channel and client category.

<i>in billions</i>	2011	As of December	
		2010	2009
Alternative investments	\$ 142	\$ 148	\$ 146
Equity	126	144	146
Fixed income	340	340	315
Total non-money market assets	608	632	607
Money markets	220	208	264
Total assets under management	\$ 828	\$ 840	\$ 871

<i>in billions</i>	2011	As of December	
		2010	2009
Directly Distributed:			
Institutional	\$ 283	\$ 286	\$ 297
High-net-worth individuals	227	229	231
Third-Party Distributed:			
Institutional, high-net-worth individuals and retail	318	325	343
Total	\$ 828	\$ 840	\$ 871

Business Continuity and Information Security

Business continuity and information security, including cybersecurity, are high priorities for Goldman Sachs. Our Business Continuity Program has been developed to provide reasonable assurance of business continuity in the event of disruptions at the firm's critical facilities and to comply with regulatory requirements, including those of FINRA. Because we are a bank holding company, our Business Continuity Program is also subject to review by the Federal Reserve Board. The key elements of the program are crisis management, people recovery facilities, business recovery, systems and data recovery, and process improvement. In the area of information security, we have developed and implemented a framework of principles,

policies and technology to protect the information assets provided to us by our clients and those of the firm from cyber attacks and other misappropriation, corruption or loss. Safeguards are applied to maintain the confidentiality, integrity and availability of information resources.

Employees

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

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

As of December 2011, we had 33,300 total staff, excluding staff at consolidated entities held for investment purposes. See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Expenses in Part II, Item 7 of this Form 10-K for additional information on our consolidated entities held for investment purposes.

Competition

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

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

Over time, there has been substantial consolidation and convergence among companies in the financial services industry. This trend accelerated in recent years as the credit crisis caused numerous mergers and asset acquisitions among industry participants. Many commercial banks and other broad-based financial services firms have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenues in an effort to gain market share, which has resulted in pricing pressure in our investment banking and client execution businesses and could result in pricing pressure in other of our businesses.

Moreover, we have faced, and expect to continue to face, pressure to retain market share by committing capital to businesses or transactions on terms that offer returns that may not be commensurate with their risks. In particular, corporate clients seek such commitments (such as agreements to participate in their commercial paper backstop or other loan facilities) from financial services firms in connection with investment banking and other assignments.

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

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

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

Regulation

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

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

Banking Regulation

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

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Supervision and Regulation

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

Activities

The BHC Act generally restricts bank holding companies from engaging in business activities other than the business of banking and certain closely related activities. As a financial holding company, we may engage in a broader range of financial and related activities than are otherwise permissible for bank holding companies as long as we continue to meet the eligibility requirements for financial holding companies. These requirements include Group Inc. and our U.S. depository institution subsidiaries (currently GS Bank USA and our national bank trust company subsidiary) each maintaining their respective status as well-capitalized and well-managed. The broader range of permissible activities for financial holding companies

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

As a bank holding company, we are required to obtain prior Federal Reserve Board approval before engaging in certain banking and other financial activities both in the United States and abroad.

We expect to face additional limitations on our activities upon implementation of those provisions of the Dodd-Frank Act referred to as the Volcker Rule, which will prohibit proprietary trading (but will allow activities such as underwriting, market-making related activities and risk-mitigation hedging activities) and will limit the sponsorship of, and investment in, hedge funds and private equity funds by banking entities, including bank holding companies. In October 2011, federal regulators proposed rules to implement the Volcker Rule that included an extensive request for comments on the proposal. The proposed rules are highly complex, and many aspects of the Volcker Rule remain unclear. The full impact on us will not be known with certainty until the rules are finalized. The Volcker Rule provisions are scheduled to take effect no later than July 2012, and companies will be required to come into compliance within two years after the effective date (subject to possible extensions).

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

In addition, we evaluated the limitations on sponsorship of, and investments in, hedge funds and private equity funds. The firm earns management fees and incentive fees for investment management services from private equity and hedge funds, which are included in our Investment Management segment. The firm also makes investments in funds, and the gains and losses from such investments are included in our Investing & Lending segment; these gains and losses will be impacted by the Volcker Rule. The Volcker Rule limitation on investments in hedge funds and private equity funds requires the firm to reduce its investment in each private equity and hedge fund to 3% or less of net asset value, and to reduce the firm's aggregate investment in all such funds to 3% or less of the firm's Tier 1 capital. Over the period from 1999 through 2011, the firm's aggregate net revenues from its investments in hedge funds and private equity funds were not material to the firm's aggregate total net revenues over the same period. We are continuing to manage our existing private equity funds, taking into account the transition periods under the Volcker Rule. With respect to our hedge funds, we currently plan to comply with the Volcker Rule by redeeming certain of our interests in the funds. We currently expect to redeem up to approximately 10% of certain hedge funds' total redeemable units per quarter over ten consecutive quarters, beginning in the quarter ending March 2012 and ending in June 2014. In addition, we have limited the firm's initial investment to 3% for certain new funds.

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

Capital and Liquidity Requirements

As a bank holding company, we are subject to consolidated regulatory capital requirements administered by the Federal Reserve Board. GS Bank USA is subject to broadly similar capital requirements, as discussed below. Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action that is applicable to GS Bank USA, both Group Inc. and GS Bank USA must meet specific regulatory capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items. The sufficiency of our capital levels and those of GS Bank USA, as well as GS Bank USA's prompt corrective action classification, are also subject to qualitative judgments by regulators.

Tier 1 Leverage and Basel 1 Capital Ratios. See Note 20 to the consolidated financial statements in Part II, Item 8 of this Form 10-K for information on our Tier 1 capital ratio, Tier 1 capital, total capital, risk-weighted assets and Tier 1 leverage ratio, and for a discussion of minimum required ratios. For information on our Tier 1 common ratio, see Equity Capital Consolidated Regulatory Capital Ratios in Part II, Item 7 of this Form 10-K.

Pending Changes in Capital Requirements. We are currently working to implement the requirements set out in the Federal Reserve Board's Risk-Based Capital Standards: Advanced Capital Adequacy Framework - Basel 2, as applicable to us as a bank holding company (Basel 2), which 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. U.S. banking regulators have incorporated the Basel 2 framework into the existing risk-based capital requirements by requiring that internationally active banking organizations, such as us, adopt Basel 2, once approved to do so by regulators. As required by the Dodd-Frank Act, U.S. banking regulators have adopted a rule that requires large banking organizations, upon adoption of Basel 2, to continue to calculate risk-based capital ratios under both Basel 2 and the Federal Reserve Board's regulatory requirements currently applicable to bank holding companies (Basel 1), which are based on the 1988 Capital Accord of the Basel Committee. For each of the Tier 1 and Total capital ratios, the lower of the Basel 1 and Basel 2 ratios calculated will be used to determine whether the bank meets its minimum risk-based capital requirements.

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The U.S. federal bank regulatory agencies have issued revised proposals to modify their market risk regulatory capital requirements for banking organizations in the United States that have significant trading activities. These modifications are designed to address the adjustments to the market risk framework that were announced by the Basel Committee in June 2010 (Basel 2.5), as well as the prohibition on the use of credit ratings, as required by the Dodd-Frank Act. Once implemented, it is likely that these changes will result in increased capital requirements for market risk.

Additionally, the guidelines issued by the Basel Committee in December 2010 (Basel 3) revise the definition of Tier 1 capital, introduce Tier 1 common equity as a regulatory metric, set new minimum capital ratios (including a new capital conservation buffer, which must be composed exclusively of Tier 1 common equity and will be in addition to the minimum capital ratios), introduce a Tier 1 leverage ratio within international guidelines for the first time, and make substantial revisions to the computation of risk-weighted assets (RWAs) for credit exposures. Implementation of the new requirements is expected to take place over the next several years. The federal banking agencies have not yet proposed rules to implement the Basel 3 guidelines in the United States.

In addition, both the Basel Committee and U.S. banking regulators implementing the Dodd-Frank Act have indicated that they will impose more stringent capital standards on systemically important financial institutions. In November 2011, the Basel Committee published its final provisions for assessing the global systemic importance of banking institutions and the range of additional Tier 1 common equity that should be maintained by banking institutions deemed to be globally systemically important. The additional capital for these institutions would initially range from 1% to 2.5% of Tier 1 common equity and could be as much as 3.5% for a bank that increases its systemic footprint (e.g., by increasing total assets). The firm was one of 29 institutions identified by the Financial Stability Board (established at the direction of the Group of 20) as globally systemically important under the Basel Committee's methodology. Therefore, depending upon the manner and timing of the U.S. banking regulators' implementation of the Basel Committee's methodology, we expect that the minimum Tier 1 common ratio requirement applicable to us will include this additional capital assessment. The final determination of whether an institution is classified as globally systemically important and the calculation of the required additional capital amount is expected to be disclosed by the Basel Committee no later than November 2014 based on data through the end of 2013.

In December 2011, the Federal Reserve Board proposed rules to implement the enhanced prudential standards and early remediation requirements contemplated by the Dodd-Frank Act. The proposed rules would apply to bank holding companies with \$50 billion or more in total consolidated assets such as us, as well as systemically important nonbank financial institutions. With respect to the enhanced prudential standards, the proposed rules address risk-based capital and leverage requirements, liquidity requirements, overall risk management requirements and concentration/credit exposure limits. The proposed rules do not include the additional capital requirements for globally systemically important banking institutions but contemplate the Federal Reserve Board's adopting such requirements. The proposed rules require increased involvement by boards of directors in liquidity and risk management and stress testing, single-counterparty credit limits (including more stringent requirements for credit exposure among major financial institutions) and public disclosure of the Federal Reserve Board's annual stress tests and a bank holding company's annual and semi-annual internal stress tests. The proposed early remediation rules are modeled after the prompt corrective action regime, described below, but are designed to require action beginning in earlier stages of a company's financial distress by mandating action on the basis of a range of triggers, including capital and leverage, stress test results, liquidity and risk management.

The Dodd-Frank Act will subject us at a firmwide level to the same leverage and risk-based capital requirements that apply to depository institutions and directs banking regulators to impose additional capital requirements. The Federal Reserve Board is expected to adopt the new leverage and risk-based capital regulations in 2012. As a consequence of these changes, Tier 1 capital treatment for our junior subordinated debt issued to trusts will be phased out over a three-year period beginning on January 1, 2013. The interaction among the Dodd-Frank Act, the Basel Committee's proposed changes and other proposed or announced changes from other governmental entities and regulators adds further uncertainty to our future capital requirements and those of our subsidiaries.

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

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

Payment of Dividends and Stock Repurchases

Dividend payments by Group Inc. to its shareholders and stock repurchases by Group Inc. are subject to the oversight of the Federal Reserve Board. Under rules adopted by the Federal Reserve Board in November 2011, the dividend and share repurchase policies of large bank holding companies,

such as Group Inc., are reviewed by the Federal Reserve Board based on capital plans and stress tests submitted by the bank holding company, and will be assessed against, among other things, the bank holding company's ability to meet and exceed minimum regulatory capital ratios, its expected sources and uses of capital over the planning horizon (generally a period of two years) under baseline and stressed scenarios, and any potential impact of changes to its business plan and activities on its capital adequacy and liquidity. The purpose of the capital plan review is to ensure that these institutions have robust, forward-looking capital planning processes that account for each institution's unique risks and that permit continued operations during times of economic and financial stress. As part of the capital plan review, the Federal Reserve Board will evaluate an institution's plan to make capital distributions, such as repurchasing or redeeming stock or increasing dividend payments.

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

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

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Source of Strength

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

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

Compensation Practices

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

In June 2010, the Federal Reserve Board and other financial regulators jointly issued guidance designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. The guidance sets forth the following three key principles with respect to incentive compensation arrangements: the arrangements should provide employees with incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; the arrangements should be compatible with effective controls and risk management; and the arrangements should

be supported by strong corporate governance. In addition, the Federal Reserve Board has conducted a review of the incentive compensation policies and practices of a number of large, complex banking organizations, including us. The June 2010 guidance provides that supervisory findings with respect to incentive compensation will be incorporated, as appropriate, into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The guidance also provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk management, control or governance processes pose a risk to the organization's safety and soundness.

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

The Dodd-Frank Act requires the U.S. financial regulators, including the Federal Reserve Board, to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least \$1 billion in total assets (which would include Group Inc. and some of its depository institution, broker-dealer and investment advisor subsidiaries) that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The initial version of these regulations was proposed by the U.S. financial regulators in early 2011 and the regulations may become effective in 2012. The proposed regulations incorporate the three key principles from the June 2010 regulatory guidance discussed above. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives.

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GS Bank USA

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

The Dodd-Frank Act contains derivative push-out provisions that, beginning in July 2012, may prevent us from conducting certain swaps-related activities through GS Bank USA or another insured depository institution subsidiary, subject to exceptions for certain interest rate and currency swaps and for hedging or risk mitigation activities directly related to the bank's business. These precluded activities may be conducted elsewhere within the firm, subject to certain requirements.

Transactions with Affiliates

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

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

Living Will

As required by the Dodd-Frank Act, the Federal Reserve Board and FDIC have jointly issued a rule that requires each bank holding company with more than \$50 billion in assets and each designated systemically important financial institution to prepare and provide to regulators an annual plan (a so-called living will) for its rapid and orderly resolution in the event of material financial distress or failure. The firm's resolution plan must, among other things, ensure that GS Bank USA is adequately protected from risks arising from our other entities. The regulators' joint rule sets specific standards for the resolution plans, including requiring a detailed resolution strategy and analyses of the company's material entities, organizational structure, interconnections and interdependencies, and management information systems, among other elements. We have commenced work on our first resolution plan, which we must submit to the regulators by July 1, 2012. GS Bank USA is also required by the FDIC to submit a plan for its rapid and orderly resolution in the event of material financial distress or failure by July 1, 2012.

Deposit Insurance

GS Bank USA accepts deposits, and those deposits have the benefit of FDIC insurance up to the applicable limits. The FDIC's Deposit Insurance Fund is funded by assessments on insured depository institutions, such as GS Bank USA. The amounts of these assessments for larger depository institutions (generally those that have \$10 billion in assets or more), such as GS Bank USA, are currently based on the average total consolidated assets less the average tangible equity of the insured depository institution during the assessment period and supervisory ratings and forward-looking financial measures used to calculate the assessment rate, which is subject to adjustments by the FDIC. The FDIC required all insured depository institutions to prepay estimated assessments for all of 2010, 2011 and 2012 on December 30, 2009. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis.

Prompt Corrective Action

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

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

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

GS Bank USA computes its capital ratios in accordance with the regulatory capital requirements currently applicable to state member banks, which are based on Basel 1 as implemented by the Federal Reserve Board. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, as the capital category of an institution declines. Failure to meet the capital requirements could also subject a depository institution to capital raising requirements. Ultimately, critically undercapitalized institutions are subject to the appointment of a receiver or conservator, as described under **Insolvency of an Insured Depository Institution or a Bank Holding Company** below.

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

Insolvency of an Insured Depository Institution or a Bank Holding Company

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

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

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

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

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

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

financial system.

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If the FDIC is appointed as receiver under the orderly liquidation authority, then the powers of the receiver, and the rights and obligations of creditors and other parties who have dealt with the institution, would be determined under the Dodd-Frank Act provisions, and not under the insolvency law that would otherwise apply. The powers of the receiver under the orderly liquidation authority were based on the powers of the FDIC as receiver for depository institutions under the Federal Deposit Insurance Act (FDIA). However, the provisions governing the rights of creditors under the orderly liquidation authority were modified from the FDIA regime in certain respects to reduce disparities with the treatment of creditors' claims under the U.S. Bankruptcy Code as compared to the treatment of those claims under the new authority. Nonetheless, substantial differences in the rights of creditors exist between these two regimes, including the right of the FDIC under the Dodd-Frank Act provisions to disregard the strict priority of creditor claims in some circumstances, the use of an administrative claims procedure to determine creditors' claims (as opposed to the judicial procedure utilized in bankruptcy proceedings), and the right of the FDIC to transfer claims to a bridge entity.

The orderly liquidation authority provisions of the Dodd-Frank Act became effective upon enactment. However, a number of rulemakings are required under the terms of the Act, and a number of provisions of the new authority require clarification. The FDIC has completed its initial phase of rulemaking under the orderly liquidation authority, but may provide additional guidance. New guidance may affect the manner in which the new authority is applied, particularly with respect to broker-dealer and futures commission merchant subsidiaries of bank holding companies.

Trust Companies

Group Inc.'s two limited purpose trust company subsidiaries are not permitted to and do not accept deposits or make loans (other than as incidental to their trust activities) and, as a result, are not insured by the FDIC. The Goldman Sachs Trust Company, N.A., a national banking association that is limited to fiduciary activities, is regulated by the Office of the Comptroller of the Currency and is a member bank of the Federal Reserve System. The Goldman Sachs Trust Company of Delaware, a Delaware limited purpose trust company, is regulated by the Office of the Delaware State Bank Commissioner.

U.S. Securities and Commodities Regulation

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

In addition, state securities and other regulators also have regulatory or oversight authority over GS&Co. Similarly, our businesses are also subject to regulation by various non-U.S. governmental and regulatory bodies and self-regulatory authorities in virtually all countries where we have offices. GSEC and one of its subsidiaries are registered U.S. broker-dealers and are regulated by the SEC, the NYSE and FINRA. Goldman Sachs Financial Markets, L.P. is registered with the SEC as an OTC derivatives dealer and conducts certain OTC derivatives activities.

The commodity futures and commodity options industry in the United States is subject to regulation under the U.S. Commodity Exchange Act (CEA). The CFTC is the federal agency charged with the administration of the CEA. Several of Goldman Sachs' subsidiaries, including GS&Co. and GSEC, are registered with the CFTC and act as futures commission merchants, commodity pool operators or commodity trading advisors and are subject to CEA regulations. The rules and regulations of various self-regulatory organizations, such as the Chicago Board of Trade and the Chicago Mercantile Exchange, other futures exchanges and the National Futures Association, also govern the commodity futures and commodity options activities of these entities.

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

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

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

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

The Dodd-Frank Act will result in additional regulation by the CFTC, the SEC and other regulators of our broker-dealer and regulated subsidiaries in a number of respects. The legislation calls for the imposition of expanded standards of care by market participants in dealing with clients and customers, including by providing the SEC with authority to adopt rules establishing fiduciary duties for broker-dealers and directing the SEC to examine and improve sales practices and disclosure by broker-dealers and investment advisers. The Dodd-Frank Act also contains provisions designed to increase transparency in over-the-counter derivatives markets, including by requiring the registration of all swap dealers and security-based swap dealers, and the clearing and execution of swaps through regulated facilities (subject to limited exceptions, including swaps with non-financial end users and swaps that are not cleared by a clearing agency), in accordance with CFTC and SEC rulemaking. Furthermore, federal banking agencies are required under the Dodd-Frank Act to develop rules whereby anyone who organizes or initiates an asset-backed security transaction must retain a portion (generally, at least five percent) of any credit risk that the person conveys to a third party.

In September 2011, the SEC proposed rules to implement the Dodd-Frank Act's prohibition against securitization participants engaging in any transaction that would involve or result in any material conflict of interest with an investor in a securitization transaction. The proposed rules would except bona fide market-making activities and risk-mitigating hedging activities in connection with securitization activities from the general prohibition.

Insurance and Other Regulation

Our U.S. insurance subsidiaries are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed, and Group Inc. is subject to oversight as an insurance holding company in states where our insurance subsidiaries are domiciled. State insurance regulations limit the ability of our insurance subsidiaries to pay dividends to Group Inc. in certain circumstances, and could require regulatory approval for any change in control of Group Inc., which may include control of 10% or more of our voting stock. In addition, a number of our other activities require us to obtain licenses, adhere to applicable regulations and be subject to the oversight of various regulators in the states in which we conduct these activities.

Regulation Outside the United States

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

Goldman Sachs provides investment services in and from the United Kingdom under the regulation of the FSA. Goldman Sachs International (GSI), our regulated U.K. broker-dealer, is subject to the capital requirements imposed by the FSA. Other subsidiaries, including Goldman Sachs International Bank (GSIB), our regulated U.K. bank, and Rothesay Life Limited (Rothesay Life), our U.K. insurance subsidiary, are also regulated by the FSA. As of December 2011, GSI, GSIB and Rothesay Life were in compliance with the FSA capital requirements.

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Various other Goldman Sachs entities are regulated by the banking, insurance and securities regulatory authorities of the European countries in which they operate, including, among others, the Federal Financial Supervisory Authority (BaFin) and the Bundesbank in Germany, the Autorité de Contrôle Prudentiel and the Autorité des Marchés Financiers in France, Banca d'Italia and the Commissione Nazionale per le Società e la Borsa (CONSOB) in Italy, the Federal Financial Markets Service and the Central Bank of the Russian Federation and the Swiss Financial Market Supervisory Authority. GS Bank Europe, our regulated Irish bank, is subject to minimum capital requirements imposed by the Central Bank of Ireland. As of December 2011, this bank was in compliance with all regulatory capital requirements.

The EU and national financial regulators have proposed or adopted numerous market reforms that may impact our businesses. These include stricter capital and liquidity requirements (including the adoption of Basel 2.5, which has resulted in increased capital requirements for market risk for certain of our EU subsidiaries); risk retention and enhanced disclosure requirements for asset-backed security offerings, reporting requirements and restrictions on short selling and credit default swaps, the introduction of standardized execution and clearing, margining and reporting requirements for OTC derivatives, and additional obligations and restrictions on the management and marketing of funds in the EU. In addition, the European Commission, the European Securities Market Authority, the European Banking Authority and the European Insurance and Occupational Pensions Authority are formulating regulatory standards and other measures which will be of increasing importance for our European operations. Certain Goldman Sachs entities are also regulated by the European securities, derivatives and commodities exchanges of which they are members.

Goldman Sachs Japan Co., Ltd. (GSJCL), our regulated Japanese broker-dealer, is subject to the capital requirements imposed by Japan's Financial Services Agency. As of December 2011, GSJCL was in compliance with its capital adequacy requirements. GSJCL is also regulated by the Tokyo Stock Exchange, the Osaka Securities Exchange, the Tokyo Financial Exchange, the Japan Securities Dealers Association, the Tokyo Commodity Exchange, Securities and Exchange Surveillance Commission, Bank of Japan, the Ministry of Finance and the Ministry of Economy, Trade and Industry, among others.

Also, the Securities and Futures Commission in Hong Kong, the Monetary Authority of Singapore, the China Securities Regulatory Commission, the Korean Financial Supervisory Service, the Reserve Bank of India, the Securities and Exchange Board of India, the Australian Securities and Investments Commission and the Australian Securities Exchange, among others, regulate various of our subsidiaries and also have capital standards and other requirements comparable to the rules of the SEC.

Various Goldman Sachs entities are regulated by the banking and regulatory authorities in countries in which Goldman Sachs operates, including, among others, Brazil and Dubai. In addition, certain of our insurance subsidiaries are regulated by the Bermuda Monetary Authority.

Regulations Applicable in and Outside the United States

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

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

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

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

Our investment management business is subject to significant regulation in numerous jurisdictions around the world relating to, among other things, the safeguarding of client assets and our management of client funds.

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

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

Available Information

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

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

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

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