GOLDMAN SACHS GROUP INC
Form 10-K
March 01, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009 **Commission File Number: 001-14965**

The Goldman Sachs Group, Inc.
(Exact name of registrant as specified in its charter)

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

(212) 902-1000
(Registrant s telephone number, including area code)

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

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

Depositary Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series D	
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; Index-Linked Notes due May 2013; Index-Linked Notes due 2010; and Index-Linked Notes due 2011	**NYSE Alternext US**
Medium-Term Notes, Series B, Floating Rate Notes due 2011	**New York Stock Exchange**
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**

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 x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes o No x

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 x No o

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 x No o

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. x

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

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

As of June 26, 2009, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately $73.9 billion.

As of February 12, 2010, there were 526,251,090 shares of the registrant s common stock outstanding.

Documents incorporated by reference: Portions of The Goldman Sachs Group, Inc. s Proxy Statement for its 2010 Annual Meeting of Shareholders to be held on May 7, 2010 are incorporated by reference in the Annual Report on Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

THE GOLDMAN SACHS GROUP, INC.

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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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. On May 7, 1999, we converted from a partnership to a corporation and completed an initial public offering of our common stock. The Goldman Sachs Group, Inc. (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) under the U.S. Bank Holding Company Act of 1956 (BHC Act). Our depository institution subsidiary, Goldman Sachs Bank USA (GS Bank USA), is a New York State-chartered bank.

Our activities are divided into three segments: (i) Investment Banking, (ii) Trading and Principal Investments and (iii) Asset Management and Securities Services.

All references to 2009, 2008 and 2007 refer to our fiscal years ended, or the dates, as the context requires, December 31, 2009, November 28, 2008 and November 30, 2007, respectively. When we use the terms Goldman Sachs, the firm, we, us and our, we mean Group Inc., a Delaware corporation, and its consolidated subsidiaries. References herein to this Annual Report on Form 10-K are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

In connection with becoming a bank holding company, the firm was required to change its fiscal year-end from November to December. This change in the firm s fiscal year-end resulted in a one-month transition period that began on November 29, 2008 and ended on December 26, 2008. Financial information for this fiscal transition period is included in Part II, Item 8 of this Annual Report on Form 10-K. In April 2009, the Board of Directors of Group Inc. approved a change in the firm s fiscal year-end from the last Friday of December to December 31. Fiscal 2009 began on December 27, 2008 and ended on December 31, 2009.

Financial information concerning our business segments and geographic regions for each of 2009, 2008 and 2007 is set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements and the notes thereto, and the supplemental financial information, which are in Part II, Items 7, 7A and 8 of this Annual Report on Form 10-K.

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, on or 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 U.S. Securities and Exchange Commission. 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, 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 (as defined in the Code). 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, 19th Floor, New York, New York 10282, Attn: Investor Relations, telephone: 212-902-0300, e-mail: gs-investor-relations@gs.com.

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

We have included or incorporated by reference in this Annual Report on Form 10-K, and from time to time our management may make, statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K, as well as statements about the objectives and effectiveness of our risk management and liquidity policies, statements about trends in or growth opportunities for our businesses, statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation, and statements about our investment banking transaction backlog. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed below and under "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K.

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

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Segment Operating Results
(in millions)

		Year Ended December 2009	November 2008	November 2007
Investment Banking	Net revenues	$ 4,797	$ 5,185	$ 7,555
	Operating expenses	3,527	3,143	4,985
	Pre-tax earnings	$ 1,270	$ 2,042	$ 2,570
Trading and Principal Investments	Net revenues	$ 34,373	$ 9,063	$ 31,226
	Operating expenses	17,053	11,808	17,998
	Pre-tax earnings/(loss)	$ 17,320	$ (2,745)	$ 13,228
Asset Management and Securities Services	Net revenues	$ 6,003	$ 7,974	$ 7,206
	Operating expenses	4,660	4,939	5,363
	Pre-tax earnings	$ 1,343	$ 3,035	$ 1,843
Total	Net revenues	$ 45,173	$ 22,222	$ 45,987
	Operating expenses [1]	25,344	19,886	28,383
	Pre-tax earnings	$ 19,829	$ 2,336	$ 17,604

(1) Operating expenses include net provisions for a number of litigation and regulatory proceedings of $104 million, $(4) million and $37 million for the years ended December 2009, November 2008 and November 2007, respectively, that have not been allocated to our segments.

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Where We Conduct Business

As of December 31, 2009, we operated offices in over 30 countries and 42% of our 32,500 total staff were based outside the Americas (which includes the countries in North and South America). In 2009, we derived 44% of our net revenues outside of the Americas. See geographic information in Note 18 to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

Our clients are located worldwide, and we are an active participant in financial markets around the world. We have developed and continue to build strong investment banking relationships in new and developing markets. We also continue to expand our presence throughout these markets to invest strategically when opportunities arise and to work more closely with our private wealth and asset management clients in these regions. Our global reach is illustrated by the following:

- we are a member of and an active participant in most of the world s major stock, options and futures exchanges and marketplaces;
- we are a primary dealer in many of the largest government bond markets around the world;
- we have interbank dealer status in currency markets around the world;
- we are a member of or have relationships with major commodities exchanges worldwide; and
- we have commercial banking or deposit-taking institutions organized or operating in the United States, the United Kingdom, Ireland, Brazil, Switzerland, Germany, France, Russia and South Korea.

Our businesses are supported by our Global Investment Research division, which, as of December 2009, provided research coverage of more than 3,000 companies worldwide and over 45 national economies, and maintained a presence in locations around the world.

Business Segments

The primary products and activities of our business segments are set forth in the following chart:

Business Segment/*Component*	Primary Products and Activities
Investment Banking:	
Financial Advisory	Mergers and acquisitions advisory services Financial restructuring advisory services
Underwriting	Equity and debt underwriting
Trading and Principal Investments:	
Fixed Income, Currency and Commodities	Commodities and commodity derivatives, including power generation and related activities Credit products, including trading and investing in credit derivatives, investment-grade corporate securities, high-yield securities, bank and secured loans, municipal securities, emerging market and distressed debt, public and private equity securities and real estate Currencies and currency derivatives Interest rate products, including interest rate derivatives, global government securities and money market instruments, including matched book positions Mortgage-related securities and loan products and other asset-backed instruments
Equities	Equity securities and derivatives Equities and options exchange-based market-making activities Securities, futures and options clearing services Insurance activities
Principal Investments	Principal investments in connection with merchant banking activities Investment in the ordinary shares of Industrial and Commercial Bank of China Limited
Asset Management and Securities Services:	
Asset Management	Investment advisory services, financial planning and investment products (primarily through separately managed accounts and commingled vehicles) across all major asset classes, including money markets, fixed income, equities and alternative investments (including hedge funds, private equity, real estate, currencies,

	commodities and asset allocation strategies), for institutional and individual investors (including high-net-worth clients, as well as retail clients through third-party channels) Management of merchant banking funds
Securities Services	Prime brokerage Financing services Securities lending

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Investment Banking

Investment Banking represented 11% of 2009 net revenues. We provide a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals and seek to develop and maintain long-term relationships with these clients as their lead investment bank.

Our current structure, which is organized by regional, industry and product groups, seeks to combine client-focused investment bankers with execution and industry expertise. We continually assess and adapt our organization to meet the demands of our clients in each geographic region. Through our commitment to teamwork, we believe that we provide services in an integrated fashion for the benefit of our clients.

Our goal is to make available to our clients the entire resources of the firm in a seamless fashion, with investment banking serving as front of the house. To accomplish this objective, we focus on coordination among our equity and debt underwriting activities and our corporate risk and liability management activities. This coordination is intended to assist our investment banking clients in managing their asset and liability exposures and their capital.

Our Investment Banking segment is divided into two components: Financial Advisory and Underwriting.

Financial Advisory

Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs. Our mergers and acquisitions capabilities are evidenced by our significant share of assignments in large, complex transactions for which we provide multiple services, including one-stop acquisition financing and cross-border structuring expertise, as well as services in other areas of the firm, such as interest rate and currency hedging. In particular, a significant number of the loan commitments and bank and bridge loan facilities that we enter into arise in connection with our advisory assignments.

Underwriting

Underwriting includes public offerings and private placements of a wide range of securities and other financial instruments, including common and preferred stock, convertible and exchangeable securities, investment-grade debt, high-yield debt, sovereign and emerging market debt, municipal debt, bank loans, asset-backed securities and real estate-related securities, such as mortgage-related securities and the securities of real estate investment trusts.

Equity Underwriting. Equity underwriting has been a long-term core strength of Goldman Sachs. As with mergers and acquisitions, we have been particularly successful in winning mandates for large, complex transactions. We believe our leadership in worldwide initial public offerings and worldwide public common stock offerings reflects our expertise in complex transactions, prior experience and distribution capabilities.

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

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Trading and Principal Investments

Trading and Principal Investments represented 76% of 2009 net revenues. Trading and Principal Investments facilitates client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. We also take proprietary positions on certain of these products. In addition, we engage in market-making activities on equities and options exchanges, and we clear client transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investing activities, we make principal investments directly and through funds that we raise and manage.

To meet the needs of our clients, Trading and Principal Investments is diversified across a wide range of products. We believe our willingness and ability to take risk to facilitate client transactions distinguishes us from many of our competitors and substantially enhances our client relationships.

Our Trading and Principal Investments segment is divided into three components: Fixed Income, Currency and Commodities; Equities; and Principal Investments.

Fixed Income, Currency and Commodities and Equities

Fixed Income, Currency and Commodities (FICC) and Equities are large and diversified operations through which we assist clients with their investing and trading strategies and also engage in proprietary trading and investing activities.

In our client-driven businesses, FICC and Equities strive to deliver high-quality service by offering broad market-making and market knowledge to our clients on a global basis. In addition, we use our expertise to take positions in markets, by committing capital and taking risk, to facilitate client transactions and to provide liquidity. Our willingness to make markets, commit capital and take risk in a broad range of fixed income, currency, commodity and equity products and their derivatives is crucial to our client relationships and to support our underwriting business by providing secondary market liquidity.

We generate trading net revenues from our client-driven businesses in three ways:

- First, in large, highly liquid markets, we undertake a high volume of transactions for modest spreads and fees.
- Second, by capitalizing on our strong relationships and capital position, we undertake transactions in less liquid markets where spreads and fees are generally larger.
- Finally, we structure and execute transactions that address complex client needs.

Our FICC and Equities businesses operate in close coordination to provide clients with services and cross-market knowledge and expertise.

In our proprietary activities in both FICC and Equities, we assume a variety of risks and devote resources to identify, analyze and benefit from these exposures. We capitalize on our analytical models to analyze information and make informed trading judgments, and we seek to benefit from perceived disparities in the value of assets in the trading markets and from macroeconomic and issuer-specific trends.

FICC

We make markets in and trade interest rate and credit products, mortgage-related securities and loan products and other asset-backed instruments, currencies and commodities, structure and enter into a wide variety of derivative transactions, and engage in proprietary trading and investing. FICC has five principal businesses: commodities; credit products; currencies; interest rate products, including money market instruments; and mortgage-related securities and loan products and other asset-backed instruments.

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Commodities. We make markets in and trade a wide variety of commodities, commodity derivatives and interests in commodity-related assets, including oil and oil products, metals, natural gas and electricity, coal and agricultural products. As part of our commodities business, we acquire and dispose of interests in, and engage in the development and operation of, electric power generation facilities and related activities.

Credit Products. We make markets in and trade a broad array of credit and credit-linked products all over the world, including credit derivatives, investment-grade corporate securities, high-yield securities, bank and secured loans (origination and trading), municipal securities, and emerging market and distressed debt. For example, we enter, as principal, into complex structured transactions designed to meet client needs.

In addition, we provide credit through bridge and other loan facilities to a broad range of clients. 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. As part of our ongoing credit origination activities, we may seek to reduce our credit risk on commitments by syndicating all or substantial portions of commitments to other investors or, upon funding, by securitizing the positions through investment vehicles sold to other investors. Underwriting fees from syndications of these commitments are recorded in debt underwriting in our Investment Banking segment. However, to the extent that we recognize losses on these commitments, such losses are recorded within our Trading and Principal Investments segment, net of any related underwriting fees. See Note 8 to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for additional information on our commitments.

Our credit products business includes making significant long-term and short-term investments for our own account (sometimes investing together with our merchant banking funds) in a broad array of asset classes (including distressed debt) globally. We opportunistically invest in debt and equity securities and secured loans, and in private equity, real estate and other assets.

Currencies. We act as a dealer in foreign exchange and trade in most currencies on exchanges and in cash and derivative markets globally.

Interest Rate Products. We make markets in and trade a variety of interest rate products, including interest rate swaps, options and other derivatives, and government bonds, as well as money market instruments, such as commercial paper, treasury bills, repurchase agreements and other highly liquid securities and instruments. This business includes our matched book, which consists of short-term collateralized financing transactions.

Mortgage Business. We make markets in and trade commercial and residential mortgage-related securities and loan products and other asset-backed and derivative instruments. We acquire positions in these products for trading purposes as well as for securitization or syndication. We also originate and service commercial and residential mortgages.

Equities

We make markets in and trade equities and equity-related products, structure and enter into equity derivative transactions, and engage in proprietary trading. We generate commissions from executing and clearing client transactions on major stock, options and futures exchanges worldwide through our Equities client franchise and clearing activities.

Equities includes two principal businesses: our client franchise business and principal strategies. We also engage in exchange-based market-making activities and in insurance activities.

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Client Franchise Business. Our client franchise business includes primarily client-driven activities in the shares, equity derivatives and convertible securities markets. These activities also include clearing client transactions on major stock, options and futures exchanges worldwide, as well as our exchange-based options market-making business. Our client franchise business increasingly involves providing our clients with access to electronic low-touch equity trading platforms, and electronic trades account for the majority of our client trading activity in this business. However, a majority of our net revenues in this business continues to be derived from our traditional high-touch handling of more complex trades. We expect both types of trading activities to remain important components of our client franchise business.

We trade equity securities and equity-related products, including convertible securities, options, futures and over-the-counter (OTC) derivative instruments, on a global basis as an agent, as a market maker or otherwise as a principal. As a principal, we facilitate client transactions, often by committing capital and taking risk, to provide liquidity to clients with large blocks of stocks or options. For example, we are active in the execution of large block trades. We also execute transactions as agent and offer clients direct electronic access to trading markets.

Our derivatives business structures and executes derivatives on indices, industry groups, financial measures and individual company stocks. We develop strategies and provide information with respect to portfolio hedging and restructuring and asset allocation transactions. We also work with our clients to create specially tailored instruments to enable sophisticated investors to undertake hedging strategies and to establish or liquidate investment positions. We are one of the leading participants in the trading and development of equity derivative instruments. 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 Alternext US. In futures and options on futures, we are market makers on the Chicago Mercantile Exchange and the Chicago Board of Trade.

Principal Strategies. Our principal strategies business is a multi-strategy investment business that invests and trades our capital across global public markets. Investment strategies include fundamental equities and relative value trading (which involves trading strategies designed to take advantage of perceived discrepancies in the relative value of financial instruments, including equity, equity-related and debt instruments), event-driven investments (which focus on event-oriented special situations such as corporate restructurings, bankruptcies, recapitalizations, mergers and acquisitions, and legal and regulatory events), convertible bond trading and various types of volatility trading.

Exchange-Based Market-Making Activities. Our exchange-based market-making business consists of our stock and exchange-traded funds (ETF) market-making activities. In the United States, we are one of the leading Designated Market Makers for stocks traded on the NYSE. For ETFs, we are registered market makers on NYSE Arca.

Insurance Activities. We engage in a range of insurance and reinsurance businesses, including buying, originating and/or reinsuring fixed and variable annuity and life insurance contracts, reinsuring property catastrophe and residential homeowner risks and providing power interruption coverage to power generating facilities.

Principal Investments

Principal Investments primarily includes net revenues from three sources: returns on corporate and real estate investments; overrides on corporate and real estate investments made by merchant banking funds that we manage; and our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC).

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Returns on Corporate and Real Estate Investments. As of December 2009, the aggregate carrying value of our principal investments held directly or through our merchant banking funds, excluding our investment in the ordinary shares of ICBC and our investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG), was $13.98 billion, comprised of corporate principal investments with an aggregate carrying value of $12.60 billion and real estate investments with an aggregate carrying value of $1.38 billion. In addition, as of December 2009, we had outstanding unfunded equity capital commitments of up to $12.27 billion, comprised of corporate principal investment commitments of $9.82 billion and real estate investment commitments of $2.45 billion.

Overrides. Consists of the increased share of the income and gains derived from our merchant banking funds when the return on a fund s investments over the life of the fund exceeds certain threshold returns (typically referred to as an override). Overrides are recognized in net revenues when all material contingencies have been resolved.

ICBC. Our investment in the ordinary shares of ICBC is valued using the quoted market price adjusted for transfer restrictions. Under the original transfer restrictions, the ICBC shares we held would have become free from transfer restrictions in equal installments on April 28, 2009 and October 20, 2009. During the quarter ended March 2009, the shares became subject to new supplemental transfer restrictions. Under these new supplemental transfer restrictions, on April 28, 2009, 20% of the ICBC shares that we held became free from transfer restrictions and we completed the disposition of these shares during the second quarter of 2009. Our remaining ICBC shares are subject to transfer restrictions, which prohibit liquidation at any time prior to April 28, 2010. As of December 2009, the fair value of our investment in the ordinary shares of ICBC was $8.11 billion, of which $5.13 billion is held by investment funds managed by Goldman Sachs. For further information regarding our investment in the ordinary shares of ICBC, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Fair Value Cash Instruments in Part II, Item 7 of this Annual Report on Form 10-K.

Asset Management and Securities Services

Asset Management and Securities Services represented 13% of 2009 net revenues. Our asset management business provides investment and wealth advisory services and offers investment products (primarily through separately managed accounts and commingled vehicles) across all major asset classes to a diverse group of institutions and individuals worldwide. Asset Management primarily generates revenues in the form of management and incentive fees. Securities Services provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide, and generates revenues primarily in the form of interest rate spreads or fees.

Our Asset Management and Securities Services segment is divided into two components: Asset Management and Securities Services.

Asset Management

Asset Management primarily consists of two related businesses Goldman Sachs Asset Management (GSAM) and Private Wealth Management (PWM) through which we offer a broad array of investment strategies and wealth advisory services to a diverse group of clients worldwide. In addition, Asset Management includes management fees related to our merchant banking activities.

GSAM. GSAM provides asset 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: money markets, fixed income, equities and alternative investments (including hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies). GSAM distributes investment products directly to the firm s institutional clients, including pension funds, governmental organizations, corporations, insurance

companies, banks, foundations and endowments, and indirectly to institutional and individual clients through third-party distribution channels, including brokerage firms, banks, insurance companies and other financial intermediaries. In addition, our Global Portfolio Solutions team offers clients investment and advisory services extending to risk management, portfolio implementation, reporting and monitoring.

PWM. PWM provides investment and wealth advisory services globally to high-net-worth individuals, family offices and selected institutions (principally foundations and endowments).

Management of Merchant Banking Funds. Goldman Sachs sponsors numerous corporate and real estate private investment funds. As of December 2009, the amount of Assets under management (AUM) in these funds (including both funded amounts and unfunded commitments on which we earn fees) was $93 billion.

Our strategy with respect to these funds generally is to invest opportunistically to build a portfolio of investments that is diversified by industry, product type, geographic region, and transaction structure and type. Our corporate investment funds pursue, on a global basis, long-term investments in equity and debt securities in privately negotiated transactions, leveraged buyouts, acquisitions and investments in funds managed by external parties. Our real estate investment funds invest in real estate operating companies, debt and equity interests in real estate assets, and other real estate-related investments. In addition, our merchant banking funds include funds that invest in infrastructure and infrastructure-related assets and companies on a global basis.

Merchant banking activities generate three primary revenue streams. First, we receive a management fee that is generally a percentage of a fund s committed capital, invested capital, total gross acquisition cost or asset value. These annual management fees are included in our Asset Management net revenues. Second, Goldman Sachs, as a substantial investor in some of these funds, is allocated its proportionate share of the funds unrealized appreciation or depreciation arising from changes in fair value as well as gains and losses upon realization. Third, after a fund has achieved a minimum return for fund investors, we receive an increased share of the fund s income and gains that is a percentage of the income and gains from the fund s investments. The second and third of these revenue streams are included in Principal Investments within our Trading and Principal Investments segment.

Assets under management. AUM typically generates fees as a percentage of asset value, which is affected by investment performance and by inflows and redemptions. The fees that we charge vary by asset class, as do our related expenses. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund s return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are recognized when the performance period ends (in most cases, on December 31) and they are no longer subject to adjustment.

AUM includes assets in our mutual funds, alternative investment funds and separately managed accounts for institutional and individual investors. Alternative investments include our merchant banking funds, which generate revenues as described above under Management of Merchant Banking Funds. AUM includes assets in clients brokerage accounts to the extent that they generate fees based on the assets in the accounts rather than commissions on transactional activity in the accounts.

AUM does not include assets in brokerage accounts that generate commissions, mark-ups and spreads based on transactional activity, or our own investments in funds that we manage. Net revenues from these assets are included in our Trading and Principal Investments segment. AUM also does not include non-fee-paying assets, including interest-bearing deposits held through our bank depository institution subsidiaries.

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The amount of AUM is set forth in the graph below. In the following graph, as well as in the following tables, substantially all assets under management are valued as of December 31 (in the case of 2009) and November 30 (in the case of earlier years):

Assets Under Management
(in billions)

The following table sets forth AUM by asset class:

Assets Under Management by Asset Class
(in billions)

	As of		
	December 31, 2009	**November 30, 2008**	**November 30, 2007**
Alternative investments [1]	$ 146	$ 146	$ 151
Equity	146	112	255
Fixed income	315	248	256
Total non-money market assets	607	506	662
Money markets	264	273	206
Total assets under management	$ 871	$ 779	$ 868

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

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The table below sets forth the amount of AUM by distribution channel and client category:

Assets Under Management by Distribution Channel
(in billions)

	As of		
	December 31, 2009	**November 30, 2008**	**November 30, 2007**
Directly Distributed			
Institutional	$ 297	$ 273	$ 354
High-net-worth individuals	231	215	219
Third-Party Distributed			
Institutional, high-net-worth individuals and retail	343	291	295
Total	$ 871	$ 779	$ 868

Securities Services

Securities Services provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

Prime brokerage services. We offer prime brokerage services to our clients, allowing them the flexibility to trade with most brokers while maintaining a single source for financing and consolidated portfolio reports. Our prime brokerage business provides clearing and custody in 53 markets globally and provides consolidated multi-currency accounting and reporting, fund administration and other ancillary services.

Financing services. A central element of our prime brokerage business involves providing financing to our clients for their securities trading activities through margin and securities loans that are collateralized by securities, cash or other acceptable collateral.

Securities lending services. Securities lending services principally involve the borrowing and lending of securities to cover clients and Goldman Sachs short sales and otherwise to make deliveries into the market. In addition, we are an active participant in the broker-to-broker securities lending business and the third-party agency lending business. As a general matter, net revenues in securities lending services in our second quarter are higher due to seasonally higher activity levels in Europe.

Global Investment Research

Global Investment Research provides fundamental research on companies, industries, economies, currencies and commodities and macro strategy research on a worldwide basis.

Global Investment Research employs a team approach that as of December 2009 provided research coverage of more than 3,000 companies worldwide and over 45 national economies. This is accomplished by the following departments:

The Equity Research Departments provide fundamental analysis, earnings forecasts and investment opinions for equity securities;

The Credit Research Department provides fundamental analysis, forecasts and investment opinions as to investment-grade and high-yield corporate bonds and credit derivatives; and

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The Global ECS Department formulates macroeconomic forecasts for economic activity, foreign exchange and interest rates, provides research on the commodity markets, and provides equity market forecasts, opinions on both asset and industry sector allocation, equity trading strategies, credit trading strategies and options research.

Further information regarding research at Goldman Sachs is provided below under Regulation Regulations Applicable in and Outside the United States and Legal Proceedings Research Independence Matters in Part I, Item 3 of this Annual Report on Form 10-K.

Business Continuity and Information Security

Business continuity and information security 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 the regulatory requirements of the Financial Industry Regulatory Authority. 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 of the firm and our clients. Safeguards are applied to maintain the confidentiality, integrity and availability of information resources.

Employees

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

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

As of December 2009, we had 32,500 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 Annual Report on 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 of our competitors globally and with others on a regional, product or niche basis. Our competition is based on a number of factors, including transaction execution, our products and services, innovation, reputation and price.

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We also face intense competition in attracting and retaining qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and 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 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 Annual Report on 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 had the ability for some time to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset management and investment banking services, which may enhance their competitive position. They also have had 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 trading 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.

We provide these commitments primarily through GS Bank USA and its subsidiaries (including the William Street entities) and through Goldman Sachs Lending Partners LLC. With respect to most of these commitments, SMFG provides us with credit loss protection that is generally limited to 95% of the first loss we realize on approved loan commitments, up to a maximum of approximately $950 million. In addition, subject to the satisfaction of certain conditions, upon our request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of $1.13 billion, of which $375 million of protection has been provided as of December 2009. We also use other financial instruments to mitigate credit risks related to certain of these commitments that are not covered by SMFG. See Note 8 to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for more information regarding the William Street entities and for a description of the credit loss protection provided by SMFG. An increasing number of our commitments in connection with investment banking and other assignments are made through GS Bank USA and its subsidiaries (other than the William Street entities) or our other subsidiaries. In addition, an increasing number of these commitments do not benefit from the SMFG loss protection.

The trend toward consolidation and convergence has significantly increased the capital base and geographic reach of some of our competitors. This trend has also hastened the globalization of the securities and other financial services markets. As a result, we have had to commit capital to support our international operations and to execute large global transactions. To take advantage of some of our most significant challenges and opportunities, we will have to compete successfully with financial institutions that are larger and better capitalized 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

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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.

Regulation

Goldman Sachs, as a participant in the banking, securities, commodity futures and options and insurance industries, is subject to extensive regulation in the United States and the other countries in which we operate. See Risk Factors Our businesses and those of our clients are subject to extensive and pervasive regulation around the world in Part I, Item 1A of this Annual Report on Form 10-K for a further discussion of the effect that regulation may have on our businesses. As a matter of public policy, regulatory bodies around the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of clients participating in those markets, including depositors in U.S. depository institutions such as GS Bank USA. They are not, however, generally charged with protecting the interests of Goldman Sachs shareholders or creditors.

Recent market disruptions have led to numerous proposals in the United States and internationally for potentially significant changes in the regulation of the financial services industry. See Risk Factors Our business and those of our clients are subject to extensive and pervasive regulation around the world in Part I, Item 1A of this Annual Report on Form 10-K for a further discussion of some of these proposals and their potential impact on us.

Banking Regulation

On September 21, 2008, Group Inc. became a bank holding company under the BHC Act. As of that date, the Federal Reserve Board became the primary U.S. regulator of Group Inc., as a consolidated entity. As of August 14, 2009, Group Inc. elected to become a financial holding company under the U.S. Gramm-Leach-Bliley Act of 1999 (GLB Act), as described below.

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 supervises Group Inc., including all of its nonbank subsidiaries, as an umbrella regulator of the consolidated organization and generally defers to the primary U.S. regulators of Group Inc. s U.S. depository institution subsidiary, as applicable, and to the other U.S. regulators of Group Inc. s U.S. non-depository institution subsidiaries that regulate certain activities of those subsidiaries. Such functionally regulated non-depository institution 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 advisors registered with the SEC with respect to their investment advisory activities and entities regulated by the U.S. Commodity Futures Trading Commission (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 under the GLB Act, we may engage in a broader range of financial and related activities than are permissible for bank holding companies as long as we continue to meet the eligibility requirements for financial holding companies. These activities include underwriting, dealing and making markets in securities, insurance underwriting and making merchant banking 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 were impermissible for bank holding companies as of September 30, 1997, if the assets held pursuant to these activities do not equal 5% or more of our consolidated assets. Our ability to maintain financial holding company status is dependent on a number of factors, including our U.S. depository institution subsidiaries continuing to qualify as well capitalized and well-managed as described under Prompt Corrective Action below.

Although we do not believe that any activities that are material to our current or currently proposed business are impermissible activities for us as a financial holding company, the BHC Act also grants a new bank holding company, such as Group Inc., two years from the date the entity becomes a bank holding company to comply with the restrictions on its activities imposed by the BHC Act with respect to any activities in which it was engaged when it became a bank holding company. In addition, under the BHC Act, we can apply to the Federal Reserve Board for up to three one-year extensions.

As a bank holding company, Group Inc. is required to obtain prior Federal Reserve Board approval before directly or indirectly acquiring more than 5% of any class of voting shares of any unaffiliated depository institution. In addition, as a bank holding company, we may generally engage in banking and other financial activities abroad, including investing in and owning non-U.S. banks, if those activities and investments do not exceed certain limits and, in some cases, if we have obtained the prior approval of the Federal Reserve Board.

Capital Requirements

We are subject to regulatory capital requirements administered by the U.S. federal banking agencies. Our 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 (PCA) that is applicable to GS Bank USA, Goldman Sachs and its 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. Goldman Sachs and its bank depository institution subsidiaries capital amounts, as well as GS Bank USA s PCA classification, are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

We report capital ratios computed in accordance with the regulatory capital requirements currently applicable to bank holding companies, which are based on the Capital Accord of the Basel Committee on Banking Supervision (Basel I). These ratios are used by the Federal Reserve Board and other U.S. federal banking agencies in the supervisory review process, including the assessment of the firm s capital adequacy.

Our Tier 1 capital consists of common shareholders equity, qualifying preferred stock and our junior subordinated debt issued to trusts, less deductions for goodwill, disallowed intangible assets and other items. Our total capital consists of our Tier 1 capital and our qualifying subordinated debt, less certain deductions. Our total capital ratio is equal to total capital as a percentage of Risk-Weighted Assets (RWAs), which are calculated in accordance with the Federal Reserve Board s risk-based capital requirements, and our Tier 1 capital ratio is equal to Tier 1 capital as a percentage of RWAs. The calculation of RWAs is based on the amount of the firm s market risk and credit risk. Certain measures included in the calculation of the firm s RWAs for market risk are under review by the Federal Reserve Board. Additional information on the calculation of our Tier 1 capital, total capital and RWAs is set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations Equity Capital Consolidated Capital Requirements, and in Note 17 to the consolidated financial statements, which are in Part II, Items 7 and 8 of this Annual Report on Form 10-K.

As of December 2009, our total capital ratio was 18.2%, and our Tier 1 capital ratio was 15.0%.

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We are currently working to implement the requirements set out in the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee on Banking Supervision (Basel II) as applicable to us as a bank holding company. U.S. banking regulators have incorporated the Basel II framework into the existing risk-based capital requirements by requiring that internationally active banking organizations, such as Group Inc., transition to Basel II over several years. During a parallel period, we anticipate that Group Inc. s capital calculations computed under both the Basel I rules and the Basel II rules will be reported to the Federal Reserve Board for examination and compliance for at least four consecutive quarterly periods. Once the parallel period and subsequent three-year transition period are successfully completed, Group Inc. will utilize the Basel II framework as its means of capital adequacy assessment, measurement and reporting and will discontinue use of Basel I. The Basel II framework was implemented in several countries during the second half of 2007 and in 2008, while others began implementation in 2009. The Basel II rules therefore already apply to certain of our operations in non-U.S. jurisdictions.

The Federal Reserve Board also has established minimum leverage ratio requirements. The Tier 1 leverage ratio is defined as Tier 1 capital under Basel I divided by adjusted average total assets (which includes adjustments for disallowed goodwill and certain intangible assets). 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%. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile and growth plans. As of December 2009, our Tier 1 leverage ratio under Basel I was 7.6%.

Payment of Dividends

Federal and state law imposes limitations on the payment of dividends by our bank depository institution subsidiaries. The amount of dividends that may be paid by a state-chartered bank that is a member of the Federal Reserve System, such as 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 a bank 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 bank obtains the approval of its chartering authority. Under the undivided profits test, a dividend may not be paid in excess of a bank s undivided profits. New York law imposes similar limitations on New York State-chartered banks. As of December 2009, GS Bank USA could have declared dividends of $3.30 billion to Group Inc. in accordance with these limitations. In addition to the dividend restrictions described above, the banking regulators have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise 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.

It is also the policy of the Federal Reserve Board that a bank holding company generally only pay dividends on common stock out of net income available to common shareholders over the past year and only if the prospective rate of earnings retention appears consistent with the bank holding company s capital needs, asset quality, and overall financial condition. In the current financial and economic environment, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios that are at the 100% level unless both asset quality and capital are very strong. A bank holding company also should not maintain a dividend level that places undue pressure on the capital of bank depository institution subsidiaries, or that may undermine the bank holding company s ability to serve as a source of strength for such bank depository institution subsidiaries. Under temporary guidelines in effect for the near- to medium-term, certain large bank holding companies (including Group Inc.) are required to consult with the Federal Reserve Board before increasing dividends. In addition, certain of Group Inc. s nonbank subsidiaries are subject to separate regulatory limitations on dividends and distributions, including our broker-dealer and our insurance subsidiaries as described below.

Source of Strength

Under Federal Reserve Board policy, Group Inc. is expected to act as a source of strength to GS Bank USA and to commit capital and financial resources to support this subsidiary. Such 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 any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulator to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

However, because the BHC Act provides for functional regulation of bank holding company activities by various regulators, the BHC Act prohibits the Federal Reserve Board from requiring payment by a holding company or subsidiary to a depository institution if the functional regulator of the payor 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.

Cross-guarantee Provisions

Each insured depository institution controlled (as defined in the BHC Act) by the same bank holding company can be held liable to the U.S. Federal Deposit Insurance Corporation for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of any other insured depository institution controlled by that holding company and for any assistance provided by the FDIC to any of those banks that is in danger of default. Such a cross-guarantee claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against that depository institution. At this time, we control only one insured depository institution for this purpose, namely GS Bank USA. However, if, in the future, we were to control other insured depository institutions, such cross-guarantee would apply to all such insured depository institutions.

Compensation Practices

Our compensation practices are subject to oversight by the Federal Reserve Board. In October 2009, the Federal Reserve Board issued a comprehensive proposal on incentive compensation policies that applies to all banking organizations supervised by the Federal Reserve Board, including bank holding companies such as Group Inc. The proposal sets forth three key principles for incentive compensation arrangements that are designed to help ensure that incentive compensation plans do not encourage excessive risk-taking and are consistent with the safety and soundness of banking organizations. The three principles provide that a banking organization s incentive compensation arrangements should provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, be compatible with effective internal controls and risk management, and be supported by strong corporate governance. The proposal also contemplates a detailed review by the Federal Reserve Board of the incentive compensation policies and practices of a number of large, complex banking organizations, including us. Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The proposal 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 and the organization is not taking prompt and effective measures to correct the deficiencies. The scope and content of the Federal Reserve Board s policies on executive compensation are continuing to develop, and we expect that these policies will evolve over a number of years.

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In September 2009, the Financial Stability Board, established at the direction of the leaders of the Group of 20, 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. Thus far, regulators in a number of countries, including the United Kingdom, France and Germany, have proposed or adopted policies related to compensation at financial institutions. These policies are in addition to the proposals made by the Federal Reserve Board in October 2009. The United Kingdom has proposed a non-deductible 50% tax on certain financial institutions in respect of discretionary bonuses in excess of £25,000 awarded under arrangements made between December 9, 2009 and April 5, 2010 to relevant banking employees. Separately, the FDIC has solicited comments on whether to amend its risk-based deposit insurance assessment system to potentially increase assessment rates on financial institutions with compensation programs that put the Deposit Insurance Fund at risk.

FDIC Temporary Liquidity Guarantee Program

Group Inc. and GS Bank USA participated in the FDIC s Temporary Liquidity Guarantee Program (TLGP), which applied to, among others, all U.S. depository institutions insured by the FDIC and all U.S. bank holding companies, unless they opted out of the TLGP or the FDIC terminated their participation. Under the TLGP, the FDIC guarantees certain senior unsecured debt of Group Inc., and, until December 31, 2009, guaranteed noninterest-bearing transaction account deposits at GS Bank USA, and in return for these guarantees the FDIC was paid a fee based on the amount of the deposit or the amount and maturity of the debt. Under the debt guarantee component of the TLGP, the FDIC will pay the unpaid principal and interest on an FDIC-guaranteed debt instrument upon the uncured failure of the participating entity to make a timely payment of principal or interest in accordance with the terms of the instrument. We have not issued long-term debt under the TLGP since March 2009, and all of our previously issued debt under the TLGP will mature on or prior to June 15, 2012. The debt guarantee component expired with respect to new issuances by us on October 31, 2009. Effective January 1, 2010, GS Bank USA is not participating in the transaction account guarantee component of the TLGP. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Funding Risk Asset-Liability Management in Part II, Item 7 of this Annual Report on Form 10-K for a further discussion of our participation in the TLGP.

GS Bank USA

Our U.S. depository institution subsidiary, GS Bank USA, a New York State-chartered bank and a member of the Federal Reserve System and the FDIC, is regulated by the Federal Reserve Board and the New York State Banking Department and is subject to minimum capital requirements that (subject to certain exceptions) are similar to those applicable to bank holding companies. A number of our businesses are conducted partially or entirely through GS Bank USA and its subsidiaries, including: bank loan trading and origination; interest rate, credit, currency and other derivatives; leveraged finance; commercial and residential mortgage origination, trading and servicing; structured finance; and agency lending, custody and hedge fund administration services. These businesses are subject to regulation by the Federal Reserve Board, the New York State Banking Department and the FDIC.

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, which depend on the risk category of an institution and the amount of insured deposits that it holds. The FDIC required us to prepay our 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. We also participated in the TLGP as discussed above under FDIC Temporary Liquidity Guarantee Program.

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Prompt Corrective Action

The U.S. Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, requires the federal banking agencies to take prompt corrective action in respect of depository institutions that do not meet specified capital requirements. FDICIA establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution is generally deemed to be well capitalized, the highest category, if it has a total capital ratio of 10% or greater, a Tier 1 capital ratio of 6% or greater and a Tier 1 leverage ratio of 5% or greater. In connection with the November 2008 asset transfer described under Transactions with Affiliates below, GS Bank USA agreed with the Federal Reserve Board to 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 of December 2009, GS Bank USA s Tier 1 capital ratio was 14.9%, its total capital ratio was 19.3% and its Tier 1 leverage ratio was 15.4%. 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 I 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.

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 parent holding company, the guarantee would take priority over the parent s general unsecured creditors.

Insolvency of an Insured Depository Institution

If the FDIC is appointed the conservator or receiver of 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 without the approval of the depository institution s creditors;

- to enforce the terms of the depository institution s contracts pursuant to their terms; 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 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 the depository institution.

Transactions with Affiliates

Transactions between GS Bank USA and Group Inc. and its subsidiaries and affiliates 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) that may take place and generally require those transactions to be on an arms-length basis. These regulations generally do not apply to transactions between GS Bank USA and its subsidiaries. In November 2008, Group Inc. transferred assets and operations to GS Bank USA. In connection with this transfer, Group Inc. entered into a guarantee agreement with GS Bank USA whereby Group Inc. agreed to (i) purchase from GS Bank USA certain transferred assets (other than derivatives and mortgage servicing rights) or reimburse GS Bank USA for certain losses relating to those assets; (ii) reimburse GS Bank USA for credit-related losses from assets transferred to GS Bank USA; and (iii) protect GS Bank USA or reimburse it for certain losses arising from derivatives and mortgage servicing rights transferred to GS Bank USA. In accordance with the guarantee agreement, as of December 2009, Group Inc. is also required to pledge approximately $4 billion of collateral to GS Bank USA.

Trust Companies

Group Inc. s two limited purpose trust company subsidiaries operate under state or federal law. They 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 and as 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. Goldman Sachs Execution & Clearing, L.P. (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 businesses.

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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 the CEA. 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 businesses of these entities.

GS&Co. and GSEC are subject to Rule 15c3-1 of the SEC and Rule 1.17 of the CFTC, which specify uniform minimum net capital requirements 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 2009, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of $13.65 billion, which exceeded the amount required by $11.81 billion. As of December 2009, GSEC had regulatory net capital, as defined by Rule 15c3-1, of $1.97 billion, which exceeded the amount required by $1.86 billion. 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 2009, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements. These net capital requirements may have the effect of prohibiting these entities from distributing or withdrawing capital and may require prior notice to the SEC for certain withdrawals of capital. See Note 17 to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

Our exchange-based market-making businesses are subject to extensive regulation by a number of securities exchanges. As a Designated Market Maker 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 Designated Market Maker 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 businesses, 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 Annual Report on Form 10-K.

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Other Regulation in the United States

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 businesses, including our lending and mortgage businesses, 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 businesses.

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. The obligation of financial institutions, including Goldman Sachs, to identify their clients, to monitor for and report suspicious transactions, 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.

Regulation Outside the United States

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. As of December 2009, GSI was in compliance with the FSA capital requirements. Other subsidiaries, including Goldman Sachs International Bank, are also regulated by the FSA.

Goldman Sachs Bank (Europe) PLC (GS Bank Europe), our regulated Irish bank, is subject to minimum capital requirements imposed by the Irish Financial Services Regulatory Authority. As of December 2009, this bank was in compliance with all regulatory capital requirements. Group Inc. has issued a general guarantee of the obligations of this bank.

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, Banque de France 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 in Russia and the Swiss Financial Market Supervisory Authority. Certain Goldman Sachs entities are also regulated by the European securities, derivatives and commodities exchanges of which they are members.

The investment services that are subject to oversight by the FSA and other regulators within the European Union (EU) are regulated in accordance with national laws, many of which implement EU directives requiring, among other things, compliance with certain capital adequacy standards, customer protection requirements and market conduct and trade reporting rules. These standards, requirements and rules are similarly implemented, under the same directives, throughout the EU.

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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 2009, 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 and the Ministry of Economy, Trade and Industry in Japan.

Also in Asia, 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 and the Securities and Exchange Board of India, 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 other non-U.S. countries in which Goldman Sachs operates, including, among others, Brazil and Dubai. In addition, certain of our insurance subsidiaries are part of the Lloyd s market (which is regulated by the FSA) and certain 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, none of which has had a material adverse effect on us or our businesses.

The SEC and FINRA have rules governing research analysts, including rules imposing restrictions on the interaction between equity research analysts and investment banking personnel at member securities firms. Various non-U.S. jurisdictions have imposed both substantive and disclosure-based requirements with respect to research and may impose additional regulations. In 2003, GS&Co. agreed to a global settlement with certain federal and state securities regulators and self-regulatory organizations to resolve investigations into equity research analysts alleged conflicts of interest. The global settlement includes certain restrictions and undertakings that impose costs and limitations on the conduct of our businesses, including restrictions on the interaction between research and investment banking areas.

Our investment management businesses are 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 European Union 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.

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Item 1A. Risk Factors

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

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

Our businesses, by their nature, do not produce predictable earnings, and all of our businesses are materially affected by conditions in the global financial markets and economic conditions generally. In the past several years, these conditions have changed suddenly and, for a period of time, very negatively.

In 2008 and through early 2009, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities. The global markets during this period were characterized by substantially increased volatility and short-selling and an overall loss of investor and public confidence. The decline in asset values caused increases in margin calls for investors, requirements that derivatives counterparties post additional collateral and redemptions by mutual and hedge fund investors, all of which increased the downward pressure on asset values and outflows of client funds across the financial services industry. While the markets have generally stabilized and improved since the first quarter of 2009, asset values for many asset classes have not returned to previous levels. Business, financial and economic conditions, particularly unemployment levels, lending activities and the housing markets, continue to be negatively impacted by the events of recent years.

Market conditions led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures resulted in further losses as a consequence of defaults on securities issued by them and defaults under bilateral derivatives and other contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, combined to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in central bank borrowing rates and other government actions.

Banks and other lenders have suffered significant losses and some have become reluctant to lend, even on a secured basis, due to the increased risk of default, the impact of declining asset values on the value of collateral and the impact of risky assets and transactions on capital requirements. In addition, some financial institutions are unwilling to sell assets where the value of such assets are not marked-to-market and would have to be sold at a loss because they are worth significantly less than their current book value. The markets for securitized debt offerings backed by mortgages, loans, credit card receivables and other assets, which for the most part were closed during 2008 and the beginning of 2009, have very recently begun to reopen.

Since 2008, governments, regulators and central banks in the United States and worldwide have taken numerous steps to increase liquidity and to restore investor and public confidence. In addition, there are numerous legislative and regulatory actions that have been taken or proposed to deal with what regulators, politicians and others believe to be the root causes of the financial crisis, including proposals relating to financial institution capital requirements and compensation practices, proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage and the size of financial institutions, and proposals to impose additional taxes on certain financial institutions, as well as proposals calling for increased regulatory scrutiny and coordination with respect to the financial services industry and markets. It is presently unclear which of these proposals will be adopted and in what form and whether the net effect of such proposals will in fact be positive or negative for the financial markets over either the short or long-term.

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During 2009, the economies of the United States, Europe and Japan experienced a recession. Business activity across a wide range of industries and regions has been greatly reduced and many companies were, and some continue to be, in serious difficulty due to reduced consumer spending and low levels of liquidity in the credit markets. National and local governments are facing difficult financial conditions due to significant reductions in tax revenues, particularly from corporate and personal income taxes, as well as increased outlays for unemployment benefits due to high unemployment levels and the cost of stimulus programs.

Declines in asset values, the lack of liquidity, general uncertainty about economic and market activities and a lack of consumer, investor and CEO confidence have negatively impacted many of our businesses, including our investment banking, merchant banking, asset management, leveraged lending and equity principal strategies businesses.

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

The business environment became generally more favorable after the first quarter of 2009, but there can be no assurance that these conditions will continue in the near or long term. If they do not, our results of operations may be adversely affected.

Our businesses have been and may be adversely affected by declining asset values.

Many of our businesses, such as our merchant banking businesses, our mortgages, leveraged loan and credit products businesses in our FICC segment, and our equity principal strategies business, have net long positions in debt securities, loans, derivatives, mortgages, equities (including private equity) and most other asset classes. In addition, many of our market-making and other businesses in which we act as a principal to facilitate our clients activities, including our exchange-based market-making businesses, commit large amounts of capital to maintain trading positions in interest rate and credit products, as well as currencies, commodities and equities. Because nearly all of these investing and trading positions are marked-to-market on a daily basis, declines in asset values directly and immediately impact our earnings, unless we have effectively hedged our exposures to such declines. In certain circumstances (particularly in the case of leveraged loans and private equities or other securities that are not freely tradable or lack established and liquid trading markets), it may not be possible or economic to hedge such exposures and to the extent that we do so the hedge may be ineffective or may greatly reduce our ability to profit from increases in the values of the assets. Sudden declines and significant volatility in the prices of assets may substantially curtail or eliminate the trading markets for certain assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions and the difficulty in valuing assets may require us to maintain additional capital and increase our funding costs.

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

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

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

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

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

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

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

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

Certain of our trading businesses depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect the results of these businesses. On the other hand, increased volatility, while it can increase trading volumes and spreads, also increases risk as measured by VaR and may expose us to increased risks in connection with our market-making and proprietary businesses or cause us to reduce the size of these businesses in order to avoid increasing our VaR. Limiting the size of our market-making positions and investing businesses can adversely affect our profitability, even though spreads are widening and we may earn more on each trade. In periods when volatility is increasing, but asset values are declining significantly, it may not be possible to sell assets at all or it may only be possible to do so at steep discounts. In such circumstances we may be forced to either take on additional risk or to incur losses in order to decrease our VaR. In addition, increases in volatility increase the level of our risk weighted assets and increase our capital requirements which in turn increases our funding costs.

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

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

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

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

Our investing businesses may be affected by the poor investment performance of our investment products.

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

We have in the past provided financial support to certain of our investment products in difficult market circumstances and, at our discretion, we may decide to do so in the future for reputational or business reasons, including through equity investments or cash infusions.

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

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

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The models that we use to assess and control our risk exposures reflect assumptions about the degrees of correlation or lack thereof among prices of various asset classes or other market indicators. In times of market stress or other unforeseen circumstances, such as occurred during 2008 and early 2009, previously uncorrelated indicators may become correlated, or conversely previously correlated indicators may move in different directions. These types of market movements have at times limited the effectiveness of our hedging strategies and have caused us to incur significant losses, and they may do so in the future. These changes in correlation can be exacerbated where other market participants are using risk or trading models with assumptions or algorithms that are similar to ours. In these and other cases, it may be difficult to reduce our risk positions due to the activity of other market participants or widespread market dislocations, including circumstances where asset values are declining significantly or no market exists for certain assets. To the extent that we make investments directly through various of our businesses in securities, including private equity, that do not have an established liquid trading market or are otherwise subject to restrictions on sale or hedging, we may not be able to reduce our positions and therefore reduce our risk associated with such positions. In addition, we invest our own capital in our merchant banking, alternative investment and infrastructure funds, and limitations on our ability to withdraw some or all of our investments in these funds, whether for legal, reputational or other reasons, may make it more difficult for us to control the risk exposures relating to these investments.

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

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

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

The financial instruments that we hold and the contracts to which we are a party are complex, as we employ structured products to benefit our clients and ourselves, and these complex structured products often do not have readily available markets to access in times of liquidity stress. Our investing activities may lead to situations where the holdings from these activities represent a significant portion of specific markets, which could restrict liquidity for our positions. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis. In addition, financial institutions with which we interact may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair our access to liquidity.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, limit our access to the capital markets or trigger our obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with Goldman Sachs or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

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

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

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

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

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

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

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

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

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our market-making, proprietary trading, investing, block trading, merchant banking, underwriting and lending businesses. This risk may increase to the extent we expand our market-making, trading, investing and lending businesses. The number and size of such transactions may affect our results of operations in a given period. Moreover, because of concentration of risk, we may suffer losses even when economic and market conditions are generally favorable for our competitors. Disruptions in the credit markets can make it difficult to hedge these credit exposures effectively or economically. In addition, we extend large commitments as part of our credit origination activities. Our inability to reduce our credit risk by selling, syndicating or securitizing these positions, including during periods of market stress, could negatively affect our results of operations due to a decrease in the fair value of the positions, including due to the insolvency or bankruptcy of the borrower, as well as the loss of revenues associated with selling such securities or loans.

In the ordinary course of business, we may be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, and a failure or downgrade of, or default by, such entity could negatively impact our businesses, perhaps materially, and the systems by which we set limits and monitor the level of our credit exposure to individual entities, industries and countries may not function as we have anticipated. While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, clearing houses, exchanges and investment funds. This has resulted in significant credit concentration with respect to this industry. To the extent regulatory or market developments lead to an increased centralization of trading activity through particular clearing houses, central agents or exchanges, this may increase our concentration of risk with respect to these entities.

The financial services industry is highly competitive.

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

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

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

A number of our recent and planned business initiatives and expansions of existing businesses may bring us into contact, directly or indirectly, with individuals and entities that are not within our traditional client and counterparty base and expose us to new asset classes and new markets. These business activities expose us to new and enhanced risks, including risks associated with dealing with governmental entities, reputational concerns arising from dealing with less sophisticated counterparties and investors, greater regulatory scrutiny of these activities, increased credit-related, sovereign and operational risks, risks arising from accidents or acts of terrorism, and reputational concerns with the manner in which these assets are being operated or held.

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

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

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

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

Our performance is largely dependent on the talents and efforts of highly skilled individuals; therefore, our continued ability to compete effectively in our businesses, to manage our businesses effectively and to expand into new businesses and geographic areas depends on our ability to attract new employees and to retain and motivate our existing employees. Competition from within the financial services industry and from businesses outside the financial services industry for qualified employees has often been intense. This is particularly the case in emerging markets, where we are often competing for qualified employees with entities that have a significantly greater presence or more extensive experience in the region.

As described further in Business Regulation Banking Regulation Compensation Practices in Part I, Item 1 of this Annual Report on Form 10-K, our compensation practices are subject to review by, and the standards of, the Federal Reserve Board. As a large financial and banking institution, we may be subject to limitations on compensation practices (which may or may not affect our competitors) by the Federal Reserve Board, the FDIC or other regulators worldwide. These limitations, including any imposed by or as a result of future legislation or regulation or the Federal Reserve Board s proposal on incentive compensation policies, may require us to alter our compensation practices in ways that could adversely affect our ability to attract and retain talented employees. We may also be required to make additional disclosure with respect to the compensation of employees, including non-executive officers, in a manner that directly or indirectly results in the identity of such employees and their compensation being made public. Any such additional public disclosure of employee compensation may also make it difficult to attract and retain talented employees.

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

As a participant in the financial services industry and a bank holding company, we are subject to extensive regulation in jurisdictions around the world. We face the risk of significant intervention by regulatory and taxing authorities in all jurisdictions in which we conduct our businesses. Among other things, as a result of regulators enforcing existing laws and regulations, we could be fined, prohibited from engaging in some of our business activities, subject to limitations or conditions on our business activities or subjected to new or substantially higher taxes or other governmental charges in connection with the conduct of our business or with respect to our employees. In addition, recent market disruptions have led to numerous proposals in the United States and internationally for changes in the regulation and taxation of the financial services industry, including increased capital or new liquidity or leverage requirements for banks.

There is also the risk that new laws or regulations or changes in enforcement of existing laws or regulations applicable to our businesses or those of our clients, including tax burdens and compensation restrictions, could be imposed on a limited subset of financial institutions (either based on size, activities, geography or other criteria), which may adversely affect our ability to compete effectively with other institutions that are not affected in the same way.

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

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

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

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

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

Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as the information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. As our client base and our geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, adversely affecting our ability to process these transactions or provide these services. We must continuously update these systems to support our operations and growth. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones.

In addition, we also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions, and as our interconnectivity with our clients grows, we increasingly face the risk of operational failure with respect to our clients systems. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses, which has increased our exposure to operational failure, termination or capacity constraints of the particular financial intermediaries that we use and could affect our ability to find adequate and cost-effective alternatives in the event of any such failure, termination or constraint. Industry consolidation, whether among market participants or financial intermediaries, increases the risk of operational failure as disparate complex systems need to be integrated, often on an accelerated basis.

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

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

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

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients or counterparties confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients , our counterparties or third parties operations, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

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

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

As we have expanded the scope of our businesses and our client base, we increasingly must address potential conflicts of interest, including situations where our services to a particular client or our own investments or other interests conflict, or are perceived to conflict, with the interests of another client, as well as situations where one or more of our businesses have access to material non-public information that may not be shared with other businesses within the firm and situations where we may be a creditor of an entity with which we also have an advisory or other relationship. In addition, our status as a bank holding company subjects us to heightened regulation and increased regulatory scrutiny by the Federal Reserve Board with respect to transactions between GS Bank USA and entities that are or could be seen as affiliates of ours.

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

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

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

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity have not been and may not be effective in all cases.

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

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

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

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

We may incur substantial costs in complying with current or future laws and regulations relating to our commodities-related businesses and investments, particularly electric power generation, transportation and storage of physical commodities and wholesale sales and trading of electricity and natural gas. Compliance with these laws and regulations could require us to commit significant capital toward environmental monitoring, installation of pollution control equipment, renovation of storage

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

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

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Item 2. Properties

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

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

We have additional offices in the U.S. and elsewhere in the Americas, which together comprise approximately 2.8 million rentable square feet of leased space.

In Europe, the Middle East and Africa, we have offices that total approximately 2.2 million rentable square feet. Our European headquarters is located in London at Peterborough Court, pursuant to a lease expiring in 2026. In total, we lease approximately 1.6 million rentable square feet in London through various leases, relating to various properties.

In Asia, we have offices that total approximately 1.6 million rentable square feet. Our headquarters in this region are in Tokyo, at the Roppongi Hills Mori Tower, and in Hong Kong, at the Cheung Kong Center. In Tokyo, we currently lease approximately 440,000 rentable square feet, the majority of which will expire in 2018. In Hong Kong, we currently lease approximately 310,000 rentable square feet under lease agreements, the majority of which will expire in 2011.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. In 2009, we incurred exit costs of $61 million related to our office space. We may incur exit costs in the future to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

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Item 3. Legal Proceedings

We are involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of our businesses. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition, but might be material to our operating results for any particular period, depending, in part, upon the operating results for such period. Given the range of litigation and investigations presently under way, our litigation expenses can be expected to remain high.

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 in recent years.

GS&Co. has, together with other underwriters in certain offerings as well as the issuers and certain of their officers and directors, been named as a defendant in a number of related lawsuits filed in the U.S. District Court for the Southern District of New York alleging, among other things, that the prospectuses for the offerings violated the federal securities laws by failing to disclose the existence of alleged arrangements tying allocations in certain offerings to higher customer brokerage commission rates as well as purchase orders in the aftermarket, and that the alleged arrangements resulted in market manipulation. On April 2, 2009, the parties entered into a definitive settlement agreement, and by a decision dated October 5, 2009, the district court approved the proposed settlement. On October 23, 2009, certain objectors filed a petition in the U.S. Court of Appeals for the Second Circuit seeking review of the district court s certification of a class for purposes of the settlement, and various objectors have appealed certain aspects of the settlement s approval.

GS&Co. is among numerous underwriting firms named as defendants in a number of complaints filed commencing October 3, 2007, in the U.S. District Court for the Western District of Washington alleging violations of the federal securities laws in connection with offerings of securities for 16 issuers during 1999 and 2000. The complaints generally assert that the underwriters, together with each issuer s directors, officers and principal shareholders, entered into purported agreements to tie allocations in the offerings to increased brokerage commissions and aftermarket purchase orders. The complaints further allege that, based upon these and other purported agreements, the underwriters violated the reporting provisions of, and are subject to short-swing profit recovery under, Section 16 of the Exchange Act. On October 29, 2007, the cases were reassigned to a single district judge. The district court granted defendants motions to dismiss by a decision dated March 12, 2009. On March 31, 2009, plaintiff appealed from the dismissal order.

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. The court granted GS&Co. s motion to dismiss as to five of the claims; plaintiff appealed from the dismissal of the five claims, and GS&Co. appealed from the denial of its motion as to the remaining claim. The New York Appellate Division, First Department affirmed in part and reversed in part the lower court s ruling on the firm s motion to dismiss, permitting all claims to proceed except the claim for fraud, as to which the appellate court granted leave to replead, and the New York Court of Appeals affirmed in part and reversed in part, dismissing claims for breach of contract, professional malpractice and unjust enrichment, but permitting claims for breach of fiduciary duty and fraud to continue. On remand to the lower court, GS&Co. moved to dismiss the surviving claims or, in the alternative, for summary judgment, but the motion was denied by a decision dated March 21, 2006, and the court subsequently permitted plaintiff to amend the complaint again.

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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, by a decision dated May 3, 2007, 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 on November 27, 2009 affirmed the rulings of the Court of Appeals, except found certain additional aspects of the offering materials actionable and held that GSI and ABN AMRO could potentially be held responsible for certain public statements and press releases by World Online and its former CEO.

Research Independence Matters

GS&Co. is one of several investment firms that have been named as defendants in substantively identical purported class actions filed in the U.S. District Court for the Southern District of New York alleging violations of the federal securities laws in connection with research coverage of certain issuers and seeking compensatory damages. In one such action, relating to coverage of RSL Communications, Inc. commenced on July 15, 2003, GS&Co. s motion to dismiss the complaint was denied. The district court granted the plaintiffs motion for class certification and the U.S. Court of Appeals for the Second Circuit, by an order dated January 26, 2007, vacated the district court s class certification and remanded for reconsideration. By a decision dated August 4, 2009, the district court granted plaintiffs renewed motion seeking class certification. Defendants petition with the appellate court seeking review of the certification ruling was denied on January 25, 2010.

A purported shareholder derivative action was filed in New York Supreme Court, New York County on June 13, 2003 against Group Inc. and its board of directors, which, as amended on March 3, 2004 and June 14, 2005, alleges that the directors breached their fiduciary duties in connection with the firm s research as well as the firm s IPO allocations practices.

Group Inc., GS&Co. and Henry M. Paulson, Jr., the former Chairman and Chief Executive Officer of Group Inc., have been named as defendants in a purported class action filed on July 18, 2003 on behalf of purchasers of Group Inc. stock from July 1, 1999 through May 7, 2002. The complaint, now pending in the U.S. District Court for the Southern District of New York, alleges that defendants breached their fiduciary duties and violated the federal securities laws in connection with the firm s research activities and seeks, among other things, unspecified compensatory damages and/or rescission. The district court granted the defendants motion to dismiss with leave to amend, and plaintiffs filed a second amended complaint. In a decision dated September 29, 2006 on defendants renewed motion to dismiss, the federal district court granted Mr. Paulson s motion with leave to replead but otherwise denied the motion. Plaintiffs motion for class certification was granted by a decision dated September 15, 2008. The Goldman Sachs defendants petition for review of the district court s class certification ruling was denied by the U.S. Court of Appeals for the

Second Circuit on March 19, 2009.

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Group Inc. and its affiliates, together with other financial services firms, have received requests for information from various governmental agencies and self-regulatory organizations in connection with their review of research related issues. Goldman Sachs has cooperated with these requests. See Business Regulation Regulations Applicable in and Outside the United States in Part I, Item 1 of our Annual Report on Form 10-K for a discussion of our global research settlement.

Enron Litigation Matters

Goldman Sachs affiliates are defendants in certain actions relating to Enron Corp., which filed for protection under the U.S. bankruptcy laws on December 2, 2001.

GS&Co. and co-managing underwriters have been named as defendants in certain purported securities class and individual actions commenced beginning on December 14, 2001 in the U.S. District Court for the Southern District of Texas and California Superior Court brought by purchasers of $255,875,000 (including over-allotments) of Exchangeable Notes of Enron Corp. in August 1999. The notes were mandatorily exchangeable in 2002 into shares of Enron Oil & Gas Company held by Enron Corp. or their cash equivalent. The complaints also name as defendants Group Inc. as well as certain past and present officers and directors of Enron Corp. and the company s outside accounting firm. The complaints generally allege violations of the disclosure requirements of the federal securities laws and/or state law, and seek compensatory damages. GS&Co. underwrote $127,937,500 (including over-allotments) principal amount of the notes. Group Inc. and GS&Co. moved to dismiss the class action complaint in the Texas federal court and the motion was granted as to Group Inc. but denied as to GS&Co. One of the plaintiffs moved for class certification, and GS&Co. moved for judgment on the pleadings against all plaintiffs. The parties subsequently reached a settlement pursuant to which GS&Co. has contributed $11.5 million to a settlement fund, and the district court approved the settlement on February 4, 2010. (Plaintiffs in various consolidated actions relating to Enron Corp. entered into a settlement with Banc of America Securities LLC on July 2, 2004 and with Citigroup, Inc. on June 10, 2005, including with respect to claims relating to the Exchangeable Notes offering, as to which affiliates of those settling defendants were two of the three underwriters (together with GS&Co.).)

Several funds which allegedly sustained investment losses of approximately $125 million in connection with secondary market purchases of the Exchangeable Notes as well as Zero Coupon Convertible Notes of Enron Corp. commenced an action in the U.S. District Court for the Southern District of New York on January 16, 2002. As amended, the lawsuit names as defendants the underwriters of the August 1999 offering and the company s outside accounting firm, and alleges violations of the disclosure requirements of the federal securities laws, fraud and misrepresentation. The Judicial Panel on Multidistrict Litigation has transferred that action to the Texas federal district court for purposes of coordinated or consolidated pretrial proceedings with other matters relating to Enron Corp. GS&Co. moved to dismiss the complaint and the motion was granted in part and denied in part. The district court granted the funds motion for leave to file a second amended complaint on January 22, 2007.

Montana Power Litigation

GS&Co. and Group Inc. have been named as defendants in two actions relating to financial advisory work rendered to Montana Power Company. On November 13, 2009, all parties entered into a settlement and the settlement was preliminarily approved on February 10, 2010. A final hearing has been scheduled for May 20, 2010 to May 21, 2010.

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One of the actions is a purported class action commenced originally on October 1, 2001 in Montana District Court, Second Judicial District on behalf of former shareholders of Montana Power Company. The complaint generally alleges that Montana Power Company violated Montana law by failing to procure shareholder approval of certain corporate strategies and transactions, that the company s board breached its fiduciary duties in pursuing those strategies and transactions, and that GS&Co. aided and abetted the board s breaches and rendered negligent advice in its role as financial advisor to the company. The complaint seeks, among other things, compensatory damages. In addition to GS&Co. and Group Inc., the defendants include Montana Power Company, certain of its officers and directors, an outside law firm for the Montana Power Company, and certain companies that purchased assets from Montana Power Company and its affiliates. The Montana state court denied the Goldman Sachs defendants motions to dismiss. Following the bankruptcies of certain defendants in the action, defendants removed the action to federal court, the U.S. District Court for the District of Montana, Butte Division.

On October 26, 2004, a creditors committee of Touch America Holdings, Inc. brought the other action against GS&Co., Group Inc., and a former outside law firm for Montana Power Company in Montana District Court, Second Judicial District. The complaint asserts that Touch America Holdings, Inc. is the successor to Montana Power Corporation and alleges substantially the same claims as in the purported class action. Defendants removed the action to federal court. Defendants moved to dismiss the complaint, but the motion was denied by a decision dated June 10, 2005.

Adelphia Communications Fraudulent Conveyance Litigation

GS&Co. is among numerous entities named as defendants in two adversary 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 have now been 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, payments made allegedly by Adelphia Communications, Inc. and its affiliates to certain brokerage firms, including approximately $62.9 million allegedly paid to GS&Co., 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. By a decision dated May 4, 2009, the district court denied GS&Co. s motion to dismiss the claim related to margin payments. GS&Co. moved for reconsideration, and by a decision dated June 15, 2009, the district court granted the motion insofar as requiring plaintiff to amend its complaint to specify the source of the margin payments to GS&Co. By a decision dated July 30, 2009, the district court held that the sufficiency of the amended claim would be determined at the summary judgment stage.

Specialist Matters

Spear, Leeds & Kellogg Specialists LLC (SLKS) and certain affiliates have received requests for information from various governmental agencies and self-regulatory organizations as part of an industry-wide investigation relating to activities of floor specialists in recent years. Goldman Sachs has cooperated with the requests.

On March 30, 2004, certain specialist firms on the NYSE, including SLKS, without admitting or denying the allegations, entered into a final global settlement with the SEC and the NYSE covering certain activities during the years 1999 through 2003. The SLKS settlement involves, among other things, (i) findings by the SEC and the NYSE that SLKS violated certain federal securities laws and NYSE rules, and in some cases failed to supervise certain individual specialists, in connection with trades that allegedly disadvantaged customer orders, (ii) a cease and desist order against SLKS, (iii) a censure of SLKS, (iv) SLKS agreement to pay an aggregate of $45.3 million in disgorgement and a penalty to be used to compensate customers, (v) certain undertakings with respect to SLKS systems and procedures, and (v) SLKS retention of an independent consultant to review and evaluate

certain of SLKS compliance systems, policies and procedures. Comparable findings were made and sanctions imposed in the settlements with other specialist firms. The settlement did not resolve the related private civil actions against SLKS and other firms or regulatory investigations involving individuals or conduct on other exchanges.

SLKS, 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. The actions seek unspecified compensatory damages, restitution and disgorgement on behalf of purchasers and sellers of unspecified securities between October 17, 1998 and October 15, 2003. Plaintiffs filed a consolidated amended complaint on September 16, 2004. The defendants motion to dismiss the amended complaint was granted in part and denied in part by a decision dated December 13, 2005. By a decision dated March 14, 2009, the district court granted plaintiffs motion for class certification. On April 13, 2009, defendants filed a petition with the U.S. Court of Appeals for the Second Circuit seeking review of the certification ruling. By an order dated October 1, 2009, the U.S. Court of Appeals for the Second Circuit declined to review the certification ruling. The specialist defendants filed a petition for rehearing and/or rehearing en banc on October 15, 2009.

Treasury Matters

On September 4, 2003, the SEC announced that GS&Co. had settled an administrative proceeding arising from certain trading in U.S. Treasury bonds over an approximately eight-minute period after GS&Co. received an October 31, 2001 telephone call from a Washington, D.C.-based political consultant concerning a forthcoming Treasury refunding announcement. Without admitting or denying the allegations, GS&Co. consented to the entry of an order that, among other things, (i) censured GS&Co.; (ii) directed GS&Co. to cease and desist from committing or causing any violations of Sections 15(c)(1)(A) and (C) and 15(f) of, and Rule 15c1-2 under, the Exchange Act; (iii) ordered GS&Co. to pay disgorgement and prejudgment interest in the amount of $1,742,642, and a civil monetary penalty of $5 million; and (iv) directed GS&Co. to conduct a review of its policies and procedures and adopt, implement and maintain policies and procedures consistent with the order and that review. GS&Co. also undertook to pay $2,562,740 in disgorgement and interest relating to certain trading in U.S. Treasury bond futures during the same eight-minute period.

GS&Co. has been named as a defendant in a purported class action filed on March 10, 2004 in the U.S. District Court for the Northern District of Illinois on behalf of holders of short positions in 30-year U.S. Treasury futures and options on the morning of October 31, 2001. The complaint alleges that the firm purchased 30-year bonds and futures prior to the Treasury s refunding announcement that morning based on non-public information about that announcement, and that such purchases increased the costs of covering such short positions. The complaint also names as defendants the Washington, D.C.-based political consultant who allegedly was the source of the information, a former GS&Co. economist who allegedly received the information, and another company and one of its employees who also allegedly received and traded on the information prior to its public announcement. The complaint alleges violations of the federal commodities and antitrust laws, as well as Illinois statutory and common law, and seeks, among other things, unspecified damages including treble damages under the antitrust laws. The district court dismissed the antitrust and Illinois state law claims but permitted the federal commodities law claims to proceed. Plaintiff s motion for class certification was denied by a decision dated August 22, 2008. GS&Co. moved for summary judgment, and by a decision dated July 30, 2008, the district court granted the motion insofar as the remaining claim relates to the trading of treasury bonds, but denied the motion without prejudice to the extent the claim relates to trading of treasury futures. By a decision dated August 6, 2009, the federal district court denied GS&Co. s motion for summary judgment as to the remaining claims. On October 13, 2009, the parties filed an offer of judgment and notice of acceptance with respect to plaintiff s individual claim. On December 11, 2009, the plaintiff purported to appeal with respect to the district court s prior denial of class certification, and GS&Co. moved to dismiss the appeal on January 25, 2010.

Mutual Fund Matters

GS&Co. and certain mutual fund affiliates have received subpoenas and requests for information from various governmental agencies and self-regulatory organizations including the SEC as part of the industry-wide investigation relating to the practices of mutual funds and their customers. GS&Co. and its affiliates have cooperated with such requests.

Refco Securities Litigation

GS&Co. and the other lead underwriters for the August 2005 initial public offering of 26,500,000 shares of common stock of Refco Inc. are among the defendants in various putative class actions filed in the U.S. District Court for the Southern District of New York beginning in October 2005 by investors in Refco Inc. in response to certain publicly reported events that culminated in the October 17, 2005 filing by Refco Inc. and certain affiliates for protection under U.S. bankruptcy laws. The actions, which have been consolidated, allege violations of the disclosure requirements of the federal securities laws and seek compensatory damages. In addition to the underwriters, the consolidated complaint names as defendants Refco Inc. and certain of its affiliates, certain officers and directors of Refco Inc., Thomas H. Lee Partners, L.P. (which held a majority of Refco Inc. s equity through certain funds it manages), Grant Thornton (Refco Inc. s outside auditor), and BAWAG P.S.K. Bank fur Arbeit und Wirtschaft und Osterreichische Postsparkasse Aktiengesellschaft (BAWAG). Lead plaintiffs entered into a settlement with BAWAG, which was approved following certain amendments on June 29, 2007. GS&Co. underwrote 5,639,200 shares of common stock at a price of $22 per share for a total offering price of approximately $124 million.

GS&Co. has, together with other underwriters of the Refco Inc. initial public offering, received requests for information from various governmental agencies and self-regulatory organizations. GS&Co. is cooperating with those requests.

Short-Selling Litigation

Group Inc., GS&Co. and Goldman Sachs Execution & Clearing, L.P. are among the numerous financial services firms that have been named as defendants in a purported class action filed on April 12, 2006 in the U.S. District Court for the Southern District of New York by customers who engaged in short-selling transactions in equity securities since April 12, 2000. The amended complaint generally alleges that the customers were charged fees in connection with the short sales but that the applicable securities were not necessarily borrowed to effect delivery, resulting in failed deliveries, and that the defendants conspired to set a minimum threshold borrowing rate for securities designated as hard to borrow. The complaint asserts a claim under the federal antitrust laws, as well as claims under the New York Business Law and common law, and seeks treble damages as well as injunctive relief. Defendants motion to dismiss the complaint was granted by a decision dated December 20, 2007. On December 3, 2009, the dismissal was affirmed by the U.S. Court of Appeals for the Second Circuit.

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 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.

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Beginning in September 2006, Group Inc. and/or GS&Co. were added named as defendants in four Fannie Mae shareholder derivative actions in the U.S. District Court for the District of Columbia. The complaints generally allege that the Goldman Sachs defendants aided and abetted a breach of fiduciary duty by Fannie Mae s directors and officers in connection with certain Fannie Mae-sponsored REMIC transactions and one of the complaints also asserts a breach of contract claim. The complaints also name as defendants certain former officers and directors of Fannie Mae as well as an outside accounting firm. The complaints seek, *inter alia*, unspecified damages. The Goldman Sachs defendants were dismissed without prejudice from the first filed of these actions, and the remaining claims in that action were dismissed for failure to make a demand on Fannie Mae s board of directors. That dismissal has been affirmed on appeal. The remaining three actions have been stayed by the district court.

Compensation Related Litigation

On March 16, 2007, Group Inc., its board of directors, 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 challenging the sufficiency of the firm s February 21, 2007 Proxy Statement and the compensation of certain employees. The complaint generally alleges that the Proxy Statement undervalues stock option awards disclosed therein, that the recipients received excessive awards because the proper methodology was not followed, and that the firm s senior management received excessive compensation, constituting corporate waste. The complaint seeks, among other things, an injunction against the 2007 Annual Meeting of Shareholders, the voiding of any election of directors in the absence of an injunction and an equitable accounting for the allegedly excessive compensation. On July 20, 2007, defendants moved to dismiss the complaint, and the motion was granted by an order dated December 18, 2008. Plaintiff appealed on January 13, 2009, and the dismissal was affirmed by the U.S. Court of Appeals for the Second Circuit on December 14, 2009.

On January 17, 2008, Group Inc., its board of directors, executive officers and members of its management committee were named as defendants in a related purported shareholder derivative action brought by the same plaintiff in the same court predicting that the firm s 2008 Proxy Statement will 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 injunction against the distribution of the 2008 Proxy Statement, the voiding of any election of directors in the absence of an injunction and an equitable accounting for the allegedly excessive compensation. On January 25, 2008, the plaintiff moved 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 Form 4s filed by certain of the executive officers named in the complaint to reflect the stock option valuations alleged by the plaintiff. Plaintiff s motion for a preliminary injunction was denied by order dated February 14, 2008, plaintiff appealed and twice moved to expedite the appeal, with the motions being denied by orders dated February 29, 2008 and April 3, 2008. The appeal was dismissed on February 23, 2009. 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. Defendants moved to dismiss on April 6, 2009. On April 15, 2009, defendants moved to enjoin plaintiff and his counsel from filing or prosecuting similar claims in other courts. Adjudication of the motion has been adjourned until resolution of the pending dismissal and remand motions in this and the 2009 action, subject to plaintiff s agreement not to bring other related actions.

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 April 14, 2009, Group Inc. removed the action to the U.S. District Court for the Southern District of New York and has moved to transfer to the district court judge presiding over the other actions described in this section and to dismiss. The action has been transferred on consent to the U.S. District Court for the Eastern District of New York, where defendants moved to dismiss on April 23, 2009. On July 10, 2009, plaintiff moved to remand the action to state court.

Purported shareholder derivative actions have been commenced in New York Supreme Court, New York County and Delaware Court of Chancery beginning on December 14, 2009, alleging that Group Inc. s board of directors breached its fiduciary duties in connection with setting compensation levels for the year 2009 and that such levels are excessive. The complaints name as defendants Group Inc., its board of directors and certain senior executives. The complaints seek, *inter alia*, damages, restitution of certain compensation paid, and an order requiring the firm to adopt corporate reforms.

Group Inc. and certain of its affiliates have received inquiries from various governmental agencies and self-regulatory organizations regarding the firm s compensation processes. The firm is cooperating with the requests.

Group Inc. s board of directors has received several demand letters from shareholders relating to compensation matters, including demands that Group Inc. s board of directors investigates compensation awards over recent years, take steps to recoup alleged excessive compensation, and adopt certain reforms. After considering the demand letters, Group Inc. s board of directors rejected the demands.

Mortgage-Related Matters

GS&Co. and certain of its affiliates, together with other financial services firms, have received requests for information from various governmental agencies and self-regulatory organizations relating to subprime mortgages, and securitizations, collateralized debt obligations and synthetic products related to subprime mortgages. GS&Co. and its affiliates are cooperating with the requests.

GS&Co., along with numerous other financial institutions, is a defendant in an action brought by the City of Cleveland alleging that the defendants activities in connection with securitizations of subprime mortgages created a public nuisance in Cleveland. The action is pending in the U.S. District Court for the Northern District of Ohio, and the complaint seeks, among other things, unspecified compensatory damages. The district court granted defendants motion to dismiss by a decision dated May 15, 2009. The City appealed on May 18, 2009.

GS&Co., Goldman Sachs Mortgage Company and GS Mortgage Securities Corp. and three current or former Goldman Sachs employees are defendants in a purported 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 in 2007 and underwritten by GS&Co. 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 damages and rescission or recessionary damages. On December 19, 2009, defendants moved to dismiss the second amended complaint, and the motion was granted on January 28, 2010 with leave to replead certain claims.

Group Inc., GS&Co., Goldman Sachs Mortgage Company and GS Mortgage Securities Corp. 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 in 2006 and underwritten by GS&Co. The other 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. On November 2, 2009, defendants moved to dismiss the second amended complaint.

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Auction Products Matters

On August 21, 2008, GS&Co. entered into a settlement in principle with the Office of 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. On June 2, 2009, GS&Co. entered into an Assurance of Discontinuance with the Office of Attorney General of the State of New York. 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 are 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, which is subject to definitive documentation and approval by the various states, other than New York, does not resolve any potential regulatory action by the SEC. On June 2, 2009, GS&Co. entered into an Assurance of Discontinuance with the New York Attorney General.

On August 28, 2008, a putative shareholder derivative action was filed in the U.S. District Court for the Southern District of New York naming as defendants Group Inc., its board of directors, and certain senior officers. The complaint alleges generally that Group Inc. s board of directors breached its fiduciary duties and committed mismanagement in connection with its oversight of auction rate securities marketing and trading operations, that certain individual defendants engaged in insider selling by selling shares of Group Inc., and that the firm s public filings were false and misleading in violation of the federal securities laws by failing to accurately disclose the alleged practices involving auction rate securities. The complaint seeks damages, injunctive and declaratory relief, restitution, and an order requiring the firm to adopt corporate reforms. On May 19, 2009, the district court granted defendants motion to dismiss, and on July 20, 2009 denied plaintiffs   motion for reconsideration. Following the dismissal of the shareholder derivative action, the named plaintiff in such action sent Group Inc. s board of directors a letter demanding that Group Inc. s board of directors investigate the allegations set forth in the complaint. Group Inc. s board of directors is considering the demand letter.

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. Defendants   motion to dismiss was granted on January 26, 2010.

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. Defendants moved to dismiss on August 27, 2008. By an order dated November 19, 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.

Washington Mutual Securities Litigation

GS&Co. is among numerous underwriters named as defendants in a putative securities class action amended complaint filed on August 5, 2008 in the U.S. District Court for the Western District of Washington. As to the underwriters, plaintiffs allege that the offering documents in connection with various securities offerings by Washington Mutual, Inc. failed to describe accurately the company s exposure to mortgage-related activities in violation of the disclosure requirements of the federal securities laws. The defendants include past and present directors and officers of Washington Mutual, the company s former outside auditors, and numerous underwriters. By a decision dated May 15, 2009, the district court granted in part and denied in part the underwriter defendants motion to dismiss, with leave to replead, and on June 15, 2009, plaintiffs filed an amended complaint. By a decision dated October 27, 2009, the federal district court granted and denied in part the underwriters motion to dismiss.

GS&Co. underwrote $788,500,000 principal amount of securities in the offerings at issue.

On September 25, 2008, the FDIC took over the primary banking operations of Washington Mutual, Inc. and then sold them. On September 27, 2008, Washington Mutual, Inc. filed for Chapter 11 bankruptcy in the U.S. bankruptcy court in Delaware.

Britannia Bulk Securities Litigation

GS&Co. is among the underwriters named as defendants in numerous putative securities class actions filed beginning on November 6, 2008 in the U.S. District Court for the Southern District of New York arising from the June 17, 2008 $125 million initial public offering of common stock of Britannia Bulk Holdings, Inc. The complaints name as defendants the company, certain of its directors and officers, and the underwriters for the offering. Plaintiffs allege that the offering materials violated the disclosure requirements of the federal securities laws and seek compensatory damages. By a decision dated October 19, 2009, the district court granted the underwriter defendants motion to dismiss, and plaintiffs have elected not to appeal, disposing of the matter.

GS&Co. underwrote 3.75 million shares of common stock for a total offering price of $56.25 million. Britannia Bulk Holdings, Inc. and its principal operating subsidiary are subject to an insolvency proceedings in the U.K. courts.

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.

GS&Co. underwrote approximately $2.94 billion principal amount of the securities at issue in the complaint. On July 11, 2008, IndyMac Bank was placed under a Federal Deposit Insurance Company receivership, and on July 31, 2008, IndyMac Bancorp, Inc. filed for Chapter 7 bankruptcy in the U.S. Bankruptcy Court in Los Angeles, California.

Credit Derivatives

Group Inc. and certain of its affiliates have received inquiries from various governmental agencies and self-regulatory organizations regarding credit derivative instruments. The firm is cooperating with the requests.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of our fiscal year ended December 31, 2009.

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EXECUTIVE OFFICERS OF THE GOLDMAN SACHS GROUP, INC.

Set forth below are the name, age, present title, principal occupation and certain biographical information as of February 1, 2010 for our executive officers. All of our executive officers have been appointed by and serve at the pleasure of our board of directors.

Lloyd C. Blankfein, 55

Mr. Blankfein has been our Chairman and Chief Executive Officer since June 2006, and a director since April 2003. Previously, he had been our President and Chief Operating Officer since January 2004. Prior to that, from April 2002 until January 2004, he was a Vice Chairman of Goldman Sachs, with management responsibility for Goldman Sachs Fixed Income, Currency and Commodities Division (FICC) and Equities Division (Equities). Prior to becoming a Vice Chairman, he had served as co-head of FICC since its formation in 1997. From 1994 to 1997, he headed or co-headed the Currency and Commodities Division. Mr. Blankfein is not currently on the board of any public company other than Goldman Sachs. He is affiliated with certain non-profit organizations, including as a member of the Dean s Advisory Board at Harvard Law School, the Harvard University Committee on University Resources and the Advisory Board of the Tsinghua University School of Economics and Management, an overseer of the Weill Medical College of Cornell University, and a co-chairman of the Partnership for New York City.

Alan M. Cohen, 59

Mr. Cohen has been an Executive Vice President of Goldman Sachs and our Global Head of Compliance since February 2004. From 1991 until January 2004, he was a partner in the law firm of O Melveny & Myers LLP. He is affiliated with certain non-profit organizations, including as a board member of the New York Stem Cell Foundation.

Gary D. Cohn, 49

Mr. Cohn has been our President and Chief Operating Officer (or Co-Chief Operating Officer) and a director since June 2006. Previously, he had been the co-head of Goldman Sachs global securities businesses since January 2004. He also had been the co-head of Equities since 2003 and the co-head of FICC since September 2002. From March 2002 to September 2002, he served as co-chief operating officer of FICC. Prior to that, beginning in 1999, Mr. Cohn managed the FICC macro businesses. From 1996 to 1999, he was the global head of Goldman Sachs commodities business. Mr. Cohn is not currently on the board of any public company other than Goldman Sachs. He is affiliated with certain non-profit organizations, including the Gilmour Academy, NYU Hospital, NYU Medical School, the Harlem Children s Zone and American University.

J. Michael Evans, 52

Mr. Evans has been a Vice Chairman of Goldman Sachs since February 2008 and chairman of Goldman Sachs Asia since 2004. Prior to becoming a Vice Chairman, he had served as global co-head of Goldman Sachs securities business since 2003. Previously, he had been co-head of the Equities Division since 2001. Mr. Evans is a board member of CASPER (Center for Advancement of Standards-based Physical Education Reform). He also serves as a trustee of the Bendheim Center for Finance at Princeton University.

Gregory K. Palm, 61

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

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Michael S. Sherwood, 44

Mr. Sherwood has been a Vice Chairman of Goldman Sachs since February 2008 and co-chief executive officer of Goldman Sachs International since 2005. Prior to becoming a Vice Chairman, he had served as global co-head of Goldman Sachs securities business since 2003. Prior to that, he had been head of the Fixed Income, Currency and Commodities Division in Europe since 2001.

Esta E. Stecher, 52

Ms. Stecher has been an Executive Vice President of Goldman Sachs and our General Counsel and co-head of the Legal Department since December 2000. From 1994 to 2000, she was head of the firm s Tax Department, over which she continues to have senior oversight responsibility. She is also a trustee of Columbia University.

David A. Viniar, 54

Mr. Viniar has been an Executive Vice President of Goldman Sachs and our Chief Financial Officer since May 1999. He has been the head of Operations, Technology, Finance and Services Division since December 2002. He was head of the Finance Division and co-head of Credit Risk Management and Advisory and Firmwide Risk from December 2001 to December 2002. Mr. Viniar was co-head of Operations, Finance and Resources from March 1999 to December 2001. He was Chief Financial Officer of The Goldman Sachs Group, L.P. from March 1999 to May 1999. From July 1998 until March 1999, he was Deputy Chief Financial Officer and from 1994 until July 1998, he was head of Finance, with responsibility for Controllers and Treasury. From 1992 to 1994, he was head of Treasury and prior to that was in the Structured Finance Department of Investment Banking. He also serves on the Board of Trustees of Union College.

John S. Weinberg, 52

Mr. Weinberg has been a Vice Chairman of Goldman Sachs since June 2006. He has been co-head of Goldman Sachs Investment Banking Division since December 2002. From January 2002 to December 2002, he was co-head of the Investment Banking Division in the Americas. Prior to that, he served as co-head of the Investment Banking Services Department since 1997. He is affiliated with certain non-profit organizations, including as a trustee of NewYork-Presbyterian Hospital, The Steppingstone Foundation, the Greenwich Country Day School and Community Anti-Drug Coalitions of America. Mr. Weinberg also serves on the Visiting Committee for Harvard Business School.

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PART II

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

The principal market on which our common stock is traded is the NYSE. Information relating to the high and low sales prices per share of our common stock, as reported by the Consolidated Tape Association, for each full quarterly period during fiscal 2008 and 2009 is set forth under the heading Supplemental Financial Information Common Stock Price Range in Part II, Item 8 of this Annual Report on Form 10-K. As of February 12, 2010, there were 11,720 holders of record of our common stock.

During fiscal 2008 and fiscal 2009, dividends of $0.35 per common share were declared on December 17, 2007, March 17, 2008, June 16, 2008, September 15, 2008, April 13, 2009, July 13, 2009 and October 14, 2009. In addition, dividends of $0.35 per common share and $0.4666666 per common share were declared on January 19, 2010 and December 15, 2008, respectively. The dividend of $0.4666666 per common share was reflective of a four-month period (December 2008 through March 2009), due to the change in our fiscal year-end. The holders of our common stock share proportionately on a per share basis in all dividends and other distributions on common stock declared by our board of directors.

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

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The table below sets forth the information with respect to purchases made by or on behalf of Group Inc. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act), of our common stock during the fourth quarter of our fiscal year ended December 2009.

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs** [1]	**Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs** [1]
Month #1 (September 26, 2009 to October 31, 2009)				60,838,106
Month #2 (November 1, 2009 to November 30, 2009)	650 [2]	$ 172.78	650 [2]	60,837,456
Month #3 (December 1, 2009 to December 31, 2009)	50 [2]	$ 165.71	50 [2]	60,837,406
Total	700		700	

(1) On March 21, 2000, we announced that our board of directors had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 280 million shares by resolutions of our board of directors adopted on June 18, 2001, March 18, 2002, November 20, 2002, January 30, 2004, January 25, 2005, September 16, 2005, September 11, 2006 and December 17, 2007. We use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation.

The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our current and projected capital positions (i.e., comparisons of our desired level of capital to our actual level of capital) but which may also be influenced by general market conditions, the prevailing price and trading volumes of our common stock and regulatory restrictions. The total remaining authorization under the repurchase program was 60,837,406 shares as of February 12, 2010; the repurchase program has no set expiration or termination date.

Since July 2008, we have not repurchased shares of our common stock in the open market other than repurchases of the type described in footnote (2). Any repurchase of our common stock requires approval by the Federal Reserve Board.

(2)

Relates to repurchases of common stock by a broker-dealer subsidiary to facilitate customer transactions in the ordinary course of business.

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

Item 6. Selected Financial Data

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

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

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Introduction

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

Our activities are divided into three segments:

Investment Banking. We provide a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.

Trading and Principal Investments. We facilitate client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. We also take proprietary positions on certain of these products. In addition, we engage in market-making activities on equities and options exchanges, and we clear client transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investing activities, we make principal investments directly and through funds that we raise and manage.

Asset Management and Securities Services. We provide investment and wealth advisory services and offer 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 group of institutions and individuals worldwide and provide prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

When we use the terms Goldman Sachs, the firm, we, us and our, we mean Group Inc., a Delaware corporation, its consolidated subsidiaries. References herein to our Annual Report on Form 10-K are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

In connection with becoming a bank holding company, we were required to change our fiscal year-end from November to December. This change in our fiscal year-end resulted in a one-month transition period that began on November 29, 2008 and ended on December 26, 2008. Financial information for this fiscal transition period is included in Part II, Item 8 of our Annual Report on Form 10-K. In April 2009, the Board of Directors of Group Inc. (the Board) approved a change in our fiscal year-end from the last Friday of December to December 31. Fiscal 2009 began on December 27, 2008 and ended on December 31, 2009.

All references to 2009, 2008 and 2007, unless specifically stated otherwise, refer to our fiscal years ended, or the dates, as the context requires, December 31, 2009, November 28, 2008 and November 30, 2007, respectively, and any reference to a future year refers to a fiscal year ending on December 31 of that year. All references to December 2008, unless specifically stated otherwise, refer to our fiscal one month ended, or the date, as the context requires, December 26, 2008. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

In this discussion, we have included statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include statements about the objectives and effectiveness of our risk management and

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liquidity policies, statements about trends in or growth opportunities for our businesses, statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation, and statements about our investment banking transaction backlog. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in these forward-looking statements include, among others, those discussed below under Certain Risk Factors That May Affect Our Businesses as well as Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K and Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995 in Part I, Item 1 of our Annual Report on Form 10-K.

Executive Overview

Our diluted earnings per common share were $22.13 for the year ended December 31, 2009, compared with $4.47 for the year ended November 28, 2008. Return on average common shareholders equity (ROE) [1] was 22.5% for 2009. Net revenues for 2009 were $45.17 billion, more than double the amount in 2008. Our ratio of compensation and benefits to net revenues for 2009 was 35.8% and represented our lowest annual ratio of compensation and benefits to net revenues. In addition, compensation was reduced by $500 million to fund a charitable contribution to Goldman Sachs Gives, our donor-advised fund. This contribution of $500 million was part of total commitments to charitable and small business initiatives during the year in excess of $1 billion. During the twelve months ended December 31, 2009, book value per common share increased 23% to $117.48 and tangible book value per common share [2] increased 27% to $108.42. During the year, the firm repurchased the preferred stock and associated warrant that were issued to the U.S. Department of the Treasury (U.S. Treasury) pursuant to the U.S. Treasury s TARP Capital Purchase Program. The firm s cumulative payments to the U.S. Treasury related to this program totaled $11.42 billion, including the return of the U.S. Treasury s $10.0 billion investment, $318 million in preferred dividends and $1.1 billion related to the warrant repurchase. In addition, in 2009 the firm completed a public offering of common stock for proceeds of $5.75 billion. Our Tier 1 capital ratio under Basel I [3] was 15.0% as of December 31, 2009 and our Tier 1 common ratio under Basel I [3] was 12.2% as of December 31, 2009.

Net revenues in Trading and Principal Investments were significantly higher compared with 2008, reflecting a very strong performance in Fixed Income, Currency and Commodities (FICC) and significantly improved results in Principal Investments, as well as higher net revenues in Equities. During 2009, FICC operated in an environment characterized by strong client-driven activity, particularly in more liquid products. In addition, asset values generally improved and corporate credit spreads tightened significantly for most of the year. Net revenues in FICC were significantly higher compared with 2008, reflecting particularly strong performances in credit products, mortgages and interest rate products, which were each significantly higher than 2008. Net revenues in commodities were also particularly strong and were slightly higher than 2008, while net revenues in currencies were strong, but lower than a particularly strong 2008. During 2009, mortgages included a loss of approximately $1.5 billion (excluding hedges) on commercial mortgage loans. Results in 2008 were negatively impacted by asset writedowns across non-investment-grade credit origination activities, corporate debt, private and public equities, and residential and commercial mortgage loans and securities. The increase in Principal Investments reflected gains on corporate principal investments and our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC) compared with net losses in 2008. In 2009, results in Principal Investments included a gain of $1.58 billion related to our investment in the ordinary shares of ICBC, a gain of $1.31 billion from corporate principal investments and a loss of $1.76 billion from real estate principal investments. Net revenues in Equities for 2009 reflected strong results in the client franchise businesses. However,

(1) ROE is computed by dividing net earnings applicable to common shareholders by average monthly common shareholders equity. See Results of Operations Financial Overview below for further information regarding our calculation of ROE.

(2) Tangible common shareholders equity equals total shareholders equity less preferred stock, goodwill and identifiable intangible assets. Tangible book value per common share is computed by dividing tangible common shareholders equity by the number of common shares outstanding, including restricted stock units (RSUs) granted to employees with no future service requirements. We believe that tangible common shareholders equity is meaningful because it is one of the measures that we and investors use to assess capital adequacy. See Equity Capital Capital Ratios and Metrics below for further information regarding tangible common shareholders equity.

(3) As a bank holding company, we are subject to consolidated regulatory capital requirements administered by the Board of Governors of the Federal Reserve System (Federal Reserve Board). We are reporting our Tier 1 capital ratios calculated in accordance with the regulatory capital requirements currently applicable to bank holding companies, which are based on the Capital Accord of the Basel Committee on Banking Supervision (Basel I). The Tier 1 capital ratio equals Tier 1 capital divided by total risk-weighted assets (RWAs). The Tier 1 common ratio equals Tier 1 capital less preferred stock and junior subordinated debt issued to trusts, divided by RWAs. See Equity Capital Consolidated Capital Requirements below for further information regarding our capital ratios.

results in the client franchise businesses were lower than a strong 2008 and included significantly lower commissions. Results in principal strategies were positive compared with losses in 2008. During 2009, Equities operated in an environment characterized by a significant increase in global equity prices, favorable market opportunities and a significant decline in volatility levels.

Net revenues in Asset Management and Securities Services decreased significantly compared with 2008, reflecting significantly lower net revenues in Securities Services, as well as lower net revenues in Asset Management. The decrease in Securities Services primarily reflected the impact of lower customer balances, reflecting lower hedge fund industry assets and reduced leverage. The decrease in Asset Management primarily reflected the impact of changes in the composition of assets managed, principally due to equity market depreciation during the fourth quarter of 2008, as well as lower incentive fees. During the year ended December 31, 2009, assets under management increased $73 billion to $871 billion, due to $76 billion of market appreciation, primarily in fixed income and equity assets, partially offset by $3 billion of net outflows. Outflows in money market assets were offset by inflows in fixed income assets.

Net revenues in Investment Banking decreased compared with 2008, reflecting significantly lower net revenues in Financial Advisory, partially offset by higher net revenues in our Underwriting business. The decrease in Financial Advisory reflected a decline in industry-wide completed mergers and acquisitions. The increase in Underwriting reflected higher net revenues in equity underwriting, primarily reflecting an increase in industry-wide equity and equity-related offerings. Net revenues in debt underwriting were slightly lower than in 2008. Our investment banking transaction backlog increased significantly during the twelve months ended December 31, 2009. (1)

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

(1) Our investment banking transaction backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not.

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Business Environment

Our financial performance is highly dependent on the environment in which our businesses operate. During 2009, the economies of the U.S., Europe and Japan experienced a recession. Business activity across a wide range of industries and regions was greatly reduced, reflecting a reduction in consumer spending and low levels of liquidity across credit markets. In addition, unemployment continued to rise in 2009. However, economic conditions became generally more favorable during the second half of the year as real gross domestic product (GDP) growth turned positive in most major economies and growth in emerging markets improved. In addition, equity and credit markets were characterized by increasing asset prices, lower volatility and improved liquidity during the last nine months of the year. For a further discussion of how market conditions affect our businesses, see Certain Risk Factors That May Affect Our Businesses below as well as Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K. A further discussion of the business environment in 2009 is set forth below.

Global. The global economy weakened during 2009, as evidenced by declines in real GDP in the major economies. In addition, economic growth in emerging markets slowed during the year, especially among those economies most reliant upon international trade. Volatility levels across fixed income and equity markets declined during the year and corporate credit spreads generally tightened, particularly in the second half of the year. In addition, global equity markets increased significantly during our fiscal year. The U.S. Federal Reserve, The Bank of Japan and The People s Bank of China left interest rates unchanged during 2009, while central banks in the Eurozone and the United Kingdom lowered interest rates during the first half of the year. After a significant decline in the second half of calendar year 2008, the price of crude oil increased significantly during 2009. The U.S. dollar weakened against the British pound and the Euro, but strengthened against the Japanese yen. In investment banking, industry-wide mergers and acquisitions activity remained weak, while industry-wide debt offerings and equity and equity-related offerings increased significantly compared with 2008.

United States. Real GDP in the U.S. declined by an estimated 2.4% in calendar year 2009, compared with an increase of 0.4% in 2008. The recession in the U.S., which started near the beginning of our 2008 fiscal year, appeared to end in the third quarter of 2009, as real GDP increased during the second half of the year. Exports declined significantly in the first half of the year, but improved during the second half of the year. Consumer expenditure declined during 2009, despite significant support from the federal government s fiscal stimulus package. Business and consumer confidence improved during the year, but remained at low levels. The rate of inflation decreased during the year, reflecting an increase in unemployment and significant excess production capacity, which caused downward pressure on wages and prices. The U.S. Federal Reserve maintained its federal funds rate at a target range of zero to 0.25% during the year. In addition, the Federal Reserve purchased significant amounts of mortgage-backed securities, as well as U.S. Treasury and federal agency debt in order to improve liquidity and expand the availability of credit. The yield on the 10-year U.S. Treasury note increased by 169 basis points to 3.85% during our fiscal year. The NASDAQ Composite Index, the S&P 500 Index and the Dow Jones Industrial Average ended our fiscal year higher by 48%, 28% and 22%, respectively.

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Europe. Real GDP in the Eurozone economies declined by an estimated 4.0% in calendar year 2009, compared with an increase of 0.5% in 2008. Fixed investment, consumer expenditure and exports declined during 2009. However, surveys of business and consumer confidence improved during the year. Although employment levels declined in many economies, the largest decreases were in the countries that were most affected by the housing market decline. The rate of inflation declined during the year. In response to economic weakness and concerns about the health of the financial system, the European Central Bank lowered its main refinancing operations rate by 150 basis points to 1.00%. In the United Kingdom, real GDP declined by an estimated 4.8% for calendar year 2009, compared with an increase of 0.5% in 2008. Although real GDP declined significantly in the first half of the year, it appeared to increase during the fourth quarter of 2009. The Bank of England lowered its official bank rate during our fiscal year by a total of 150 basis points to 0.50%. Long-term government bond yields in both the Eurozone and the U.K. increased during our fiscal year. The Euro and British pound appreciated by 2% and 11%, respectively, against the U.S. dollar during our fiscal year. Major European equity markets ended our fiscal year significantly higher.

Asia. In Japan, real GDP decreased by an estimated 5.0% in calendar year 2009, compared with a decrease of 1.2% in 2008. Measures of business investment, consumer expenditures and exports declined. Measures of inflation also declined during 2009. The Bank of Japan maintained its target overnight call rate at 0.10% during the year, while the yield on 10-year Japanese government bond increased during our fiscal year. The yen depreciated by 2% against the U.S. dollar. The Nikkei 225 increased 21% during our fiscal year.

In China, real GDP growth was an estimated 8.7% in calendar year 2009, down from 9.6% in 2008. While exports declined during 2009, the impact on economic activity was mitigated by an increase in fixed investment and consumer spending, partially due to fiscal stimulus and strong credit expansion. Measures of inflation declined for most of 2009, but began to increase toward the end of the year. The People s Bank of China left its one-year benchmark lending rate unchanged at 5.31% during the year and maintained a broadly stable exchange rate against the U.S. dollar. The Shanghai Composite Index increased 77% during our fiscal year. Real GDP growth in India decreased slightly to an estimated 6.6% in calendar year 2009 from 6.7% in 2008. Industrial production and consumer spending increased during 2009. Exports declined significantly during 2009, but began to increase by the end of the year. The rate of wholesale inflation decreased during the year. The Indian rupee strengthened against the U.S. dollar. Equity markets in Hong Kong, India and South Korea increased significantly during our fiscal year.

Other Markets. Real GDP in Brazil declined by an estimated 0.1% in calendar year 2009 compared with an increase of 5.1% in 2008. Although investment spending declined, an increase in commodity prices contributed to significant capital inflows, which helped support consumer spending. The Brazilian real strengthened against the U.S. dollar. In Russia, real GDP declined by an estimated 7.9% in calendar year 2009, compared with an increase of 5.6% in 2008. Low oil prices earlier in the year, as well as a tightening in credit availability, led to a significant decline in investment, consumption and exports. In addition, the Russian ruble depreciated against the U.S. dollar. Brazilian and Russian equity prices ended our fiscal year significantly higher.

Certain Risk Factors That May Affect Our Businesses

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal, regulatory and reputational risks. For a discussion of how management seeks to manage some of these risks, see Risk Management below. A summary of the more important factors that could affect our businesses follows below. For a further discussion of these and other important factors that could affect our businesses, see Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K.

Market Conditions and Market Risk. Our financial performance is highly dependent on the environment in which our businesses operate. A favorable business environment is generally characterized by, among other factors, high global GDP growth, transparent, liquid and efficient capital markets, low inflation, high business and investor confidence, stable geopolitical conditions, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities; outbreaks of hostilities or other geopolitical instability; corporate, political or other scandals that reduce investor confidence in capital markets; natural disasters or pandemics; or a combination of these or other factors. Our businesses and profitability have been and may continue to be adversely affected by market conditions in many ways, including the following:

- Many of our businesses, such as our merchant banking businesses, our mortgages, leveraged loan and credit products businesses in our FICC segment, and our equity principal strategies business, have net long positions in debt securities, loans, derivatives, mortgages, equities (including private equity) and most other asset classes. In addition, many of our market-making and other businesses in which we act as a principal to facilitate our clients activities, including our exchange-based market-making businesses, commit large amounts of capital to maintain trading positions in interest rate and credit products, as well as currencies, commodities and equities. Because nearly all of these investing and trading positions are marked-to-market on a daily basis, declines in asset values directly and immediately impact our earnings, unless we have effectively hedged our exposures to such declines. In certain circumstances (particularly in the case of leveraged loans and private equities or other securities that are not freely tradable or lack established and liquid trading markets), it may not be possible or economic to hedge such exposures and to the extent that we do so the hedge may be ineffective or may greatly reduce our ability to profit from increases in the values of the assets. Sudden declines and significant volatility in the prices of assets may substantially curtail or eliminate the trading markets for certain assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions and the difficulty in valuing assets may require us to maintain additional capital and increase our funding costs.

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

Our investment banking business has been and may continue to be adversely affected by market conditions. Poor economic conditions and other adverse geopolitical conditions can adversely affect and have adversely affected investor and CEO confidence, resulting in significant industry-wide declines in the size and number of underwritings and of financial advisory transactions, which could have an adverse effect on our revenues and our profit margins. In addition, our clients engaging in mergers and acquisitions often rely on access to the secured and unsecured credit markets to finance their transactions. A lack of available credit or an increased cost of credit can adversely affect the size, volume and timing of our clients merger and acquisition transactions particularly large transactions. Because a significant portion of our investment banking revenues is derived from our participation in large transactions, a decline in the number of large transactions would adversely affect our investment banking business.

Certain of our trading businesses depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect the results of these businesses. On the other hand, increased volatility, while it can increase trading volumes and spreads, also increases risk as measured by VaR and may expose us to increased risks in connection with our market-making and proprietary businesses or cause us to reduce the size of these businesses in order to avoid increasing our VaR. Limiting the size of our market-making positions and investing businesses can adversely affect our profitability.

We receive asset-based management fees based on the value of our clients portfolios or investment in funds managed by us and, in some cases, we also receive incentive fees based on increases in the value of such investments. Declines in asset values reduce the value of our clients portfolios or fund assets, which in turn reduce the fees we earn for managing such assets. Market uncertainty, volatility and adverse economic conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our funds or other products or their brokerage accounts or affect our ability to attract new clients or additional assets from existing clients and result in reduced net revenues, principally in our asset management business. To the extent that clients do not withdraw their funds, they may invest them in products that generate less fee income.

Concentration of risk increases the potential for significant losses in our market-making, proprietary trading, investing, block trading, merchant banking, underwriting and lending businesses. This risk may increase to the extent we expand our market-making, trading, investing and lending businesses.

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

The financial instruments that we hold and the contracts to which we are a party are complex, as we employ structured products to benefit our clients and ourselves, and these complex structured products often do not have readily available markets to access in times of liquidity stress. Our investing activities may lead to situations where the holdings from these activities represent a significant portion of specific markets, which could restrict liquidity for our positions. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis. In addition, financial institutions with which we interact may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair our access to liquidity.

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Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, limit our access to the capital markets or trigger our obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with Goldman Sachs or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements. For a discussion of the potential impact on Goldman Sachs of a reduction in our credit ratings, see Liquidity and Funding Risk Credit Ratings below.

Group Inc. has guaranteed the payment obligations of Goldman, Sachs & Co. (GS&Co.), Goldman Sachs Bank USA (GS Bank USA) and Goldman Sachs Bank (Europe) PLC (GS Bank Europe), subject to certain exceptions, and has pledged significant assets to GS Bank USA to support obligations to GS Bank USA. In addition, Group Inc. guarantees many of the obligations of its other consolidated subsidiaries on a transaction-by-transaction basis, as negotiated with counterparties. These guarantees may require Group Inc. to provide substantial funds or assets to its subsidiaries or their creditors or counterparties at a time when Group Inc. is in need of liquidity to fund its own obligations.

Credit Risk. We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

Although we regularly review credit exposures to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee, particularly as new business initiatives and market developments lead us to transact with a broader array of clients and counterparties, as well as clearing houses and exchanges, and expose us to new asset classes and new markets.

We have experienced, due to competitive factors, pressure to extend and price credit at levels that may not always fully compensate us for the risks we take. In particular, corporate clients seek such commitments from financial services firms in connection with investment banking and other assignments.

Operational Risk. Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as the information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. Despite the resiliency plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may include a disruption involving electrical, communications, internet, transportation or other services used by us or third parties with which we conduct business.

Industry consolidation, whether among market participants or financial intermediaries, increases the risk of operational failure as disparate complex systems need to be integrated, often on an accelerated basis. Furthermore, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased centrality of these entities under proposed and potential regulation, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact our ability to conduct business.

Legal, Regulatory and Reputational Risk. We are subject to extensive and evolving regulation in jurisdictions around the world. Several of our subsidiaries are subject to regulatory capital requirements and, as a bank holding company, we are subject to minimum capital standards and a minimum Tier 1 leverage ratio on a consolidated basis. Our status as a bank holding company and the operation of our lending and other businesses through GS Bank USA subject us to additional regulation and limitations on our activities, as described in Regulation Banking Regulation in Part I, Item 1 of our Annual Report on Form 10-K.

New regulations could impact our profitability in the affected jurisdictions, or even make it uneconomic for us to continue to conduct all or certain of our businesses in such jurisdictions, or could cause us to incur significant costs associated with changing our business practices, restructuring our businesses, moving all or certain of our businesses and our employees to other locations or complying with applicable capital requirements, including liquidating assets or raising capital in a manner that adversely increases our funding costs or otherwise adversely affects our shareholders and creditors. To the extent new laws or regulations or changes in enforcement of existing laws or regulations are imposed on a limited subset of financial institutions, this could adversely affect our ability to compete effectively with other institutions that are not affected in the same way.

A Financial Crisis Responsibility Fee to be assessed on the largest financial firms by the U.S. government was proposed on January 14, 2010. However, since this is still in the proposal stage and has not been approved by Congress, details surrounding the fee have not been finalized. We are currently evaluating the impact of the proposal on our results of operations. The impact of the proposal, if any, will be recorded when it is ultimately enacted.

Substantial legal liability or a significant regulatory action against us, or adverse publicity, governmental scrutiny or legal and enforcement proceedings regardless of the ultimate outcome, could have material adverse financial effects, cause significant reputational harm to us or adversely impact the morale and performance of our employees, which in turn could seriously harm our businesses and results of operations. We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Our experience has been that legal claims by customers and clients increase in a market downturn and that employment-related claims increase in periods when we have reduced the total number of employees. For a discussion of how we account for our legal and regulatory exposures, see Use of Estimates below.

Critical Accounting Policies

Fair Value

The use of fair value to measure financial instruments, with related gains or losses generally recognized in Trading and principal investments in our consolidated statements of earnings, is fundamental to our financial statements and our risk management processes and is our most critical accounting policy. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

Substantially all trading assets and trading liabilities are reflected in our consolidated statements of financial condition at fair value. In determining fair value, we separate our trading assets, at fair value and trading liabilities, at fair value into two categories: cash instruments and derivative contracts, as set forth in the following table:

Trading Instruments by Category
(in millions)

	As of December 2009		As of November 2008	
	Trading Assets, at Fair Value	Trading Liabilities, at Fair Value	Trading Assets, at Fair Value	Trading Liabilities, at Fair Value
Cash trading instruments	$ 244,124	$ 72,117	$ 186,231	$ 57,143
ICBC	8,111 (1)		5,496 (1)	
SMFG	933	893 (4)	1,135	1,134 (4)
Other principal investments	13,981 (2)		15,126 (2)	
Principal investments	23,025	893	21,757	1,134
Cash instruments	267,149	73,010	207,988	58,277
Exchange-traded	6,831	2,548	6,164	8,347
Over-the-counter	68,422	53,461	124,173	109,348
Derivative contracts	75,253 (3)	56,009 (5)	130,337 (3)	117,695 (5)
Total	$ 342,402	$ 129,019	$ 338,325	$ 175,972

(1) Includes interests of $5.13 billion and $3.48 billion as of December 2009 and November 2008, respectively, held by investment funds managed by Goldman Sachs. The fair value of our investment in the ordinary shares of ICBC, which trade on The Stock Exchange of Hong Kong, includes the effect of foreign exchange revaluation for which we maintain an economic currency hedge.

(2) The following table sets forth the principal investments (other than our investments in ICBC and Sumitomo Mitsui Financial Group, Inc. (SMFG)) included within the Principal Investments component of our Trading

and Principal Investments segment:

	As of December 2009			As of November 2008		
	Corporate	Real Estate	Total	Corporate	Real Estate	Total
			(in millions)			
Private	$ 9,507	$ 1,325	$ 10,832	$ 10,726	$ 2,935	$ 13,661
Public	3,091	58	3,149	1,436	29	1,465
Total	$ 12,598	$ 1,383	$ 13,981	$ 12,162	$ 2,964	$ 15,126

(3) Net of cash received pursuant to credit support agreements of $124.60 billion and $137.16 billion as of December 2009 and November 2008, respectively.

(4) Represents an economic hedge on the shares of common stock underlying our investment in the convertible preferred stock of SMFG.

(5) Net of cash paid pursuant to credit support agreements of $14.74 billion and $34.01 billion as of December 2009 and November 2008, respectively.

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Cash Instruments. Cash instruments include cash trading instruments, public principal investments and private principal investments.

Cash Trading Instruments. Our cash trading instruments (e.g., equity and debt securities) are generally valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most government obligations, active listed equities and certain money market securities.

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most government agency securities, most corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, certain state, municipal and provincial obligations and certain money market securities and loan commitments.

Certain cash trading instruments trade infrequently and therefore have little or no price transparency. Such instruments include private equity investments and real estate fund investments, certain bank loans and bridge loans (including certain mezzanine financing, leveraged loans arising from capital market transactions and other corporate bank debt), less liquid corporate debt securities and other debt obligations (including less liquid corporate bonds, distressed debt instruments and collateralized debt obligations (CDOs) backed by corporate obligations), less liquid mortgage whole loans and securities (backed by either commercial or residential real estate), and acquired portfolios of distressed loans. The transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on market evidence where available. In the absence of such evidence, management s best estimate is used.

Public Principal Investments. Our public principal investments held within the Principal Investments component of our Trading and Principal Investments segment tend to be large, concentrated holdings resulting from initial public offerings or other corporate transactions, and are valued based on quoted market prices. For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on market evidence where available. In the absence of such evidence, management s best estimate is used.

Our investment in the ordinary shares of ICBC is valued using the quoted market price adjusted for transfer restrictions. Under the original transfer restrictions, the ICBC shares we held would have become free from transfer restrictions in equal installments on April 28, 2009 and October 20, 2009. During the quarter ended March 2009, the shares became subject to new supplemental transfer restrictions. Under these new supplemental transfer restrictions, on April 28, 2009, 20% of the ICBC shares that we held became free from transfer restrictions and we completed the disposition of these shares during the second quarter of 2009. Our remaining ICBC shares are subject to transfer restrictions, which prohibit liquidation at any time prior to April 28, 2010.

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We also have an investment in the convertible preferred stock of SMFG. This investment is valued using a model that is principally based on SMFG s common stock price. During 2008, we converted one-third of our SMFG preferred stock investment into SMFG common stock, and delivered the common stock to close out one-third of our hedge position. As of December 2009, we remained hedged on substantially all of the common stock underlying our remaining investment in SMFG.

Private Principal Investments. Our private principal investments held within the Principal Investments component of our Trading and Principal Investments segment include investments in private equity, debt and real estate, primarily held through investment funds. By their nature, these investments have little or no price transparency. We value such instruments initially at transaction price and adjust valuations when evidence is available to support such adjustments. Such evidence includes recent third-party investments or pending transactions, third-party independent appraisals, transactions in similar instruments, discounted cash flow techniques, valuation multiples and public comparables.

Derivative Contracts. Derivative contracts can be exchange-traded or over-the-counter (OTC). We generally value exchange-traded derivatives using models which calibrate to market-clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying instruments.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market-clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. We generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, voluntary and involuntary prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Where we do not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. Subsequent to initial recognition, we only update valuation inputs 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 we cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. See Derivatives below for further information on our OTC derivatives.

When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on market evidence where available. In the absence of such evidence, management s best estimate is used.

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Controls Over Valuation of Financial Instruments. A control infrastructure, independent of the trading and investing functions, is fundamental to ensuring that our financial instruments are appropriately valued at market-clearing levels (i.e., exit prices) and that fair value measurements are reliable and consistently determined.

We employ an oversight structure that includes appropriate segregation of duties. Senior management, independent of the trading and investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies to our Audit Committee. We seek to maintain the necessary resources to ensure that control functions are performed appropriately. We employ procedures for the approval of new transaction types and markets, price verification, review of daily profit and loss, and review of valuation models by personnel with appropriate technical knowledge of relevant products and markets. These procedures are performed by personnel independent of the trading and investing functions. For financial instruments where prices or valuations that require inputs are less observable, we employ, where possible, procedures that include comparisons with similar observable positions, analysis of actual to projected cash flows, comparisons with subsequent sales, reviews of valuations used for collateral management purposes and discussions with senior business leaders. See Market Risk and Credit Risk below for a further discussion of how we manage the risks inherent in our trading and principal investing businesses.

Fair Value Hierarchy Level 3. The fair value hierarchy under Financial Accounting Standards Board Accounting Standards Codification (ASC) 820 prioritizes the inputs to valuation techniques used to measure fair value. The objective of a fair value measurement is to determine the price 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 (i.e., the exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Instruments that trade infrequently and therefore have little or no price transparency are classified within level 3 of the fair value hierarchy. We determine which instruments are classified within level 3 based on the results of our price verification process. This process is performed by personnel independent of our trading and investing functions who corroborate valuations to external market data (e.g., quoted market prices, broker or dealer quotations, third-party pricing vendors, recent trading activity and comparative analyses to similar instruments). Instruments with valuations which cannot be corroborated to external market data are classified within level 3 of the fair value hierarchy.

When broker or dealer quotations or third-party pricing vendors are used for valuation or price verification, greater priority is given to executable quotes. As part of our price verification process, valuations based on quotes are corroborated by comparison both to other quotes and to recent trading activity in the same or similar instruments. The number of quotes obtained varies by instrument and depends on the liquidity of the particular instrument. See Notes 2 and 3 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for further information regarding fair value measurements.

Valuation Methodologies for Level 3 Assets. Instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. As time passes, transaction price becomes less reliable as an estimate of fair value and accordingly, we use other methodologies to determine fair value, which vary based on the type of instrument, as described below. Regardless of the methodology, valuation inputs and assumptions are only changed when corroborated by substantive evidence. Senior management in control functions, independent of the trading and investing functions, reviews all significant unrealized gains/losses, including the primary drivers of the change in value. Valuations are further corroborated by values realized upon sales of our level 3 assets. An overview of methodologies used to value our level 3 assets subsequent to the transaction date is as follows:

Equities and convertible debentures. Substantially all of our level 3 equities and convertible debentures consist of private equity investments and real estate fund investments. For private equity investments, recent third-party investments or pending transactions are considered to be the best evidence for any change in fair value. In the absence of such evidence, valuations are based on one or more of the following methodologies, as appropriate and available: transactions in similar instruments, discounted cash flow techniques, third-party independent appraisals, valuation multiples and public comparables. Such evidence includes pending reorganizations (e.g., merger proposals, tender offers or debt restructurings); and significant changes in financial metrics (e.g., operating results as compared to previous projections, industry multiples, credit ratings and balance sheet ratios). Real estate fund investments are carried at net asset value per share. The underlying investments in the funds are generally valued using discounted cash flow techniques, for which the key inputs are the amount and timing of expected future cash flows, capitalization rates and valuation multiples.

Bank loans and bridge loans and Corporate debt securities and other debt obligations. Valuations are generally based on discounted cash flow techniques, for which the key inputs are the amount and timing of expected future cash flows, market yields for such instruments and recovery assumptions. Inputs are generally determined based on relative value analyses, which incorporate comparisons both to credit default swaps that reference the same underlying credit risk and to other debt instruments for the same issuer for which observable prices or broker quotes are available.

Loans and securities backed by commercial real estate. Loans and securities backed by commercial real estate are collateralized by specific assets and may be tranched into varying levels of subordination. Due to the nature of these instruments, valuation techniques vary by instrument. Methodologies include relative value analyses across different tranches, comparisons to transactions in both the underlying collateral and instruments with the same or substantially the same underlying collateral, market indices (such as the CMBX [(1)]), and credit default swaps, as well as discounted cash flow techniques.

Loans and securities backed by residential real estate. Valuations are based on both proprietary and industry recognized models (including Intex and Bloomberg), and discounted cash flow techniques. In the recent market environment, the most significant inputs to the valuation of these instruments are rates and timing of delinquency, default and loss expectations, which are driven in part by housing prices. Inputs are determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles, including relevant indices such as the ABX [(1)].

Loan portfolios. Valuations are based on discounted cash flow techniques, for which the key inputs are the amount and timing of expected future cash flows and market yields for such instruments. Inputs are determined based on relative value analyses which incorporate comparisons to recent auction data for other similar loan portfolios.

Derivative contracts. Valuation models are calibrated to initial transaction price. Subsequent changes in valuations are based on observable inputs to the valuation models (e.g., interest rates, credit spreads, volatilities, etc.). Inputs are changed only when corroborated by market data. Valuations of less liquid OTC derivatives are typically based on level 1 or level 2 inputs that can be observed in the market, as well as unobservable inputs, such as correlations and volatilities.

(1) The CMBX and ABX are indices that track the performance of commercial mortgage bonds and subprime residential mortgage bonds, respectively.

Total level 3 assets were $46.48 billion and $66.19 billion as of December 2009 and November 2008, respectively. The decrease in level 3 assets as of December 2009 compared with November 2008 primarily reflected unrealized losses (principally on private equity investments and real estate fund investments, loans and securities backed by commercial real estate, and bank loans and bridge loans) and sales and paydowns (principally on loans and securities backed by commercial real estate, bank loans and bridge loans, and other debt obligations).

The following table sets forth the fair values of financial assets classified within level 3 of the fair value hierarchy:

Level 3 Financial Assets at Fair Value
(in millions)

	As of	
	December 2009	**November 2008**
Equities and convertible debentures [1]	$ 11,871	$ 16,006
Bank loans and bridge loans [2]	9,560	11,957
Corporate debt securities and other debt obligations [3]	5,584	7,596
Mortgage and other asset-backed loans and securities:		
Loans and securities backed by commercial real estate	4,620	9,340
Loans and securities backed by residential real estate	1,880	2,049
Loan portfolios [4]	1,364	4,118
Cash instruments	34,879	51,066
Derivative contracts	11,596	15,124
Total level 3 assets at fair value	46,475	66,190
Level 3 assets for which we do not bear economic exposure [5]	(3,127)	(6,616)
Level 3 assets for which we bear economic exposure	$ 43,348	$ 59,574

(1) Substantially all consists of private equity investments and real estate fund investments. Real estate investments were $1.23 billion and $2.62 billion as of December 2009 and November 2008, respectively.

(2) Includes certain mezzanine financing, leveraged loans arising from capital market transactions and other corporate bank debt.

(3) Includes $741 million and $804 million as of December 2009 and November 2008, respectively, of CDOs and collateralized loan obligations backed by corporate obligations.

(4) Consists of acquired portfolios of distressed loans, primarily backed by commercial and residential real estate collateral.

(5) We do not bear economic exposure to these level 3 assets as they are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.

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Loans and securities backed by residential real estate. We securitize, underwrite and make markets in various types of residential mortgages, including prime, Alt-A and subprime. At any point in time, we may use cash instruments as well as derivatives to manage our long or short risk position in residential real estate. The following table sets forth the fair value of our long positions in prime, Alt-A and subprime mortgage cash instruments:

Long Positions in Loans and Securities Backed by Residential Real Estate
(in millions)

	As of	
	December 2009	**November 2008**
Prime [1]	$ 2,483	$ 1,494
Alt-A	1,761	1,845
Subprime [2]	2,460	1,906
Total [3]	$ 6,704	$ 5,245

(1) Excludes U.S. government agency-issued collateralized mortgage obligations of $6.33 billion and $4.27 billion as of December 2009 and November 2008, respectively. Also excludes U.S. government agency-issued mortgage pass-through certificates.

(2) Includes $381 million and $228 million of CDOs backed by subprime mortgages as of December 2009 and November 2008, respectively.

(3) Includes $1.88 billion and $2.05 billion of financial instruments (primarily loans and investment-grade securities, the majority of which were issued during 2006 and 2007) classified within level 3 of the fair value hierarchy as of December 2009 and November 2008, respectively.

Loans and securities backed by commercial real estate. We originate, securitize and syndicate fixed and floating rate commercial mortgages globally. At any point in time, we may use cash instruments as well as derivatives to manage our risk position in the commercial mortgage market. The following table sets forth the fair value of our long positions in loans and securities backed by commercial real estate by geographic region. The decrease in loans and securities backed by commercial real estate from November 2008 to December 2009 was primarily due to sales and paydowns.

Long Positions in Loans and Securities Backed by Commercial Real Estate by Geographic Region
(in millions)

	As of	
	December 2009	**November 2008**
Americas [1]	$ 5,157	$ 7,433

EMEA [2]	1,032	3,304
Asia	14	157
Total [3]	$ 6,203 [4]	$ 10,894 [5]

[1] Substantially all relates to the U.S.

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

[3] Includes $4.62 billion and $9.34 billion of financial instruments classified within level 3 of the fair value hierarchy as of December 2009 and November 2008, respectively.

[4] Comprised of loans of $4.70 billion and commercial mortgage-backed securities of $1.50 billion as of December 2009, of which $5.68 billion was floating rate and $519 million was fixed rate.

[5] Comprised of loans of $9.23 billion and commercial mortgage-backed securities of $1.66 billion as of November 2008, of which $9.78 billion was floating rate and $1.11 billion was fixed rate.

Leveraged Lending Capital Market Transactions. We arrange, extend and syndicate loans and commitments related to leveraged lending capital market transactions globally. The following table sets forth the notional amount of our leveraged lending capital market transactions by geographic region:

Leveraged Lending Capital Market Transactions by Geographic Region
(in millions)

	As of December 2009			As of November 2008		
	Funded	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Total**
Americas [1]	$ 1,029	$ 1,120	$ 2,149	$ 3,036	$ 1,735	$ 4,771
EMEA	1,624	50	1,674	2,294	259	2,553
Asia	600	27	627	568	73	641
Total	$ 3,253	$ 1,197	$ 4,450 [2]	$ 5,898	$ 2,067	$ 7,965 [2]

(1) Substantially all relates to the U.S.

(2) Represents the notional amount. We account for these transactions at fair value and our exposure was $2.27 billion and $5.53 billion as of December 2009 and November 2008, respectively.

Other Financial Assets and Financial Liabilities at Fair Value. In addition to trading assets, at fair value and trading liabilities, at fair value, we have elected to account for certain of our other financial assets and financial liabilities at fair value under ASC 815-15 and ASC 825-10 (i.e., the fair value option). The primary reasons for electing the fair value option are to reflect economic events in earnings on a timely basis, to mitigate volatility in earnings from using different measurement attributes and to address simplification and cost-benefit considerations.

Such financial assets and financial liabilities accounted for at fair value include:

- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;
- certain other secured financings, primarily transfers accounted for as financings rather than sales, debt raised through our William Street credit extension program and certain other nonrecourse financings;
- certain unsecured long-term borrowings, including prepaid physical commodity transactions and certain hybrid financial instruments;
- resale and repurchase agreements;
- securities borrowed and loaned within Trading and Principal Investments, consisting of our matched book and certain firm financing activities;
- certain deposits issued by our bank subsidiaries, as well as securities held by GS Bank USA;

certain receivables from customers and counterparties, including certain margin loans, transfers accounted for as secured loans rather than purchases and prepaid variable share forwards;

certain insurance and reinsurance contracts and certain guarantees; and

in general, investments acquired after November 24, 2006, when the fair value option became available, where we have significant influence over the investee and would otherwise apply the equity method of accounting. In certain cases, we apply the equity method of accounting to new investments that are strategic in nature or closely related to our principal business activities, where we have a significant degree of involvement in the cash flows or operations of the investee, or where cost-benefit considerations are less significant.

Goodwill and Identifiable Intangible Assets

As a result of our acquisitions, principally SLK LLC (SLK) in 2000, The Ayco Company, L.P. (Ayco) in 2003 and our variable annuity and life insurance business in 2006, we have acquired goodwill and identifiable intangible assets. 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. We test the goodwill in each of our operating segments, which are components one level below our three business segments, for impairment at least annually, by comparing the estimated fair value of each operating segment with its estimated net book value. We derive the fair value of each of our operating segments based on valuation techniques we believe market participants would use for each segment (observable average price-to-earnings multiples of our competitors in these businesses and price-to-book multiples). We derive the net book value of our operating segments by estimating the amount of shareholders equity required to support the activities of each operating segment. Our last annual impairment test was performed during our 2009 fourth quarter and no impairment was identified.

During 2008 (particularly during the fourth quarter) and early 2009, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. If there was a prolonged period of weakness in the business environment and financial markets, our businesses would be adversely affected, which could result in an impairment of goodwill in the future.

The following table sets forth the carrying value of our goodwill by operating segment:

Goodwill by Operating Segment
(in millions)

	As of December 2009	As of November 2008
Investment Banking		
Underwriting	$ 125	$ 125
Trading and Principal Investments		
FICC	265	247
Equities [1]	2,389	2,389
Principal Investments	84	80
Asset Management and Securities Services		
Asset Management [2]	563	565
Securities Services	117	117
Total	$ 3,543	$ 3,523

[1] Primarily related to SLK.

[2] Primarily related to Ayco.

Identifiable Intangible Assets. We amortize our identifiable intangible assets over their estimated lives or, in the case of insurance contracts, in proportion to estimated gross profits or premium revenues. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

The following table sets forth the carrying value and range of estimated remaining lives of our identifiable intangible assets by major asset class:

Identifiable Intangible Assets by Asset Class
($ in millions)

	As of December 2009		As of November 2008
	Carrying Value	**Range of Estimated Remaining Lives (in years)**	**Carrying Value**
Customer lists [1]	$ 645	2-16	$ 724
New York Stock Exchange (NYSE) Designated Market Maker (DMM) rights	420	12	462
Insurance-related assets [2]	150	6	155
Exchange-traded fund (ETF) lead market maker rights	90	18	95
Other [3]	72	2-16	93
Total	$ 1,377		$ 1,529

(1) Primarily includes our clearance and execution and NASDAQ customer lists related to SLK and financial counseling customer lists related to Ayco.

(2) Primarily includes the value of business acquired related to our insurance businesses.

(3) Primarily includes marketing-related assets and other contractual rights.

A prolonged period of weakness in global equity markets could adversely impact our businesses and impair the value of our identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including (i) changes in trading volumes or market structure that could adversely affect our exchange-based market-making businesses (see discussion below), (ii) an adverse action or assessment by a regulator or (iii) adverse actual experience on the contracts in our variable annuity and life insurance business.

In October 2008, the SEC approved the NYSE s proposal to create a new market model and redefine the role of NYSE DMMs. In June 2009, the NYSE successfully completed the rollout of new systems architecture that further reduces order completion time, which enables the NYSE to offer competitive execution speeds, while continuing to incorporate the price discovery provided by DMMs. Following solid performance during the first half of 2009, in the latter half of 2009, our DMM business was adversely impacted primarily by the lack of timely market data in the internal order/execution system of the NYSE (which, at times, results in DMMs making markets without real-time price information) and to a lesser extent, by lower trading volumes and lower volatility. In 2010, the NYSE is expected to address this market data issue. There can be no assurance that changes in these factors will result in sufficient cash flows to avoid impairment of our NYSE DMM rights in the future. In accordance with the requirements of ASC 360, we will be closely monitoring the performance of our DMM business to determine whether an impairment loss is required in the future. As of December 2009, the carrying value of our NYSE DMM rights was $420 million. To the extent that there were to be an impairment in the future, it would result in a significant writedown in the carrying value of these DMM rights.

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Use of Estimates

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

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be reasonably estimated. In accounting for income taxes, we estimate and provide for potential liabilities that may arise out of tax audits to the extent that uncertain tax positions fail to meet the recognition standard under ASC 740. See Note 2 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for further information regarding accounting for income taxes.

Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total estimated liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. See Legal Proceedings in Part I, Item 3 of our Annual Report on Form 10-K for information on our judicial, regulatory and arbitration proceedings.

Results of Operations

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. See Certain Risk Factors That May Affect Our Businesses above and Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for a further discussion of the impact of economic and market conditions on our results of operations.

Financial Overview

The following table sets forth an overview of our financial results:

Financial Overview
($ in millions, except per share amounts)

	Year Ended			One Month Ended
	December 2009	November 2008	November 2007	December 2008
Net revenues	$ 45,173	$ 22,222	$ 45,987	$ 183
Pre-tax earnings/(loss)	19,829	2,336	17,604	(1,258)
Net earnings/(loss)	13,385	2,322	11,599	(780)
Net earnings/(loss) applicable to common shareholders	12,192	2,041	11,407	(1,028)
Diluted earnings/(loss) per common share	22.13	4.47	24.73	(2.15)
Return on average common shareholders equity[1]	22.5%	4.9%	32.7%	N.M.

[1] ROE is computed by dividing net earnings applicable to common shareholders by average monthly common shareholders equity. The following table sets forth our average common shareholders equity:

	Average for the			
	Year Ended			One Month Ended
	December 2009	November 2008	November 2007	December 2008
	(in millions)			
Total shareholders equity	$ 65,527	$ 47,167	$ 37,959	$ 63,712
Preferred stock	(11,363)	(5,157)	(3,100)	(16,477)
Common shareholders equity	$ 54,164	$ 42,010	$ 34,859	$ 47,235

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Net Revenues

2009 versus 2008. Our net revenues were $45.17 billion in 2009, more than double the amount in 2008, reflecting significantly higher net revenues in Trading and Principal Investments. The increase in Trading and Principal Investments reflected a very strong performance in FICC and significantly improved results in Principal Investments, as well as higher net revenues in Equities. During 2009, FICC operated in an environment characterized by strong client-driven activity, particularly in more liquid products. In addition, asset values generally improved and corporate credit spreads tightened significantly for most of the year. Net revenues in FICC were significantly higher compared with 2008, reflecting particularly strong performances in credit products, mortgages and interest rate products, which were each significantly higher than 2008. Net revenues in commodities were also particularly strong and were slightly higher than 2008, while net revenues in currencies were strong, but lower than a particularly strong 2008. During 2009, mortgages included a loss of approximately $1.5 billion (excluding hedges) on commercial mortgage loans. Results in 2008 were negatively impacted by asset writedowns across non-investment-grade credit origination activities, corporate debt, private and public equities, and residential and commercial mortgage loans and securities. The increase in Principal Investments reflected gains on corporate principal investments and our investment in the ordinary shares of ICBC compared with net losses in 2008. In 2009, results in Principal Investments included a gain of $1.58 billion related to our investment in the ordinary shares of ICBC, a gain of $1.31 billion from corporate principal investments and a loss of $1.76 billion from real estate principal investments. Net revenues in Equities for 2009 reflected strong results in the client franchise businesses. However, results in the client franchise businesses were lower than a strong 2008 and included significantly lower commissions. Results in principal strategies were positive compared with losses in 2008. During 2009, Equities operated in an environment characterized by a significant increase in global equity prices, favorable market opportunities and a significant decline in volatility levels.

Net revenues in Asset Management and Securities Services decreased significantly compared with 2008, reflecting significantly lower net revenues in Securities Services, as well as lower net revenues in Asset Management. The decrease in Securities Services primarily reflected the impact of lower customer balances, reflecting lower hedge fund industry assets and reduced leverage. The decrease in Asset Management primarily reflected the impact of changes in the composition of assets managed, principally due to equity market depreciation during the fourth quarter of 2008, as well as lower incentive fees. During the year ended December 31, 2009, assets under management increased $73 billion to $871 billion, due to $76 billion of market appreciation, primarily in fixed income and equity assets, partially offset by $3 billion of net outflows. Outflows in money market assets were offset by inflows in fixed income assets.

Net revenues in Investment Banking decreased compared with 2008, reflecting significantly lower net revenues in Financial Advisory, partially offset by higher net revenues in our Underwriting business. The decrease in Financial Advisory reflected a decline in industry-wide completed mergers and acquisitions. The increase in Underwriting reflected higher net revenues in equity underwriting, primarily reflecting an increase in industry-wide equity and equity-related offerings. Net revenues in debt underwriting were slightly lower than in 2008.

2008 versus 2007. Our net revenues were $22.22 billion in 2008, a decrease of 52% compared with 2007, reflecting a particularly difficult operating environment, including significant asset price declines, high levels of volatility and reduced levels of liquidity, particularly in the fourth quarter. In addition, credit markets experienced significant dislocation between prices for cash instruments and the related derivative contracts and between credit indices and underlying single names. Net revenues in Trading and Principal Investments were significantly lower compared with 2007, reflecting significant declines in FICC, Principal Investments and Equities. The decrease in FICC primarily reflected losses in credit products, which included a loss of approximately $3.1 billion (net of hedges) related to non-investment-grade credit origination activities and losses from investments, including corporate debt and private and public equities. Results in mortgages included net losses of approximately

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$1.7 billion on residential mortgage loans and securities and approximately $1.4 billion on commercial mortgage loans and securities. Interest rate products, currencies and commodities each produced particularly strong results and net revenues were higher compared with 2007. During 2008, although client-driven activity was generally solid, FICC operated in a challenging environment characterized by broad-based declines in asset values, wider mortgage and corporate credit spreads, reduced levels of liquidity and broad-based investor deleveraging, particularly in the second half of the year. The decline in Principal Investments primarily reflected net losses of $2.53 billion from corporate principal investments and $949 million from real estate principal investments, as well as a $446 million loss from our investment in the ordinary shares of ICBC. In Equities, the decrease compared with particularly strong net revenues in 2007 reflected losses in principal strategies, partially offset by higher net revenues in our client franchise businesses. Commissions were particularly strong and were higher than 2007. During 2008, Equities operated in an environment characterized by a significant decline in global equity prices, broad-based investor deleveraging and very high levels of volatility, particularly in the second half of the year.

Net revenues in Investment Banking also declined significantly compared with 2007, reflecting significantly lower net revenues in both Financial Advisory and Underwriting. In Financial Advisory, the decrease compared with particularly strong net revenues in 2007 reflected a decline in industry-wide completed mergers and acquisitions. The decrease in Underwriting primarily reflected significantly lower net revenues in debt underwriting, primarily due to a decline in leveraged finance and mortgage-related activity, reflecting difficult market conditions. Net revenues in equity underwriting were slightly lower compared with 2007, reflecting a decrease in industry-wide equity and equity-related offerings.

Net revenues in Asset Management and Securities Services increased compared with 2007. Securities Services net revenues were higher, reflecting the impact of changes in the composition of securities lending customer balances, as well as higher total average customer balances. Asset Management net revenues increased slightly compared with 2007. During the year, assets under management decreased $89 billion to $779 billion, due to $123 billion of market depreciation, primarily in equity assets, partially offset by $34 billion of net inflows.

One Month Ended December 2008. Our net revenues were $183 million for the month of December 2008. These results reflected a continuation of the difficult operating environment experienced during our fiscal fourth quarter of 2008, particularly across global equity and credit markets. Trading and Principal Investments recorded negative net revenues of $507 million. Results in Principal Investments reflected net losses of $529 million from real estate principal investments and $501 million from corporate principal investments, partially offset by a gain of $228 million related to our investment in the ordinary shares of ICBC. Results in FICC included a loss in credit products of approximately $1 billion (net of hedges) related to non-investment-grade credit origination activities, primarily reflecting a writedown of approximately $850 million related to the bridge and bank loan facilities held in LyondellBasell Finance Company. In addition, results in mortgages included a loss of approximately $625 million (excluding hedges) on commercial mortgage loans and securities. Interest rate products, currencies and commodities each produced strong results for the month of December 2008. During the month of December, although market opportunities were favorable for certain businesses, FICC operated in an environment generally characterized by continued weakness in the broader credit markets. Results in Equities reflected lower commission volumes and lower net revenues from derivatives compared with average monthly levels in 2008, as well as weak results in principal strategies. During the month of December, Equities operated in an environment characterized by continued weakness in global equity markets and continued high levels of volatility.

Net revenues in Investment Banking were $135 million for the month of December and reflected very low levels of activity in industry-wide completed mergers and acquisitions, as well as continued challenging market conditions across equity and leveraged finance markets, which adversely affected our Underwriting business.

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Net revenues in Asset Management and Securities Services were $555 million for the month of December, reflecting Asset Management net revenues of $319 million and Securities Services net revenues of $236 million. During the calendar month of December, assets under management increased $19 billion to $798 billion due to $13 billion of market appreciation, primarily in fixed income and equity assets, and $6 billion of net inflows. Net inflows reflected inflows in money market assets, partially offset by outflows in fixed income, equity and alternative investment assets. Net revenues in Securities Services reflected favorable changes in the composition of securities lending balances, but were negatively impacted by a decline in total average customer balances.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. Compensation and benefits expenses includes salaries, discretionary compensation, amortization of equity awards and other items such as payroll taxes, severance costs and benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, prevailing labor markets, business mix and the structure of our share-based compensation programs. Our ratio of compensation and benefits to net revenues was 35.8% for 2009 and represented our lowest annual ratio of compensation and benefits to net revenues. While net revenues for 2009 were only 2% lower than our record net revenues in 2007, total compensation and benefits expenses for 2009 were 20% lower than 2007. For 2008, our ratio of compensation and benefits (excluding severance costs of approximately $275 million in the fourth quarter of 2008) to net revenues was 48.0%. Our compensation expense can vary from year to year and is based on our performance, prevailing labor markets and other factors. Our record low compensation ratio for 2009 reflects both very strong net revenues and the broader environment in which we currently operate.

On December 9, 2009, the United Kingdom proposed legislation that would impose a non-deductible 50% tax on certain financial institutions in respect of discretionary bonuses in excess of £25,000 awarded under arrangements made between December 9, 2009 and April 5, 2010 to relevant banking employees. We are currently evaluating the impact of the draft legislation on our results of operations. However, since this legislation is in draft form, certain details surrounding the tax have not been finalized. The impact of the tax will be recorded when the legislation is enacted, which is currently expected to occur in the second quarter of 2010.

The following table sets forth our operating expenses and total staff:

Operating Expenses and Total Staff
($ in millions)

	Year Ended December 2009	Year Ended November 2008	Year Ended November 2007	One Month Ended December 2008
Compensation and benefits	$ 16,193	$ 10,934	$ 20,190	$ 744
Brokerage, clearing, exchange and distribution fees	2,298	2,998	2,758	165
Market development	342	485	601	16
Communications and technology	709	759	665	62
Depreciation and amortization (1)	1,734	1,262	819	111
Occupancy	950	960	975	82
Professional fees	678	779	714	58
Other expenses	2,440	1,709	1,661	203
Total non-compensation expenses	9,151	8,952	8,193	697
Total operating expenses	$ 25,344	$ 19,886	$ 28,383	$ 1,441
Total staff at period end (2)	32,500	34,500	35,500	33,300
Total staff at period end including consolidated entities held for investment purposes (3)	36,200	39,200	40,000	38,000

(1) Beginning in the second quarter of 2009, Amortization of identifiable intangible assets is included in Depreciation and amortization in the consolidated statements of earnings. Prior periods have been reclassified to conform to the current presentation.

(2) Includes employees, consultants and temporary staff.

(3) Compensation and benefits and non-compensation expenses related to consolidated entities held for investment purposes are included in their respective line items in the consolidated statements of earnings. Consolidated entities held for investment purposes are entities that are held strictly for capital appreciation, have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses.

2009 versus 2008. Operating expenses of $25.34 billion for 2009 increased 27% compared with 2008. Compensation and benefits expenses (including salaries, discretionary compensation, amortization of equity awards and other items such as payroll taxes, severance costs and benefits) of $16.19 billion were higher compared with 2008, due to higher net revenues. Our ratio of compensation and benefits to net revenues for 2009 was 35.8%, down from 48.0% (excluding severance costs of approximately $275 million in the fourth quarter of 2008) for 2008. In 2009, compensation was reduced by $500 million to fund a charitable contribution to Goldman Sachs Gives, our donor-advised fund. Total staff decreased 2% during 2009. Total staff including consolidated entities held for investment purposes decreased 5% during 2009.

Non-compensation expenses of $9.15 billion for 2009 increased 2% compared with 2008. The increase compared with 2008 reflected the impact of charitable contributions of approximately $850 million (included in other expenses) during 2009, primarily including $310 million to The Goldman Sachs Foundation and $500 million to Goldman Sachs Gives. Compensation was reduced to fund the charitable contribution to Goldman Sachs Gives. The focus for this $500 million contribution to Goldman Sachs Gives is on those areas that have proven to be fundamental to creating jobs and economic growth, building and stabilizing communities, honoring service and veterans and increasing educational opportunities. We will ask our participating managing directors to make recommendations regarding potential charitable recipients for this contribution. Depreciation and amortization expenses also increased compared with 2008 and included real estate impairment charges of approximately $600 million related to consolidated entities held for investment purposes during 2009. The real estate impairment charges, which were measured based on discounted cash flow analysis, are included in our Trading and Principal Investments segment and reflected weakness in the commercial real estate markets, particularly in Asia. These increases were partially offset by the impact of lower brokerage, clearing, exchange and distribution fees, principally reflecting lower transaction volumes in Equities, and the impact of reduced staff levels and expense reduction initiatives during 2009.

2008 versus 2007. Operating expenses of $19.89 billion for 2008 decreased 30% compared with 2007. Compensation and benefits expenses (including salaries, discretionary compensation, amortization of equity awards and other items such as payroll taxes, severance costs and benefits) of $10.93 billion decreased 46% compared with 2007, reflecting lower levels of discretionary compensation due to lower net revenues. For 2008, our ratio of compensation and benefits (excluding severance costs of approximately $275 million in the fourth quarter of 2008) to net revenues was 48.0%. Our ratio of compensation and benefits to net revenues was 43.9% for 2007. Total staff decreased 3% during 2008. Total staff including consolidated entities held for investment purposes decreased 2% during 2008.

Non-compensation expenses of $8.95 billion for 2008 increased 9% compared with 2007. The increase compared with 2007 was principally attributable to higher depreciation and amortization expenses, primarily reflecting the impact of real estate impairment charges related to consolidated entities held for investment purposes during 2008, and higher brokerage, clearing, exchange and distribution fees, primarily due to increased activity levels in Equities and FICC.

One Month Ended December 2008. Operating expenses were $1.44 billion for the month of December 2008. Compensation and benefits expenses (including salaries, amortization of equity awards and other items such as payroll taxes, severance costs and benefits) were $744 million. No discretionary compensation was accrued for the month of December. Total staff decreased 3% compared with the end of fiscal year 2008. Total staff including consolidated entities held for investment purposes decreased 3% compared with the end of fiscal year 2008.

Non-compensation expenses of $697 million for the month of December 2008 were generally lower than average monthly levels in 2008, primarily reflecting lower levels of business activity. Total non-compensation expenses included $68 million of net provisions for a number of litigation and regulatory proceedings.

Provision for Taxes

During 2009, the firm incurred $6.44 billion of corporate taxes, resulting in an effective income tax rate of 32.5%. The effective income tax rate for 2008 was approximately 1% and the effective income tax rate for 2007 was 34.1%. The increase in the effective income tax rate for 2009 compared with 2008 was primarily due to changes in the geographic earnings mix and a decrease in permanent benefits as a percentage of higher earnings. The effective tax rate for 2009 represents a return to a geographic earnings mix that is more in line with our historic earnings mix. The decrease in the effective income tax rate for 2008 compared with 2007 was primarily due to an increase in permanent benefits as a percentage of lower earnings and changes in geographic earnings mix. During 2008, we incurred losses in various U.S. and non-U.S. entities whose income/(losses) are subject to tax in the U.S. We also had profitable operations in certain non-U.S. entities that are taxed at their applicable local tax rates, which are generally lower than the U.S. rate. The effective income tax rate for the month of December 2008 was 38.0%.

Effective January 1, 2010, the rules related to the deferral of U.S. tax on certain non-repatriated active financing income expired. We are currently assessing the impact but do not expect this change to be material to our financial condition, results of operations or cash flows for 2010.

Our effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings, the level of our pre-tax earnings, the level of our tax credits and the effect of tax audits. Certain of these and other factors, including our history of pre-tax earnings, are taken into account in assessing our ability to realize our net deferred tax assets. See Note 16 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for further information regarding our provision for taxes.

Segment Operating Results

The following table sets forth the net revenues, operating expenses and pre-tax earnings of our segments:

Segment Operating Results
(in millions)

		Year Ended December 2009	Year Ended November 2008	Year Ended November 2007	One Month Ended December 2008
Investment Banking	Net revenues	$ 4,797	$ 5,185	$ 7,555	$ 135
	Operating expenses	3,527	3,143	4,985	169
	Pre-tax earnings/(loss)	$ 1,270	$ 2,042	$ 2,570	$ (34)
Trading and Principal Investments	Net revenues	$ 34,373	$ 9,063	$ 31,226	$ (507)
	Operating expenses	17,053	11,808	17,998	875
	Pre-tax earnings/(loss)	$ 17,320	$ (2,745)	$ 13,228	$ (1,382)
Asset Management and Securities Services	Net revenues	$ 6,003	$ 7,974	$ 7,206	$ 555
	Operating expenses	4,660	4,939	5,363	329
	Pre-tax earnings	$ 1,343	$ 3,035	$ 1,843	$ 226
Total	Net revenues	$ 45,173	$ 22,222	$ 45,987	$ 183
	Operating expenses [1]	25,344	19,886	28,383	1,441
	Pre-tax earnings/(loss)	$ 19,829	$ 2,336	$ 17,604	$ (1,258)

(1) Operating expenses include net provisions for a number of litigation and regulatory proceedings of $104 million, $(4) million, $37 million and $68 million for the years ended December 2009, November 2008 and November 2007 and one month ended December 2008, respectively, that have not been allocated to our segments.

Net revenues in our segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. See Note 18 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for further information regarding our business segments.

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

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Investment Banking

Our Investment Banking segment is divided into two components:

Financial Advisory. Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs.

Underwriting. Underwriting includes public offerings and private placements of a wide range of securities and other financial instruments.

The following table sets forth the operating results of our Investment Banking segment:

Investment Banking Operating Results
(in millions)

	Year Ended			One Month Ended
	December 2009	**November 2008**	**November 2007**	**December 2008**
Financial Advisory	$ 1,893	$ 2,656	$ 4,222	$ 72
Equity underwriting	1,771	1,353	1,382	19
Debt underwriting	1,133	1,176	1,951	44
Total Underwriting	2,904	2,529	3,333	63
Total net revenues	4,797	5,185	7,555	135
Operating expenses	3,527	3,143	4,985	169
Pre-tax earnings/(loss)	$ 1,270	$ 2,042	$ 2,570	$ (34)

The following table sets forth our financial advisory and underwriting transaction volumes:

Goldman Sachs Global Investment Banking Volumes [1]
(in billions)

	Year Ended			One Month Ended
	December 2009	**November 2008**	**November 2007**	**December 2008**
Announced mergers and acquisitions [2]	$ 651	$ 804	$ 1,260	$ 18
Completed mergers and acquisitions [2]	682	829	1,490	15
Equity and equity-related offerings [3]	78	56	66	2
Debt offerings [4]	257	165	324	19

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

(2) Source: Dealogic.

(3) Source: Thomson Reuters. Includes Rule 144A and public common stock offerings, convertible offerings and rights offerings.

(4) Source: Thomson Reuters. Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues. Excludes leveraged loans.

2009 versus 2008. Net revenues in Investment Banking of $4.80 billion for 2009 decreased 7% compared with 2008.

Net revenues in Financial Advisory of $1.89 billion decreased 29% compared with 2008, reflecting a decline in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $2.90 billion increased 15% compared with 2008, due to higher net revenues in equity underwriting, primarily reflecting an increase in industry-wide equity and equity-related offerings. Net revenues in debt underwriting were slightly lower than in 2008. Our investment banking transaction backlog increased significantly during the twelve months ended December 31, 2009. [1]

Operating expenses of $3.53 billion for 2009 increased 12% compared with 2008, due to increased compensation and benefits expenses. Pre-tax earnings of $1.27 billion in 2009 decreased 38% compared with 2008.

2008 versus 2007. Net revenues in Investment Banking of $5.19 billion for 2008 decreased 31% compared with 2007.

Net revenues in Financial Advisory of $2.66 billion decreased 37% compared with particularly strong net revenues in 2007, primarily reflecting a decline in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $2.53 billion decreased 24% compared with 2007, principally due to significantly lower net revenues in debt underwriting. The decrease in debt underwriting was primarily due to a decline in leveraged finance and mortgage-related activity, reflecting difficult market conditions. Net revenues in equity underwriting were slightly lower compared with 2007, reflecting a decrease in industry-wide equity and equity-related offerings. Our investment banking transaction backlog ended the year significantly lower than at the end of 2007. [1]

Operating expenses of $3.14 billion for 2008 decreased 37% compared with 2007, due to decreased compensation and benefits expenses, resulting from lower levels of discretionary compensation. Pre-tax earnings of $2.04 billion in 2008 decreased 21% compared with 2007.

One Month Ended December 2008. Net revenues in Investment Banking were $135 million for the month of December 2008. Net revenues in Financial Advisory were $72 million, reflecting very low levels of industry-wide completed mergers and acquisitions activity. Net revenues in our Underwriting business were $63 million, reflecting continued challenging market conditions across equity and leveraged finance markets. Our investment banking transaction backlog decreased from the end of fiscal year 2008. [1]

Operating expenses were $169 million for the month of December 2008. Pre-tax loss was $34 million for the month of December 2008.

[1] Our investment banking transaction backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not.

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Trading and Principal Investments

Our Trading and Principal Investments segment is divided into three components:

FICC. We make markets in and trade interest rate and credit products, mortgage-related securities and loan products and other asset-backed instruments, currencies and commodities, structure and enter into a wide variety of derivative transactions, and engage in proprietary trading and investing.

Equities. We make markets in and trade equities and equity-related products, structure and enter into equity derivative transactions and engage in proprietary trading. We generate commissions from executing and clearing client transactions on major stock, options and futures exchanges worldwide through our Equities client franchise and clearing activities. We also engage in exchange-based market-making activities and in insurance activities.

Principal Investments. We make real estate and corporate principal investments, including our investment in the ordinary shares of ICBC. We generate net revenues from returns on these investments and from the increased share of the income and gains derived from our merchant banking funds when the return on a fund s investments over the life of the fund exceeds certain threshold returns (typically referred to as an override).

Substantially all of our inventory is marked-to-market daily and, therefore, its value and our net revenues are subject to fluctuations based on market movements. In addition, net revenues derived from our principal investments, including those in privately held concerns and in real estate, may fluctuate significantly depending on the revaluation of these investments in any given period. We also regularly enter into large transactions as part of our trading businesses. The number and size of such transactions may affect our results of operations in a given period.

Net revenues from Principal Investments do not include management fees generated from our merchant banking funds. These management fees are included in the net revenues of the Asset Management and Securities Services segment.

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The following table sets forth the operating results of our Trading and Principal Investments segment:

Trading and Principal Investments Operating Results
(in millions)

	Year Ended			One Month Ended
	December 2009	**November 2008**	**November 2007**	**December 2008**
FICC	$ 23,316	$ 3,713	$ 16,165	$ (320)
Equities trading	6,046	4,208	6,725	363
Equities commissions	3,840	4,998	4,579	251
Total Equities	9,886	9,206	11,304	614
ICBC	1,582	(446)	495	228
Gross gains	3,415	1,335	3,728	213
Gross losses	(3,870)	(4,815)	(943)	(1,243)
Net other corporate and real estate investments	(455)	(3,480)	2,785	(1,030)
Overrides	44	70	477	1
Total Principal Investments	1,171	(3,856)	3,757	(801)
Total net revenues	34,373	9,063	31,226	(507)
Operating expenses	17,053	11,808	17,998	875
Pre-tax earnings/(loss)	$ 17,320	$ (2,745)	$ 13,228	$ (1,382)

2009 versus 2008. Net revenues in Trading and Principal Investments of $34.37 billion for 2009 increased significantly compared with 2008.

Net revenues in FICC of $23.32 billion for 2009 increased significantly compared with 2008. During 2009, FICC operated in an environment characterized by strong client-driven activity, particularly in more liquid products. In addition, asset values generally improved and corporate credit spreads tightened significantly for most of the year. The increase in net revenues compared with 2008 reflected particularly strong performances in credit products, mortgages and interest rate products, which were each significantly higher than 2008. Net revenues in commodities were also particularly strong and were slightly higher than 2008, while net revenues in currencies were strong, but lower than a particularly strong 2008. During 2009, mortgages included a loss of approximately $1.5 billion (excluding hedges) on commercial mortgage loans. Results in 2008 were negatively impacted by asset writedowns across non-investment-grade credit origination activities, corporate debt, private and public equities, and residential and commercial mortgage loans and securities.

Net revenues in Equities of $9.89 billion for 2009 increased 7% compared with 2008. Net revenues for 2009 reflected strong results in the client franchise businesses. However, these results were lower than a strong 2008 and included significantly lower commissions. Results in principal strategies were positive compared with losses in 2008. During 2009, Equities operated in an environment characterized by a significant increase in global equity prices, favorable market opportunities and a significant decline in volatility levels.

Principal Investments recorded net revenues of $1.17 billion for 2009. These results included a gain of $1.58 billion related to our investment in the ordinary shares of ICBC, a gain of $1.31 billion from corporate principal investments and a loss of $1.76 billion from real estate principal investments.

Operating expenses of $17.05 billion for 2009 increased 44% compared with 2008, due to increased compensation and benefits expenses, resulting from higher net revenues. In addition, depreciation and amortization expenses were higher than 2008, reflecting the impact of real estate impairment charges of approximately $600 million related to consolidated entities held for investment purposes during 2009, while brokerage, clearing, exchange and distribution fees were lower than 2008, principally reflecting lower transaction volumes in Equities. Pre-tax earnings were $17.32 billion in 2009 compared with a pre-tax loss of $2.75 billion in 2008.

2008 versus 2007. Net revenues in Trading and Principal Investments of $9.06 billion for 2008 decreased 71% compared with 2007.

Net revenues in FICC of $3.71 billion for 2008 decreased 77% compared with 2007, primarily reflecting losses in credit products, which included a loss of approximately $3.1 billion (net of hedges) related to non-investment-grade credit origination activities and losses from investments, including corporate debt and private and public equities. Results in mortgages included net losses of approximately $1.7 billion on residential mortgage loans and securities and approximately $1.4 billion on commercial mortgage loans and securities. Interest rate products, currencies and commodities each produced particularly strong results and net revenues were higher compared with 2007. During 2008, although client-driven activity was generally solid, FICC operated in a challenging environment characterized by broad-based declines in asset values, wider mortgage and corporate credit spreads, reduced levels of liquidity and broad-based investor deleveraging, particularly in the second half of the year.

Net revenues in Equities of $9.21 billion for 2008 decreased 19% compared with a particularly strong 2007, reflecting losses in principal strategies, partially offset by higher net revenues in the client franchise businesses. Commissions were particularly strong and were higher than 2007. During 2008, Equities operated in an environment characterized by a significant decline in global equity prices, broad-based investor deleveraging and very high levels of volatility, particularly in the second half of the year.

Principal Investments recorded a net loss of $3.86 billion for 2008. These results included net losses of $2.53 billion from corporate principal investments and $949 million from real estate principal investments, as well as a $446 million loss related to our investment in the ordinary shares of ICBC.

Operating expenses of $11.81 billion for 2008 decreased 34% compared with 2007, due to decreased compensation and benefits expenses, resulting from lower levels of discretionary compensation. This decrease was partially offset by increased depreciation and amortization expenses, primarily reflecting the impact of real estate impairment charges related to consolidated entities held for investment purposes during 2008, and higher brokerage, clearing, exchange and distribution fees, primarily reflecting increased activity levels in Equities and FICC. Pre-tax loss was $2.75 billion in 2008 compared with pre-tax earnings of $13.23 billion in 2007.

One Month Ended December 2008. Trading and Principal Investments recorded negative net revenues of $507 million for the month of December 2008.

FICC recorded negative net revenues of $320 million for the month of December 2008. Results in credit products included a loss of approximately $1 billion (net of hedges) related to non-investment-grade credit origination activities, primarily reflecting a writedown of approximately $850 million related to the bridge and bank loan facilities held in LyondellBasell Finance Company. In addition, results in mortgages included a loss of approximately $625 million (excluding hedges) on commercial mortgage loans and securities. Interest rate products, currencies and commodities each produced strong results for the month of December 2008. During the month of December, although market opportunities were favorable for certain businesses, FICC operated in an environment generally characterized by continued weakness in the broader credit markets.

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Net revenues in Equities were $614 million for the month of December 2008. These results reflected lower commission volumes and lower net revenues from derivatives compared with average monthly levels in 2008, as well as weak results in principal strategies. During the month of December, Equities operated in an environment characterized by continued weakness in global equity markets and continued high levels of volatility.

Principal Investments recorded a net loss of $801 million for the month of December 2008. These results included net losses of $529 million from real estate principal investments and $501 million from corporate principal investments, partially offset by a gain of $228 million related to our investment in the ordinary shares of ICBC.

Operating expenses were $875 million for the month of December 2008. Pre-tax loss was $1.38 billion for the month of December 2008.

Asset Management and Securities Services

Our Asset Management and Securities Services segment is divided into two components:

Asset Management. Asset Management provides investment and wealth advisory 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 group of institutions and individuals worldwide and primarily generates revenues in the form of management and incentive fees.

Securities Services. Securities Services provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide, and generates revenues primarily in the form of interest rate spreads or fees.

Assets under management typically generate fees as a percentage of asset value, which is affected by investment performance and by inflows and redemptions. The fees that we charge vary by asset class, as do our related expenses. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund s return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are recognized when the performance period ends (in most cases, on December 31) and they are no longer subject to adjustment.

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The following table sets forth the operating results of our Asset Management and Securities Services segment:

Asset Management and Securities Services Operating Results
(in millions)

	Year Ended			One Month Ended
	December 2009	November 2008	November 2007	December 2008
Management and other fees	$ 3,833	$ 4,321	$ 4,303	$ 318
Incentive fees	137	231	187	1
Total Asset Management	3,970	4,552	4,490	319
Securities Services	2,033	3,422	2,716	236
Total net revenues	6,003	7,974	7,206	555
Operating expenses	4,660	4,939	5,363	329
Pre-tax earnings	$ 1,343	$ 3,035	$ 1,843	$ 226

Assets under management include assets in our mutual funds, alternative investment funds and separately managed accounts for institutional and individual investors. Substantially all assets under management are valued as of calendar month-end. Assets under management do not include:

- assets in brokerage accounts that generate commissions, mark-ups and spreads based on transactional activity;
- our own investments in funds that we manage; or
- non-fee-paying assets, including interest-bearing deposits held through our bank depository institution subsidiaries.

The following table sets forth our assets under management by asset class:

Assets Under Management by Asset Class
(in billions)

	As of		
	December 31,	November 30,	
	2009	2008	2007
Alternative investments [1]	$ 146	$ 146	$ 151
Equity	146	112	255
Fixed income	315	248	256

Total non-money market assets	607	506	662
Money markets	264	273	206
Total assets under management	$ 871	$ 779	$ 868

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

The following table sets forth a summary of the changes in our assets under management:

Changes in Assets Under Management
(in billions)

	Year Ended December 31, 2009	November 30, 2008	November 30, 2007
Balance, beginning of year	$ 798 [1]	$ 868	$ 676
Net inflows/(outflows)			
Alternative investments	(5)	8	9
Equity	(2)	(55)	26
Fixed income	26	14	38
Total non-money market net inflows/(outflows)	19	(33)	73 [2]
Money markets	(22)	67	88
Total net inflows/(outflows)	(3)	34	161
Net market appreciation/(depreciation)	76	(123)	31
Balance, end of year	$ 871	$ 779	$ 868

(1) Includes market appreciation of $13 billion and net inflows of $6 billion during the calendar month of December 2008.

(2) Includes $7 billion in net asset inflows in connection with our acquisition of Macquarie IMM Investment Management.

2009 versus 2008. Net revenues in Asset Management and Securities Services of $6.00 billion for 2009 decreased 25% compared with 2008.

Asset Management net revenues of $3.97 billion for 2009 decreased 13% compared with 2008, primarily reflecting the impact of changes in the composition of assets managed, principally due to equity market depreciation during the fourth quarter of 2008, as well as lower incentive fees. During the year ended December 31, 2009, assets under management increased $73 billion to $871 billion, due to $76 billion of market appreciation, primarily in fixed income and equity assets, partially offset by $3 billion of net outflows. Outflows in money market assets were offset by inflows in fixed income assets.

Securities Services net revenues of $2.03 billion decreased 41% compared with 2008. The decrease in net revenues primarily reflected the impact of lower customer balances, reflecting lower hedge fund industry assets and reduced leverage.

Operating expenses of $4.66 billion for 2009 decreased 6% compared with 2008, due to decreased compensation and benefits expenses. Pre-tax earnings of $1.34 billion in 2009 decreased 56% compared with 2008.

2008 versus 2007. Net revenues in Asset Management and Securities Services of $7.97 billion for 2008 increased 11% compared with 2007.

Asset Management net revenues of $4.55 billion for 2008 increased 1% compared with 2007. During 2008, assets under management decreased $89 billion to $779 billion, due to $123 billion of market depreciation, primarily in equity assets, partially offset by $34 billion of net inflows. Net inflows reflected inflows in money market, fixed income and alternative investment assets, partially offset by outflows in equity assets.

Securities Services net revenues of $3.42 billion for 2008 increased 26% compared with 2007, reflecting the impact of changes in the composition of securities lending customer balances, as well as higher total average customer balances.

Operating expenses of $4.94 billion for 2008 decreased 8% compared with 2007, due to decreased compensation and benefits expenses, resulting from lower levels of discretionary compensation. Pre-tax earnings of $3.04 billion in 2008 increased 65% compared with 2007.

One Month Ended December 2008. Net revenues in Asset Management and Securities Services were $555 million for the month of December 2008.

Asset Management net revenues were $319 million for the month of December 2008. During the calendar month of December, assets under management increased $19 billion to $798 billion due to $13 billion of market appreciation, primarily in fixed income and equity assets, and $6 billion of net inflows. Net inflows reflected inflows in money market assets, partially offset by outflows in fixed income, equity and alternative investment assets.

Securities Services net revenues were $236 million for the month of December 2008. These results reflected favorable changes in the composition of securities lending balances, but were negatively impacted by a decline in total average customer balances.

Operating expenses were $329 million for the month of December 2008. Pre-tax earnings were $226 million for the month of December 2008.

Geographic Data

See Note 18 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for a summary of our total net revenues, pre-tax earnings and net earnings by geographic region.

Off-Balance-Sheet Arrangements

We have various types of off-balance-sheet arrangements that we enter into in the ordinary course of business. Our involvement in these arrangements can take many different forms, including purchasing or retaining residual and other interests in mortgage-backed and other asset-backed securitization vehicles; holding senior and subordinated debt, interests in limited and general partnerships, and preferred and common stock in other nonconsolidated vehicles; entering into interest rate, foreign currency, equity, commodity and credit derivatives, including total return swaps; entering into operating leases; and providing guarantees, indemnifications, loan commitments, letters of credit and representations and warranties.

We enter into these arrangements for a variety of business purposes, including the securitization of commercial and residential mortgages, corporate bonds, and other types of financial assets. Other reasons for entering into these arrangements include underwriting client securitization transactions; providing secondary market liquidity; making investments in performing and nonperforming debt, equity, real estate and other assets; providing investors with credit-linked and asset-repackaged notes; and receiving or providing letters of credit to satisfy margin requirements and to facilitate the clearance and settlement process.

We engage in transactions with variable interest entities (VIEs), including VIEs that were considered qualifying special-purpose entities (QSPEs) prior to our adoption of Accounting Standards Update 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets, in the first quarter of 2010. Asset-backed financing vehicles are critical to the functioning of several significant investor markets, including the mortgage-backed and other asset-backed securities markets, since they offer investors access to specific cash flows and risks created through the securitization process. Our financial interests in, and derivative transactions with, such nonconsolidated entities are accounted for at fair value, in the same manner as our other financial instruments, except in cases where we apply the equity method of accounting.

We did not have off-balance-sheet commitments to purchase or finance any CDOs held by structured investment vehicles as of December 2009 or November 2008.

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In December 2007, the American Securitization Forum (ASF) issued the Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans (ASF Framework). The ASF Framework provides guidance for servicers to streamline borrower evaluation procedures and to facilitate the use of foreclosure and loss prevention measures for securitized subprime residential mortgages that meet certain criteria. For certain eligible loans as defined in the ASF Framework, servicers may presume default is reasonably foreseeable and apply a fast-track loan modification plan, under which the loan interest rate will be kept at the then current rate for a period up to five years following the upcoming reset date. Mortgage loan modifications of these eligible loans did not affect our accounting treatment for QSPEs that hold the subprime loans.

The following table sets forth where a discussion of off-balance-sheet arrangements may be found in Part II, Items 7 and 8 of our Annual Report on Form 10-K:

Type of Off-Balance-Sheet Arrangement	Disclosure in Annual Report on Form 10-K
Retained interests or other continuing involvement relating to assets transferred by us to nonconsolidated entities	See Note 4 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K.
Leases, letters of credit, and loans and other commitments	See Note 8 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K and Contractual Obligations below.
Guarantees	See Note 8 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K.
Other obligations, including contingent obligations, arising out of variable interests we have in nonconsolidated entities	See Note 4 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K.
Derivative contracts	See Critical Accounting Policies above, and Risk Management and Derivatives below and Notes 3 and 7 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K.

In addition, see Note 2 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for a discussion of our consolidation policies and recent accounting developments that affected these policies effective January 1, 2010.

Equity Capital

The level and composition of our equity capital are determined by multiple factors including our consolidated regulatory capital requirements and an internal risk-based capital assessment, and may also be influenced by rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments.

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

As of December 2009, our total shareholders equity was $70.71 billion (consisting of common shareholders equity of $63.76 billion and preferred stock of $6.96 billion). As of November 2008, our total shareholders equity was $64.37 billion (consisting of common shareholders equity of $47.90 billion and preferred stock of $16.47 billion). In addition to total shareholders equity, we consider our $5.00 billion of junior subordinated debt issued to trusts to be part of our equity capital, as it qualifies as capital for regulatory and certain rating agency purposes.

Consolidated Capital Requirements

The Federal Reserve Board is the primary U.S. regulator of Group Inc., a bank holding company that in August 2009 also became a financial holding company under the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, we are subject to consolidated regulatory capital requirements administered by the Federal Reserve Board. Under the Federal Reserve Board s capital adequacy rules, Goldman Sachs 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 s capital levels are also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

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Consolidated Capital Ratios

The following table sets forth information regarding our consolidated capital ratios as of December 2009 calculated in accordance with the Federal Reserve Board s regulatory capital requirements currently applicable to bank holding companies, which are based on Basel I. These ratios are used by the Federal Reserve Board and other U.S. federal banking agencies in the supervisory review process, including the assessment of our capital adequacy. The calculation of these ratios includes certain market risk measures that are under review by the Federal Reserve Board. The calculation of these ratios has not been reviewed with the Federal Reserve Board and, accordingly, these ratios may be revised in subsequent filings.

	As of December 2009 ($ in millions)
Tier 1 Capital	
Common shareholders equity	$ 63,757
Preferred stock	6,957
Junior subordinated debt issued to trusts	5,000
Less: Goodwill	(3,543)
Less: Disallowable intangible assets	(1,377)
Less: Other deductions (1)	(6,152)
Tier 1 Capital	64,642
Tier 2 Capital	
Qualifying subordinated debt (2)	14,004
Less: Other deductions (1)	(176)
Tier 2 Capital	$ 13,828
Total Capital	$ 78,470
Risk-Weighted Assets	$ 431,890
Tier 1 Capital Ratio	15.0%
Total Capital Ratio	18.2%
Tier 1 Leverage Ratio	7.6%

(1) Principally includes equity investments in non-financial companies and the cumulative change in the fair value of our unsecured borrowings attributable to the impact of changes in our own credit spreads, disallowed deferred tax assets, and investments in certain nonconsolidating entities.

(2) Substantially all of our subordinated debt qualifies as Tier 2 capital for Basel I purposes.

RWAs under the Federal Reserve Board s risk-based capital guidelines are calculated based on the amount of market risk and credit risk. RWAs for market risk include certain measures that are under review by the Federal Reserve

Board. 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 of each trade. All such assets and amounts are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or qualifying securities firm, or other entity (or if collateral is held, depending on the nature of the collateral).

Our Tier 1 leverage ratio is defined as Tier 1 capital under Basel I divided by adjusted average total assets (which includes adjustments for disallowed goodwill and certain intangible assets).

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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 upon 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%.

During 2009, the Basel Committee on Banking Supervision proposed several changes to the method of computing capital ratios. In addition, there are several other proposals which could potentially impact capital requirements. As a consequence, it is possible that minimum capital ratios required to be maintained under Federal Reserve Board regulations could be increased. It is also possible that changes in the prescribed calculation methodology could result in higher RWAs and lower capital ratios than are currently computed.

Subsidiary Capital Requirements

Many of our subsidiaries are subject to separate regulation and capital requirements in jurisdictions throughout the world. GS Bank USA, a New York State-chartered bank and a member of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC), is regulated by the Federal Reserve Board and the New York State Banking Department and is subject to minimum capital requirements that (subject to certain exceptions) are similar to those applicable to bank holding companies. GS Bank USA and its subsidiaries are subject to the regulatory framework for prompt corrective action (PCA). GS Bank USA computes its capital ratios in accordance with the regulatory capital guidelines currently applicable to state member banks, which are based on Basel I as implemented by the Federal Reserve Board, for purposes of assessing the adequacy of its capital. GS Bank USA s capital levels and PCA classification are subject to qualitative judgments by its regulators about components, risk weightings and other factors.

GS&Co. and Goldman Sachs Execution & Clearing, L.P. are registered U.S. broker-dealers and futures commission merchants, and are subject to regulatory capital requirements, including those imposed by the SEC, the Commodity Futures Trading Commission, the Chicago Board of Trade, the Financial Industry Regulatory Authority, Inc. and the National Futures Association. Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd., our principal non-U.S. regulated broker-dealer subsidiaries, are subject to the capital requirements of the U.K. s Financial Services Authority and Japan s Financial Services Agency, respectively.

See Note 17 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for information regarding GS Bank USA s capital ratios under Basel I as implemented by the Federal Reserve Board, and for further information regarding the capital requirements of our other regulated subsidiaries.

Subsidiaries not subject to separate regulatory capital requirements may hold capital to satisfy local tax guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. In certain instances, Group Inc. may be limited in its ability to access capital held at certain subsidiaries as a result of regulatory, tax or other constraints. As of December 2009, Group Inc. s equity investment in subsidiaries was $65.74 billion compared with its total shareholders equity of $70.71 billion.

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

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

Rating Agency Guidelines

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

The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See Liquidity and Funding Risk Credit Ratings below for further information regarding our credit ratings.

Equity Capital Management

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

Stock Offering. During the second quarter of 2009, we completed a public offering of 46.7 million common shares at $123.00 per share for total proceeds of $5.75 billion.

Preferred Stock. In June 2009, we repurchased from the U.S. Treasury the 10.0 million shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series H (Series H Preferred Stock), that were issued to the U.S. Treasury pursuant to the U.S. Treasury s TARP Capital Purchase Program. The repurchase resulted in a one-time preferred dividend of $426 million, which is included in the consolidated statement of earnings for the year ended December 2009. This one-time preferred dividend represented the difference between the carrying value and the redemption value of the Series H Preferred Stock. In connection with the issuance of the Series H Preferred Stock in October 2008, we issued a 10-year warrant to the U.S. Treasury to purchase up to 12.2 million shares of common stock at an exercise price of $122.90 per share. We repurchased this warrant in full in July 2009 for $1.1 billion, which was recorded as a reduction to additional paid-in capital. Our cumulative payments to the U.S. Treasury related to the U.S. Treasury s TARP Capital Purchase Program totaled $11.42 billion, including the return of the U.S. Treasury s $10.0 billion investment (inclusive of the $426 million described above), $318 million in preferred dividends and $1.1 billion related to the warrant repurchase.

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In October 2008, we issued to Berkshire Hathaway and certain affiliates 50,000 shares of 10% Cumulative Perpetual Preferred Stock, Series G (Series G Preferred Stock), and a five-year warrant to purchase up to 43.5 million shares of common stock at an exercise price of $115.00 per share, for aggregate proceeds of $5.00 billion. The allocated carrying values of the warrant and the Series G Preferred Stock (based on their relative fair values on the date of issuance) were $1.14 billion and $3.86 billion, respectively. The Series G Preferred Stock is redeemable at the firm s option, subject to the approval of the Federal Reserve Board, at a redemption value of $5.50 billion, plus accrued and unpaid dividends. Accordingly, upon a redemption in full at any time in the future of the Series G Preferred Stock, we would recognize a one-time preferred dividend of $1.64 billion (calculated as the difference between the carrying value and redemption value of the preferred stock), which would be recorded as a reduction to our earnings applicable to common shareholders and to our common shareholders equity in the period of redemption.

Share Repurchase Program. We seek to use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our current and projected capital positions (i.e., comparisons of our desired level of capital to our actual level of capital) but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock. Any repurchase of our common stock requires approval by the Federal Reserve Board.

As of December 2009, we were authorized to repurchase up to 60.8 million additional shares of common stock pursuant to our repurchase program, subject to the approval of the Federal Reserve Board. See Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in Part II, Item 5 and Note 9 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for additional information on our repurchase program.

See Notes 7 and 9 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for further information regarding our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

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Capital Ratios and Metrics

The following table sets forth information on our assets, shareholders equity, leverage ratios, capital ratios and book value per common share:

	As of December 2009	As of November 2008
	($ in millions, except per share amounts)	
Total assets	$ 848,942	$ 884,547
Adjusted assets [(1)]	546,151	528,292
Total shareholders equity	70,714	64,369
Tangible equity capital [(2)]	70,794	64,317
Leverage ratio [(3)]	12.0x	13.7x
Adjusted leverage ratio [(4)]	7.7x	8.2x
Debt to equity ratio [(5)]	2.6x	2.6x
Common shareholders equity	$ 63,757	$ 47,898
Tangible common shareholders equity [(6)]	58,837	42,846
Book value per common share [(7)]	117.48	98.68
Tangible book value per common share [(6)(7)]	108.42	88.27

	As of December 2009 Basel I [(8)]
Tier 1 capital ratio	15.0%
Total capital ratio	18.2%
Tier 1 leverage ratio	7.6%
Tier 1 common ratio [(9)]	12.2%
Tangible common shareholders equity [(6)] to risk-weighted assets ratio	13.6%

(1) Adjusted assets excludes (i) low-risk collateralized assets generally associated with our matched book and securities lending businesses and federal funds sold, (ii) cash and secu