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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2010

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

200 West Street, New York, NY
(Address of principal executive offices)

10282
(Zip Code)

(212) 902-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of July 23, 2010, there were 515,616,486 shares of the registrant's common stock outstanding.

THE GOLDMAN SACHS GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE FISCAL QUARTER ENDED JUNE 30, 2010

INDEX

<u>Form 10-Q Item Number:</u>	<u>Page No.</u>
PART I: FINANCIAL INFORMATION	
Item 1: Financial Statements (Unaudited)	
Condensed Consolidated Statements of Earnings for the three and six months ended June 30, 2010 and June 26, 2009	2
Condensed Consolidated Statements of Financial Condition as of June 30, 2010 and December 31, 2009	3
Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2010 and year ended December 31, 2009	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and June 26, 2009	5
Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2010 and June 26, 2009	6
Notes to Condensed Consolidated Financial Statements	7
Report of Independent Registered Public Accounting Firm	81
Statistical Disclosures	82
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	86
Item 3: Quantitative and Qualitative Disclosures About Market Risk	147
Item 4: Controls and Procedures	147
PART II: OTHER INFORMATION	
Item 1: Legal Proceedings	148
Item 2: Unregistered Sales of Equity Securities and Use of Proceeds	150
Item 6: Exhibits	151
SIGNATURES	152

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

**THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)**

	<u>Three Months Ended June</u>		<u>Six Months Ended June</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(in millions, except per share amounts)			
Revenues				
Investment banking	\$ 917	\$ 1,440	\$ 2,101	\$ 2,263
Trading and principal investments	5,292	9,322	14,487	15,028
Asset management and securities services	1,013	957	1,991	1,946
Total non-interest revenues	<u>7,222</u>	<u>11,719</u>	<u>18,579</u>	<u>19,237</u>
Interest income	3,302	3,470	6,303	7,832
Interest expense	<u>1,683</u>	<u>1,428</u>	<u>3,266</u>	<u>3,883</u>
Net interest income	<u>1,619</u>	<u>2,042</u>	<u>3,037</u>	<u>3,949</u>
Net revenues, including net interest income	<u>8,841</u>	<u>13,761</u>	<u>21,616</u>	<u>23,186</u>
Operating expenses				
Compensation and benefits	3,802	6,649	9,295	11,361
U.K. bank payroll tax	600	—	600	—
Brokerage, clearing, exchange and distribution fees	622	574	1,184	1,110
Market development	116	82	226	150
Communications and technology	186	173	362	346
Depreciation and amortization	437	426	809	975
Occupancy	274	242	530	483
Professional fees	227	145	409	280
Other expenses	<u>1,129</u>	<u>441</u>	<u>1,594</u>	<u>823</u>
Total non-compensation expenses	<u>2,991</u>	<u>2,083</u>	<u>5,114</u>	<u>4,167</u>
Total operating expenses	<u>7,393</u>	<u>8,732</u>	<u>15,009</u>	<u>15,528</u>
Pre-tax earnings	1,448	5,029	6,607	7,658
Provision for taxes	<u>835</u>	<u>1,594</u>	<u>2,538</u>	<u>2,409</u>
Net earnings	613	3,435	4,069	5,249
Preferred stock dividends	<u>160</u>	<u>717</u>	<u>320</u>	<u>872</u>
Net earnings applicable to common shareholders	<u>\$ 453</u>	<u>\$ 2,718</u>	<u>\$ 3,749</u>	<u>\$ 4,377</u>
Earnings per common share				
Basic	\$ 0.82	\$ 5.27	\$ 6.87	\$ 8.81
Diluted	0.78	4.93	6.41	8.42
Dividends declared per common share	\$ 0.35	\$ 0.35	\$ 0.70	\$ 0.35
Average common shares outstanding				
Basic	539.8	514.1	542.9	495.7
Diluted	580.4	551.0	585.2	520.1

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	As of	
	June	December
	2010	2009
	<small>(in millions, except share and per share amounts)</small>	
Assets		
Cash and cash equivalents	\$ 32,601	\$ 38,291
Cash and securities segregated for regulatory and other purposes (includes \$42,532 and \$18,853 at fair value as of June 2010 and December 2009, respectively)	56,414	36,663
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$169,280 and \$144,279 at fair value as of June 2010 and December 2009, respectively)	169,280	144,279
Securities borrowed (includes \$64,856 and \$66,329 at fair value as of June 2010 and December 2009, respectively)	190,079	189,939
Receivables from brokers, dealers and clearing organizations	13,485	12,597
Receivables from customers and counterparties (includes \$2,734 and \$1,925 at fair value as of June 2010 and December 2009, respectively)	57,261	55,303
Trading assets, at fair value (includes \$35,643 and \$31,485 pledged as collateral as of June 2010 and December 2009, respectively)	334,868	342,402
Other assets	29,200	29,468
Total assets	<u>\$883,188</u>	<u>\$848,942</u>
Liabilities and shareholders' equity		
Deposits (includes \$2,127 and \$1,947 at fair value as of June 2010 and December 2009, respectively)	\$ 37,024	\$ 39,418
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	149,908	128,360
Securities loaned (includes \$1,139 and \$6,194 at fair value as of June 2010 and December 2009, respectively)	11,052	15,207
Other secured financings (includes \$15,887 and \$15,228 at fair value as of June 2010 and December 2009, respectively)	25,834	24,134
Payables to brokers, dealers and clearing organizations	4,745	5,242
Payables to customers and counterparties	185,531	180,392
Trading liabilities, at fair value	147,170	129,019
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$19,509 and \$18,403 at fair value as of June 2010 and December 2009, respectively)	39,123	37,516
Unsecured long-term borrowings (includes \$20,241 and \$21,392 at fair value as of June 2010 and December 2009, respectively)	178,582	185,085
Other liabilities and accrued expenses (includes \$2,992 and \$2,054 at fair value as of June 2010 and December 2009, respectively)	30,400	33,855
Total liabilities	809,369	778,228
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$8,100 as of both June 2010 and December 2009	6,957	6,957
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 766,674,337 and 753,412,247 shares issued as of June 2010 and December 2009, respectively, and 515,486,866 and 515,113,890 shares outstanding as of June 2010 and December 2009, respectively	8	8
Restricted stock units and employee stock options	6,362	6,245
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	41,597	39,770
Retained earnings	53,599	50,252
Accumulated other comprehensive loss	(318)	(362)
Stock held in treasury, at cost, par value \$0.01 per share; 251,187,473 and 238,298,357 shares as of June 2010 and December 2009, respectively	<u>(34,386)</u>	<u>(32,156)</u>
Total shareholders' equity	<u>73,819</u>	<u>70,714</u>
Total liabilities and shareholders' equity	<u>\$883,188</u>	<u>\$848,942</u>

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

	<u>Six Months Ended</u>	<u>Year Ended</u>
	<u>June 2010</u>	<u>December 2009</u>
	(in millions)	
Preferred stock		
Balance, beginning of year	\$ 6,957	\$ 16,483
Accretion	—	48
Repurchased	—	(9,574)
Balance, end of period	<u>6,957</u>	<u>6,957</u>
Common stock		
Balance, beginning of year	8	7
Issued	—	1
Balance, end of period	<u>8</u>	<u>8</u>
Restricted stock units and employee stock options		
Balance, beginning of year	6,245	9,463
Issuance and amortization of restricted stock units and employee stock options	2,643	2,064
Delivery of common stock underlying restricted stock units	(2,457)	(5,206)
Forfeiture of restricted stock units and employee stock options	(64)	(73)
Exercise of employee stock options	(5)	(3)
Balance, end of period	<u>6,362</u>	<u>6,245</u>
Additional paid-in capital		
Balance, beginning of year	39,770	31,070
Issuance of common stock	—	5,750
Repurchase of common stock warrants	—	(1,100)
Delivery of common stock underlying restricted stock units and proceeds from the exercise of employee stock options	2,672	5,708
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(962)	(863)
Excess net tax benefit/(provision) related to share-based compensation	118	(793)
Cash settlement of share-based compensation	(1)	(2)
Balance, end of period	<u>41,597</u>	<u>39,770</u>
Retained earnings		
Balance, beginning of year	50,252	38,579
Net earnings	4,069	13,385
Dividends and dividend equivalents declared on common stock and restricted stock units	(402)	(588)
Dividends declared on preferred stock	(320)	(1,076)
Preferred stock accretion	—	(48)
Balance, end of period	<u>53,599</u>	<u>50,252</u>
Accumulated other comprehensive income/(loss)		
Balance, beginning of year	(362)	(372)
Currency translation adjustment, net of tax	(14)	(70)
Pension and postretirement liability adjustments, net of tax	11	(17)
Net unrealized gains on available-for-sale securities, net of tax	47	97
Balance, end of period	<u>(318)</u>	<u>(362)</u>
Stock held in treasury, at cost		
Balance, beginning of year	(32,156)	(32,176)
Repurchased	(2,269)	(2)
Reissued	39	22
Balance, end of period	<u>(34,386)</u>	<u>(32,156)</u>
Total shareholders' equity	<u>\$ 73,819</u>	<u>\$ 70,714</u>

⁽¹⁾ Relates primarily to repurchases of common stock by a broker-dealer subsidiary to facilitate customer transactions in the ordinary course of business and shares withheld to satisfy withholding tax requirements.

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June	
	2010	2009
	(in millions)	
Cash flows from operating activities		
Net earnings	\$ 4,069	\$ 5,249
Non-cash items included in net earnings		
Depreciation and amortization	815	1,176
Share-based compensation	2,594	907
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	(19,748)	58,895
Net receivables from brokers, dealers and clearing organizations	(1,336)	2,715
Net payables to customers and counterparties	3,263	(37,786)
Securities borrowed, net of securities loaned	(4,296)	(16,490)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	(3,452)	(136,246)
Trading assets, at fair value	16,823	172,389
Trading liabilities, at fair value	18,145	(38,731)
Other, net	(14,428)	3,942
Net cash provided by operating activities	2,449	16,020
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(452)	(653)
Proceeds from sales of property, leasehold improvements and equipment	49	50
Business acquisitions, net of cash acquired	(753)	(208)
Proceeds from sales of investments	445	140
Purchase of available-for-sale securities	(1,248)	(1,904)
Proceeds from sales of available-for-sale securities	1,269	1,803
Net cash used for investing activities	(690)	(772)
Cash flows from financing activities		
Unsecured short-term borrowings, net	204	(10,965)
Other secured financings (short-term), net	1,392	(6,531)
Proceeds from issuance of other secured financings (long-term)	1,752	3,400
Repayment of other secured financings (long-term), including the current portion	(2,528)	(2,850)
Proceeds from issuance of unsecured long-term borrowings	9,518	20,875
Repayment of unsecured long-term borrowings, including the current portion	(13,458)	(16,805)
Preferred stock repurchased	—	(9,574)
Derivative contracts with a financing element, net	536	1,815
Deposits, net	(2,394)	9,327
Common stock repurchased	(2,269)	(2)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(722)	(1,495)
Proceeds from issuance of common stock, including stock option exercises	250	5,893
Excess tax benefit related to share-based compensation	271	38
Cash settlement of share-based compensation	(1)	(2)
Net cash used for financing activities	(7,449)	(6,876)
Net increase/(decrease) in cash and cash equivalents	(5,690)	8,372
Cash and cash equivalents, beginning of year	38,291	13,805
Cash and cash equivalents, end of period	\$ 32,601	\$ 22,177

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were \$3.75 billion and \$4.58 billion during the six months ended June 2010 and June 2009, respectively.

Cash payments for income taxes, net of refunds, were \$2.77 billion and \$1.81 billion during the six months ended June 2010 and June 2009, respectively.

Non-cash activities:

The firm assumed \$90 million and \$16 million of debt in connection with business acquisitions during the six months ended June 2010 and June 2009, respectively. In addition, in the first quarter of 2010, the firm recorded an increase of approximately \$3 billion in both assets (primarily trading assets, at fair value) and liabilities (primarily unsecured short-term borrowings and other liabilities) upon adoption of Accounting Standards Update (ASU) No. 2009-17, "Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities."

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	<u>Three Months</u> <u>Ended June</u>		<u>Six Months</u> <u>Ended June</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(in millions)			
Net earnings	\$613	\$3,435	\$4,069	\$5,249
Currency translation adjustment, net of tax	(10)	(54)	(14)	(29)
Pension and postretirement liability adjustments, net of tax	5	8	11	17
Net unrealized gains on available-for-sale securities, net of tax	<u>43</u>	<u>53</u>	<u>47</u>	<u>34</u>
Comprehensive income	<u>\$651</u>	<u>\$3,442</u>	<u>\$4,113</u>	<u>\$5,271</u>

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Description of Business

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

The firm's activities are divided into three segments:

- **Investment Banking.** The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.
- **Trading and Principal Investments.** The firm 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. The firm also takes proprietary positions on certain of these products. In addition, the firm engages in market-making activities on equities and options exchanges, and the firm clears client transactions on major stock, options and futures exchanges worldwide. In connection with the firm's merchant banking and other investing activities, the firm makes principal investments directly and through funds that the firm raises and manages.
- **Asset Management and Securities Services.** The firm 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 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.

Note 2. Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements include the accounts of Group Inc. and all other entities in which the firm has a controlling financial interest. All material intercompany transactions and balances have been eliminated.

The firm determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE) under generally accepted accounting principles (GAAP).

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

interest in a voting interest entity is ownership of a majority voting interest. Accordingly, the firm consolidates voting interest entities in which it has a majority voting interest.

- **Variable Interest Entities.** VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest, or a combination of variable interests, that provides the enterprise with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The firm determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers: (i) the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders, (ii) the VIE's capital structure, (iii) the terms between the VIE and its variable interest holders and other parties involved with the VIE, (iv) which variable interest holders have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, (v) which variable interest holders have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE and (vi) related party relationships. The firm reassesses its initial evaluation of an entity as a VIE upon the occurrence of certain reconsideration events. The firm reassesses its determination of whether the firm is the primary beneficiary of a VIE upon changes in facts and circumstances that could potentially alter the firm's assessment. See "— Recent Accounting Developments" below for further information regarding accounting for VIEs.
- **Equity-Method Investments.** When the firm does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting interest of 20% to 50%) and has an investment in common stock or in-substance common stock, the firm accounts for its investment either under the equity method of accounting or at fair value pursuant to the fair value option available under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825-10. In general, the firm accounts for investments acquired subsequent to November 24, 2006, when the fair value option became available, at fair value. In certain cases, the firm applies the equity method of accounting to new investments that are strategic in nature or closely related to the firm's principal business activities, where the firm has a significant degree of involvement in the cash flows or operations of the investee, or where cost-benefit considerations are less significant. See "— Revenue Recognition — Other Financial Assets and Financial Liabilities at Fair Value" below for a discussion of the firm's application of the fair value option.
- **Other.** If the firm does not consolidate an entity or apply the equity method of accounting, the firm accounts for its investment at fair value. The firm also has formed numerous nonconsolidated investment funds with third-party investors that are typically organized as limited partnerships. The firm acts as general partner for these funds and generally does not hold a majority of the economic interests in these funds. The firm has generally provided the third-party investors with rights to terminate the funds or to remove the firm as the general partner. As a result, the firm does not consolidate these funds. Investments in these funds are included in "Trading assets, at fair value" in the condensed consolidated statements of financial condition.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The condensed consolidated financial information as of December 31, 2009 has been derived from audited consolidated financial statements not included herein.

These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

All references to June 2010 and June 2009, unless specifically stated otherwise, refer to the firm's fiscal periods ended, or the dates, as the context requires, June 30, 2010 and June 26, 2009, respectively. Beginning with the fourth quarter of fiscal 2009, the firm changed its fiscal year-end from the last Friday of December to December 31. All references to December 2009, unless specifically stated otherwise, refer to the firm's fiscal year ended, or the date, as the context requires, December 31, 2009. All references to 2010, unless specifically stated otherwise, refer to the firm's year ending, or the date, as the context requires, December 31, 2010. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Use of Estimates

These condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make certain estimates and assumptions. The most important of these estimates and assumptions relate to fair value measurements, the accounting for goodwill and identifiable intangible assets, discretionary compensation accruals and the provision for potential losses that may arise from litigation and regulatory proceedings and tax audits. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Revenue Recognition

Investment Banking

Underwriting revenues and fees from mergers and acquisitions and other financial advisory assignments are recognized in the condensed consolidated statements of earnings when the services related to the underlying transaction are completed under the terms of the engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Underwriting revenues are presented net of related expenses. Expenses associated with financial advisory transactions are recorded as non-compensation expenses, net of client reimbursements.

Trading Assets and Trading Liabilities

Substantially all trading assets and trading liabilities are reflected in the condensed consolidated statements of financial condition at fair value. Related gains or losses are generally recognized in "Trading and principal investments" in the condensed consolidated statements of earnings.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Other Financial Assets and Financial Liabilities at Fair Value

In addition to trading assets, at fair value and trading liabilities, at fair value, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value under ASC 815-15 and 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 of financial assets accounted for as financings rather than sales, debt raised through the firm's 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 the firm's matched book and certain firm financing activities;
- certain deposits issued by the firm's bank subsidiaries, as well as securities held by Goldman Sachs Bank USA (GS Bank USA);
- certain receivables from customers and counterparties, including certain margin loans, transfers of financial assets accounted for as secured loans rather than purchases and prepaid variable share forwards;
- certain insurance and reinsurance contracts and certain guarantees;
- certain subordinated liabilities issued by consolidated VIEs; and
- in general, investments acquired after November 24, 2006, when the fair value option became available, where the firm has significant influence over the investee and would otherwise apply the equity method of accounting.

Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (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.

The fair value hierarchy under ASC 820 prioritizes the inputs to valuation techniques used to measure fair value. 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). The three levels of the fair value hierarchy are as follows:

Basis of Fair Value Measurement

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Transfers between levels and sales are recognized at the beginning of the reporting period in which they occur.

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

Credit risk is an essential component of fair value. Cash products (e.g., bonds and loans) and derivative instruments (particularly those with significant future projected cash flows) trade in the market at levels which reflect credit considerations. The firm calculates the fair value of derivative assets by discounting future cash flows at a rate which incorporates counterparty credit spreads and the fair value of derivative liabilities by discounting future cash flows at a rate which incorporates the firm's own credit spreads. In doing so, credit exposures are adjusted to reflect mitigants, namely collateral agreements which reduce exposures based on triggers and contractual posting requirements. The firm manages its exposure to credit risk as it does other market risks and will price, economically hedge, facilitate and intermediate trades which involve credit risk. The firm records liquidity valuation adjustments to reflect the cost of exiting concentrated risk positions, including exposure to the firm's own credit spreads.

Trading Assets, at Fair Value and Trading Liabilities, at Fair Value

Level 1 and level 2 trading assets, at fair value and trading liabilities, at fair value. In determining fair value, the firm separates trading assets, at fair value and trading liabilities, at fair value into two categories: cash instruments and derivative contracts.

The valuation techniques and significant inputs used in determining the fair values of cash instruments and derivative contracts classified within level 1 and level 2 of the fair value hierarchy are as follows:

- **Cash instruments.** The firm's cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are 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 prices in active markets include U.S. and non-U.S. government obligations, actively traded listed equities and certain money market instruments. These instruments are generally classified within level 1 of the fair value hierarchy. Instruments classified within level 1 of the fair value hierarchy are required to be carried at quoted market prices, even in situations where the firm holds a large position and a sale could reasonably impact the quoted price.

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 commercial paper, certificates of deposit, time deposits, most government agency obligations, most corporate debt securities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, less liquid publicly listed equities, certain state and municipal obligations and certain money market

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

instruments and loan commitments. These instruments are generally classified within level 2 of the fair value hierarchy. 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.

- **Derivative contracts.** Derivative contracts are instruments such as futures, forwards, swaps or option contracts that derive their value from underlying asset prices, indices, reference rates and other inputs or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter (OTC) derivatives, or they may be listed and traded on an exchange. The assets and inputs underlying derivative instruments may include financial instruments (such as government and corporate bonds, mortgage and other asset-backed loans and securities and bank loans), currencies, commodities, interest rates and related indices.

Exchange-traded derivatives typically fall within level 1 or level 2 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. The firm generally values 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. In such cases, exchange-traded derivatives are classified within level 2 of the fair value hierarchy.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, calibration to market-clearing transactions, broker or dealer quotations, or other 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. The firm generally uses 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, model inputs can generally be verified and model selection does not involve significant management judgment. OTC derivatives are classified within level 2 of the fair value hierarchy when all of the significant inputs are corroborated by market evidence. 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.

Level 3 trading assets, at fair value and trading liabilities, at fair value. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. 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 the transaction date, the firm uses other methodologies to determine fair value, which vary based on the type of instrument, as described below. Regardless of methodology, valuation inputs and assumptions are only changed when corroborated by substantive evidence. Valuations are further corroborated by values realized upon sales of the firm's level 3 assets. The valuation techniques and significant inputs used in determining the fair values of each class of cash instrument and derivative contracts classified within level 3 of the fair value hierarchy are as follows:

- **Equities and convertible debentures.** For private equity investments, recent third-party investments or pending transactions are considered to be the best evidence for any change in

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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 significant inputs are the amount and timing of expected future cash flows, capitalization rates and valuation multiples.

- **Bank loans and bridge loans, Corporate debt securities, State and municipal obligations and Other debt obligations.** Valuations are generally based on discounted cash flow techniques, for which the significant inputs are the amount and timing of expected future cash flows, market yields and recovery assumptions. The significant 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 tranching into varying levels of subordination. Due to the nature of these instruments, valuation techniques vary by instrument, but are generally based on relative value analyses, discounted cash flow techniques or a combination thereof. Significant inputs for these valuations include transactions in both the underlying collateral and instruments with the same or substantially the same underlying collateral, credit default swap prices, current levels and trends of market indices (such as the CMBX), market yields and other factors (such as the operating income generated by the underlying collateral) which are used in determining the amount and timing of expected future cash flows.
- **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. The most significant inputs to the valuation of these instruments are the rates and timing of delinquencies, the rates and timing of prepayments, and default and loss expectations, which are driven in part by housing prices. The significant 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.
- **Loan portfolios.** Loan portfolios are acquired portfolios of distressed loans, primarily backed by commercial and residential real estate collateral. Valuations are based on discounted cash flow techniques, for which the significant inputs are the amount and timing of expected future cash flows and market yields. The significant inputs are determined based on relative value analyses which incorporate comparisons to recent auction data for other similar loan portfolios.
- **Derivative contracts.** 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. The valuations of these less liquid OTC derivatives are typically based on level 1 and/or level 2 inputs that can be observed in the market, as well as unobservable level 3 inputs. Unobservable inputs typically include certain correlations as well as credit spreads, equity volatilities, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. When unobservable inputs to a valuation

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

model are significant to the fair value measurement of an instrument, the instrument is classified within level 3 of the fair value hierarchy. Subsequent to initial recognition, the firm updates the level 1 and level 2 inputs to reflect observable market changes with resulting gains and losses reflected within level 3. Level 3 inputs are only changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other empirical market data. In circumstances where the firm cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

Other Financial Assets and Financial Liabilities at Fair Value

Other financial assets and financial liabilities at fair value are generally valued based on discounted cash flow techniques which incorporate inputs with reasonable levels of price transparency and are generally classified within level 2 of the fair value hierarchy. Significant inputs for each category of other financial asset and financial liability at fair value are as follows:

- **Resale and Repurchase Agreements and Securities Borrowed and Loaned.** The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned within Trading and Principal Investments (which are related to the firm's matched book and certain firm financing activities) are the amount and timing of expected future cash flows, interest rates and collateral funding spreads.
- **Other Secured Financings.** The significant inputs to the valuation of other secured financings at fair value, including transfers of financial assets accounted for as financings rather than sales, debt raised through the firm's William Street credit extension program and certain other nonrecourse financings, are the amount and timing of expected future cash flows, interest rates, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market yields and recovery assumptions), the frequency of additional collateral calls and the credit spreads of the firm.
- **Unsecured short-term and long-term borrowings.** The significant inputs to the valuation of certain short-term and long-term borrowings at fair value, including all promissory notes and commercial paper, certain hybrid financial instruments and prepaid physical commodity transactions, are the amount and timing of expected future cash flows, interest rates, the credit spreads of the firm, as well as commodity prices in the case of prepaid physical commodity transactions and, for certain hybrid financial instruments, equity prices, inflation rates and index levels.
- **Receivables from customers and counterparties.** The significant inputs to the valuation of certain receivables from customers and counterparties, including certain margin loans, transfers of financial assets accounted for as secured loans rather than purchases and prepaid variable share forwards, are interest rates and the amount and timing of expected future cash flows.
- **Insurance and reinsurance contracts.** Insurance and reinsurance contracts at fair value are included in "Receivables from customers and counterparties" and "Other liabilities and accrued expenses" in the firm's condensed consolidated statements of financial condition. These contracts are valued using market transactions and other market evidence where possible, including market-based inputs to models, calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant level 2 inputs typically include interest rates and inflation risk. Significant level 3 inputs typically include mortality or funding

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

benefit assumptions. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified within level 3 of the fair value hierarchy.

- **Deposits.** The significant inputs to the valuation of deposits are interest rates.

Collateralized Agreements and Financings

Collateralized agreements consist of resale agreements and securities borrowed. For these agreements, the firm requires delivery of collateral with a fair value approximately equal to the carrying value of the relevant assets in the condensed consolidated statements of financial condition. Collateralized financings consist of repurchase agreements, securities loaned and other secured financings. Interest on collateralized agreements and collateralized financings is recognized in “Interest income” and “Interest expense,” respectively, in the condensed consolidated statements of earnings over the life of the transaction. Collateralized agreements and financings are presented on a net-by-counterparty basis when a right of setoff exists.

- **Resale and Repurchase Agreements.** Securities purchased under agreements to resell and securities sold under agreements to repurchase, principally U.S. government, federal agency and investment-grade sovereign obligations, represent collateralized financing transactions. The firm receives securities purchased under agreements to resell, makes delivery of securities sold under agreements to repurchase, monitors the market value of these securities on a daily basis and delivers or obtains additional collateral as appropriate. As noted above, resale and repurchase agreements are carried in the condensed consolidated statements of financial condition at fair value under the fair value option.
- **Securities Borrowed and Loaned.** Securities borrowed and loaned are generally collateralized by cash, securities or letters of credit. The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate. Securities borrowed and loaned within Securities Services, relating to both customer activities and, to a lesser extent, certain firm financing activities, are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. As noted above, securities borrowed and loaned within Trading and Principal Investments, which are related to the firm’s matched book and certain firm financing activities, are recorded at fair value under the fair value option.
- **Other Secured Financings.** In addition to repurchase agreements and securities loaned, the firm funds assets through the use of other secured financing arrangements and pledges financial instruments and other assets as collateral in these transactions. As noted above, the firm has elected to apply the fair value option to transfers of financial assets accounted for as financings rather than sales, debt raised through the firm’s William Street credit extension program and certain other nonrecourse financings, for which the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest. See Note 3 for further information regarding other secured financings.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Hybrid Financial Instruments

Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives and do not require settlement by physical delivery of non-financial assets (e.g., physical commodities). If the firm elects to bifurcate the embedded derivative from the associated debt, the derivative is accounted for at fair value and the host contract is accounted for at amortized cost, adjusted for the effective portion of any fair value hedge accounting relationships. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under the fair value option. See Notes 3 and 6 for further information regarding hybrid financial instruments.

Transfers of Financial Assets

In general, transfers of financial assets are accounted for as sales when the firm has relinquished control over the transferred assets. For transfers of financial assets accounted for as sales, any related gains or losses are recognized in net revenues. Assets or liabilities that arise from the firm's continuing involvement with transferred financial assets are measured at fair value. For transfers that are not accounted for as sales, the financial assets remain in "Trading assets, at fair value" in the condensed consolidated statements of financial condition and the transfer is accounted for as a collateralized financing, with the related interest expense recognized in net revenues over the life of the transaction. When the firm transfers a security that has very little, if any, default risk under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security (such that the firm effectively no longer has a repurchase obligation) and the firm has relinquished control over the underlying security, the firm records such transactions as sales. See "— Recent Accounting Developments" below for further information regarding accounting for transfers of financial assets.

Commissions

Commission revenues from executing and clearing client transactions on stock, options and futures markets are recognized in "Trading and principal investments" in the condensed consolidated statements of earnings on a trade-date basis.

Insurance Activities

Certain of the firm's insurance and reinsurance contracts are accounted for at fair value under the fair value option, with changes in fair value included in "Trading and principal investments" in the condensed consolidated statements of earnings.

Revenues from variable annuity and life insurance and reinsurance contracts not accounted for at fair value generally consist of fees assessed on contract holder account balances for mortality charges, policy administration fees and surrender charges, and are recognized in "Trading and principal investments" in the condensed consolidated statements of earnings in the period that services are provided.

Interest credited to variable annuity and life insurance and reinsurance contract account balances and changes in reserves are recognized in "Other expenses" in the condensed consolidated statements of earnings.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Premiums earned for underwriting property catastrophe reinsurance are recognized in "Trading and principal investments" in the condensed consolidated statements of earnings over the coverage period, net of premiums ceded for the cost of reinsurance. Expenses for liabilities related to property catastrophe reinsurance claims, including estimates of losses that have been incurred but not reported, are recognized in "Other expenses" in the condensed consolidated statements of earnings.

Merchant Banking Overrides

The firm is entitled to receive merchant banking overrides (i.e., an increased share of a fund's income and gains) when the return on the funds' investments exceeds certain threshold returns. Overrides are based on investment performance over the life of each merchant banking fund, and future investment underperformance may require amounts of override previously distributed to the firm to be returned to the funds. Accordingly, overrides are recognized in the condensed consolidated statements of earnings only when all material contingencies have been resolved. Overrides are included in "Trading and principal investments" in the condensed consolidated statements of earnings.

Asset Management

Management fees are recognized over the period that the related service is provided based upon average net asset values. In certain circumstances, the firm is 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 generally based on investment performance over a 12-month period and are subject to adjustment prior to the end of the measurement period. Accordingly, incentive fees are recognized in the condensed consolidated statements of earnings when the measurement period ends. Asset management fees and incentive fees are included in "Asset management and securities services" in the condensed consolidated statements of earnings.

Share-Based Compensation

The cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award in accordance with ASC 718. Share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement-eligible employees) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense.

The firm pays cash dividend equivalents on outstanding restricted stock units (RSUs). Dividend equivalents paid on RSUs are generally charged to retained earnings. Dividend equivalents paid on RSUs expected to be forfeited are included in compensation expense. In the first quarter of fiscal 2009, the firm adopted amended accounting principles related to income tax benefits of dividends on share-based payment awards (ASC 718). These amended principles require the tax benefit related to dividend equivalents paid on RSUs to be accounted for as an increase to additional paid-in capital. Previously, the firm accounted for this tax benefit as a reduction to income tax expense.

In certain cases, primarily related to the death of an employee or conflicted employment (as outlined in the applicable award agreements), the firm may cash settle share-based compensation awards. For awards accounted for as equity instruments, additional paid-in capital is adjusted to the extent of the difference between the current value of the award and the grant-date value of the award.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. Goodwill is tested at least annually for impairment. An impairment loss is recognized if the estimated fair value of an operating segment, which is a component one level below the firm's three business segments, is less than its estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Identifiable Intangible Assets

Identifiable intangible assets, which consist primarily of customer lists, television broadcast royalties, contractual rights related to commodity-related acquisitions, New York Stock Exchange (NYSE) Designated Market Maker (DMM) rights and the value of business acquired (VOBA) in the firm's insurance subsidiaries, are amortized 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.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment, net of accumulated depreciation and amortization, are recorded at cost and included in "Other assets" in the condensed consolidated statements of financial condition.

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

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. An impairment loss, 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 expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Foreign Currency Translation

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

Hedge Accounting

The firm applies hedge accounting for certain derivative contracts used to manage the interest rate exposure of certain fixed-rate obligations, and for certain derivative contracts and foreign currency-denominated debt used to manage foreign currency exposures resulting from the firm's net investment in certain non-U.S. operations. The firm documents its risk management strategy at the inception of each hedging relationship and assesses the effectiveness of each hedging relationship at least quarterly.

Fair Value Hedges — Interest Rate. The firm designates certain interest rate swap contracts as fair value hedges. These interest rate swap contracts hedge changes in the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting a substantial portion of the firm's unsecured long-term fixed-rate borrowings, certain unsecured short-term fixed-rate borrowings and certificates of deposit into floating rate obligations.

The firm applies the "long-haul method" in assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and hedged item. During the three months ended March 2010, the firm changed its method of prospectively and retrospectively assessing the effectiveness of all of its fair value hedging relationships from a dollar-offset method, which is a non-statistical method, to regression analysis, which is a statistical method. An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%. The dollar-offset method compared the change in the fair value of the hedging instrument to the change in the fair value of the hedged item, excluding the effect of the passage of time. The firm's prospective dollar-offset assessment utilized scenario analyses to test hedge effectiveness via simulations of numerous parallel and slope shifts of the relevant yield curve. Parallel shifts changed the interest rate of all maturities by identical amounts. Slope shifts changed the curvature of the yield curve. For both the prospective assessment, in response to each of the simulated yield curve shifts, and the retrospective assessment, a hedging relationship was deemed to be effective if the fair value of the hedging instrument and the hedged item changed inversely within a range of 80% to 125%.

For qualifying fair value hedges, gains or losses on derivative transactions are recognized in "Interest expense" in the condensed consolidated statements of earnings. The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses resulting from hedge ineffectiveness are included in "Interest expense" in the condensed consolidated statements of earnings.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Net Investment Hedges. The firm seeks to reduce the impact of fluctuations in foreign exchange rates on its net investment in certain non-U.S. operations through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts designated as hedges, the effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts (that is, based on changes in forward rates). For foreign currency-denominated debt designated as a hedge, the effectiveness of the hedge is assessed based on changes in spot rates. For qualifying net investment hedges, the gains or losses on hedging instruments, to the extent effective, are included in the condensed consolidated statements of comprehensive income.

Income Taxes

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the firm's assets and liabilities. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. The firm's tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively, in the condensed consolidated statements of financial condition. The firm recognizes tax positions in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the financial statements. The firm reports interest expense related to income tax matters in "Provision for taxes" in the condensed consolidated statements of earnings and income tax penalties in "Other expenses" in the condensed consolidated statements of earnings.

Earnings Per Common Share (EPS)

Basic EPS is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and RSUs for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock warrants and options and to RSUs for which future service is required as a condition to the delivery of the underlying common stock. In the first quarter of fiscal 2009, the firm adopted amended accounting principles related to determining whether instruments granted in share-based payment transactions are participating securities. Accordingly, the firm treats unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per common share.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of June 2010 and December 2009, "Cash and cash equivalents" on the condensed consolidated statements of financial condition included \$5.84 billion and \$4.45 billion, respectively, of cash and due from banks and \$26.76 billion and \$33.84 billion, respectively, of interest-bearing deposits with banks.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Recent Accounting Developments

Transfers of Financial Assets and Interests in Variable Interest Entities (ASC 860 and 810). In June 2009, the FASB issued amended accounting principles that changed the accounting for securitizations and VIEs. These principles were codified as ASU No. 2009-16, “Transfers and Servicing (Topic 860) — Accounting for Transfers of Financial Assets” and ASU No. 2009-17, “Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” in December 2009. ASU No. 2009-16 eliminates the concept of a qualifying special-purpose entity (QSPE), changes the requirements for derecognizing financial assets, and requires additional disclosures about transfers of financial assets, including securitization transactions and continuing involvement with transferred financial assets. ASU No. 2009-17 changes the accounting and requires additional disclosures for VIEs. Under ASU No. 2009-17, the determination of whether to consolidate a VIE is based on the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance together with either the obligation to absorb losses or the right to receive benefits that could be significant to the VIE, as well as the VIE’s purpose and design. Additionally, entities previously classified as QSPEs are now required to be evaluated for consolidation and disclosure as VIEs. Previously, QSPEs were not consolidated and not considered for disclosure as VIEs and the determination of whether to consolidate a VIE was based on whether an enterprise had a variable interest, or combination of variable interests, that would absorb a majority of the VIE’s expected losses, receive a majority of the VIE’s expected residual returns, or both. ASU Nos. 2009-16 and 2009-17 were effective for fiscal years beginning after November 15, 2009. In February 2010, the FASB issued ASU No. 2010-10, “Consolidations (Topic 810) — Amendments For Certain Investment Funds,” which defers the requirements of ASU No. 2009-17 for certain interests in investment funds and certain similar entities.

The firm adopted ASU Nos. 2009-16 and 2009-17 as of January 1, 2010 and reassessed whether it was the primary beneficiary of any VIEs in which it had variable interests (including VIEs that were formerly QSPEs) as of that date. Adoption resulted in an increase to the firm’s total assets of approximately \$3 billion as of March 2010, principally within “Trading assets, at fair value” in the condensed consolidated statement of financial condition. In addition, “Other assets” in the condensed consolidated statement of financial condition increased by \$545 million as of March 2010, with a corresponding decrease in “Trading assets, at fair value,” as a result of the consolidation of an entity which holds intangible assets. Upon adoption, the firm elected the fair value option for all eligible assets and liabilities of newly consolidated VIEs, except for (i) those VIEs where the financial assets and financial liabilities are accounted for either at fair value or in a manner that approximates fair value under other GAAP and (ii) those VIEs where the election would have caused volatility in earnings as a result of using different measurement attributes for financial instruments and nonfinancial assets. Adoption did not have a material impact on the firm’s results of operations or cash flows.

Improving Disclosures about Fair Value Measurements (ASC 820). In January 2010, the FASB issued ASU No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements.” ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements of ASU No. 2010-06 were effective for the firm beginning in the first quarter of 2010, while other disclosure requirements of the ASU are effective for financial statements issued for reporting periods beginning after December 15, 2010. Since these amended principles require only additional disclosures concerning fair value measurements, adoption did not and will not affect the firm’s financial condition, results of operations or cash flows.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 3. Financial Instruments

Fair Value of Financial Instruments

The following table sets forth the firm's trading assets, at fair value, including those pledged as collateral, and trading liabilities, at fair value. At any point in time, the firm may use cash instruments as well as derivatives to manage a long or short risk position.

	As of			
	June 2010		December 2009	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
	(in millions)			
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 10,449 ⁽¹⁾	\$ —	\$ 9,111 ⁽¹⁾	\$ —
U.S. government and federal agency obligations	83,344	19,148	78,336	20,982
Non-U.S. government obligations	40,789	29,875	38,858	23,843
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	5,859	24	6,203	29
Loans and securities backed by residential real estate	6,219	42	6,704	74
Loan portfolios	1,258 ⁽²⁾	—	1,370 ⁽²⁾	—
Bank loans and bridge loans	17,776	1,679 ⁽⁵⁾	19,345	1,541 ⁽⁵⁾
Corporate debt securities	24,386	7,243	26,368	6,229
State and municipal obligations	2,393	—	2,759	36
Other debt obligations	3,851	—	2,914	—
Equities and convertible debentures	57,165	31,548	71,474	20,253
Physical commodities	1,578	37	3,707	23
Derivative contracts	79,801 ⁽³⁾	57,574 ⁽⁶⁾	75,253 ⁽³⁾	56,009 ⁽⁶⁾
Total	<u>\$334,868</u> ⁽⁴⁾	<u>\$147,170</u>	<u>\$342,402</u> ⁽⁴⁾	<u>\$129,019</u>

⁽¹⁾ Includes \$4.08 billion and \$4.31 billion as of June 2010 and December 2009, respectively, of money market instruments held by William Street Funding Corporation (Funding Corp.) to support the William Street credit extension program. See Note 8 for further information regarding the William Street credit extension program.

⁽²⁾ Consists of acquired portfolios of distressed loans, primarily backed by commercial and residential real estate collateral.

⁽³⁾ Net of cash received pursuant to credit support agreements of \$113.76 billion and \$124.60 billion as of June 2010 and December 2009, respectively.

⁽⁴⁾ Includes \$3.96 billion and \$3.86 billion as of June 2010 and December 2009, respectively, of securities accounted for as available-for-sale, substantially all of which is held within the firm's insurance subsidiaries.

⁽⁵⁾ Includes the fair value of unfunded commitments to extend credit. The fair value of partially funded commitments is included in trading assets, at fair value.

⁽⁶⁾ Net of cash posted pursuant to credit support agreements of \$17.65 billion and \$14.74 billion as of June 2010 and December 2009, respectively.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Fair Value Hierarchy

The firm's financial assets at fair value classified within level 3 of the fair value hierarchy are summarized below:

	As of		
	June 2010	March 2010	December 2009
		(\$ in millions)	
Total level 3 assets	\$ 46,125	\$ 45,153	\$ 46,475
Level 3 assets for which the firm bears economic exposure ⁽¹⁾	43,516	42,513	43,348
Total assets	883,188	880,528	848,942
Total financial assets at fair value	614,270	606,238	573,788
Total level 3 assets as a percentage of Total assets	5.2%	5.1%	5.5%
Level 3 assets for which the firm bears economic exposure as a percentage of Total assets	4.9	4.8	5.1
Total level 3 assets as a percentage of Total financial assets at fair value	7.5	7.4	8.1
Level 3 assets for which the firm bears economic exposure as a percentage of Total financial assets at fair value	7.1	7.0	7.6

⁽¹⁾ Excludes assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.

The following tables set forth by level within the fair value hierarchy trading assets, at fair value, trading liabilities, at fair value, and other financial assets and financial liabilities accounted for at fair value under the fair value option as of June 2010 and December 2009. See Note 2 for further information on the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	Financial Assets at Fair Value as of June 2010				
	Level 1	Level 2	Level 3 (in millions)	Netting and Collateral	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments . . .	\$ 4,380	\$ 6,069	\$ —	\$ —	\$ 10,449
U.S. government and federal agency obligations . . .	37,177	46,167	—	—	83,344
Non-U.S. government obligations	37,077	3,712	—	—	40,789
Mortgage and other asset-backed loans and securities ⁽¹⁾ :					
Loans and securities backed by commercial real estate	—	1,991	3,868	—	5,859
Loans and securities backed by residential real estate	—	4,095	2,124	—	6,219
Loan portfolios	—	—	1,258	—	1,258
Bank loans and bridge loans	—	8,203	9,573	—	17,776
Corporate debt securities ⁽²⁾	137	21,657	2,592	—	24,386
State and municipal obligations	—	1,568	825	—	2,393
Other debt obligations	—	2,475	1,376	—	3,851
Equities and convertible debentures	37,845 ⁽⁴⁾	8,985 ⁽⁶⁾	10,335 ⁽⁸⁾	—	57,165
Physical commodities	—	1,578	—	—	1,578
Total cash instruments	116,616	106,500	31,951	—	255,067
Derivative contracts	284	181,600	13,956	(116,039) ⁽⁹⁾	79,801
Trading assets, at fair value	116,900	288,100	45,907	(116,039)	334,868
Securities segregated for regulatory and other purposes	20,760 ⁽⁵⁾	21,772 ⁽⁷⁾	—	—	42,532
Securities purchased under agreements to resell	—	169,280	—	—	169,280
Securities borrowed	—	64,856	—	—	64,856
Receivables from customers and counterparties	—	2,516	218	—	2,734
Total financial assets at fair value	<u>\$137,660</u>	<u>\$546,524</u>	<u>\$46,125</u>	<u>\$(116,039)</u>	<u>\$614,270</u>
Level 3 assets for which the firm does not bear economic exposure ⁽³⁾			(2,609)		
Level 3 assets for which the firm bears economic exposure			<u>\$43,516</u>		

⁽¹⁾ Includes \$7 million and \$655 million of collateralized debt obligations (CDOs) backed by real estate within level 2 and level 3, respectively, of the fair value hierarchy.

⁽²⁾ Includes \$315 million and \$775 million of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations within level 2 and level 3, respectively, of the fair value hierarchy.

⁽³⁾ Consists of level 3 assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.

⁽⁴⁾ Consists of publicly listed equity securities. Includes the firm's \$9.68 billion investment in the ordinary shares of Industrial and Commercial Bank of China Limited, which was transferred from level 2 within the fair value hierarchy upon expiration of transfer restrictions in April 2010.

⁽⁵⁾ Principally consists of U.S. Department of the Treasury (U.S. Treasury) securities and money market instruments as well as insurance separate account assets measured at fair value.

⁽⁶⁾ Principally consists of less liquid publicly listed securities.

⁽⁷⁾ Principally consists of securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

⁽⁸⁾ Includes \$9.24 billion of private equity investments, \$918 million of real estate investments and \$180 million of convertible debentures.

⁽⁹⁾ Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	Financial Liabilities at Fair Value as of June 2010				
	Level 1	Level 2	Level 3 (in millions)	Netting and Collateral	Total
U.S. government and federal agency obligations	\$18,323	\$ 825	\$ —	\$ —	\$ 19,148
Non-U.S. government obligations . . .	29,532	343	—	—	29,875
Mortgage and other asset-backed loans and securities:					
Loans and securities backed by commercial real estate	—	24	—	—	24
Loans and securities backed by residential real estate	—	42	—	—	42
Bank loans and bridge loans	—	1,182	497	—	1,679
Corporate debt securities ⁽¹⁾	62	7,090	91	—	7,243
Equities and convertible debentures ⁽²⁾	30,005	1,536	7	—	31,548
Physical commodities	—	37	—	—	37
Total cash instruments	77,922	11,079	595	—	89,596
Derivative contracts	82	71,333	6,084	(19,925) ⁽⁴⁾	57,574
Trading liabilities, at fair value	78,004	82,412	6,679	(19,925)	147,170
Deposits	—	2,127	—	—	2,127
Securities sold under agreements to repurchase, at fair value	—	148,489	1,419	—	149,908
Securities loaned	—	1,139	—	—	1,139
Other secured financings	—	7,801	8,086	—	15,887
Unsecured short-term borrowings	—	16,741	2,768	—	19,509
Unsecured long-term borrowings	—	18,342	1,899	—	20,241
Other liabilities and accrued expenses . . .	—	606	2,386	—	2,992
Total financial liabilities at fair value	<u>\$78,004</u>	<u>\$277,657</u>	<u>\$23,237</u> ⁽³⁾	<u>\$(19,925)</u>	<u>\$358,973</u>

⁽¹⁾ Includes \$11 million and \$82 million of CDOs and CLOs backed by corporate obligations within level 2 and level 3, respectively, of the fair value hierarchy.

⁽²⁾ Substantially all consists of publicly listed equity securities.

⁽³⁾ Level 3 liabilities were 6.5% of Total financial liabilities at fair value.

⁽⁴⁾ Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Financial Assets at Fair Value as of December 2009					
	Level 1	Level 2	Level 3	Netting and Collateral	Total
	(in millions)				
Commercial paper, certificates of deposit, time deposits and other money market instruments . . .	\$ 5,026	\$ 4,085	\$ —	\$ —	\$ 9,111
U.S. government and federal agency obligations . . .	36,391	41,945	—	—	78,336
Non-U.S. government obligations	33,881	4,977	—	—	38,858
Mortgage and other asset-backed loans and securities ⁽¹⁾ :					
Loans and securities backed by commercial real estate	—	1,583	4,620	—	6,203
Loans and securities backed by residential real estate	—	4,824	1,880	—	6,704
Loan portfolios	—	6	1,364	—	1,370
Bank loans and bridge loans	—	9,785	9,560	—	19,345
Corporate debt securities ⁽²⁾	164	23,969	2,235	—	26,368
State and municipal obligations	—	1,645	1,114	—	2,759
Other debt obligations	—	679	2,235	—	2,914
Equities and convertible debentures	37,103 ⁽⁴⁾	22,500 ⁽⁶⁾	11,871 ⁽⁹⁾	—	71,474
Physical commodities	—	3,707	—	—	3,707
Total cash instruments	112,565	119,705	34,879	—	267,149
Derivative contracts	161	190,816 ⁽⁷⁾	11,596 ⁽⁷⁾	(127,320) ⁽¹⁰⁾	75,253
Trading assets, at fair value	112,726	310,521	46,475	(127,320)	342,402
Securities segregated for regulatory and other purposes	14,381 ⁽⁵⁾	4,472 ⁽⁸⁾	—	—	18,853
Securities purchased under agreements to resell	—	144,279	—	—	144,279
Securities borrowed	—	66,329	—	—	66,329
Receivables from customers and counterparties	—	1,925	—	—	1,925
Total financial assets at fair value	<u>\$127,107</u>	<u>\$527,526</u>	<u>\$46,475</u>	<u>\$(127,320)</u>	<u>\$573,788</u>
Level 3 assets for which the firm does not bear economic exposure ⁽³⁾			<u>(3,127)</u>		
Level 3 assets for which the firm bears economic exposure			<u>\$43,348</u>		

⁽¹⁾ Includes \$291 million and \$311 million of CDOs and CLOs backed by real estate within level 2 and level 3, respectively, of the fair value hierarchy.

⁽²⁾ Includes \$338 million and \$741 million of CDOs and CLOs backed by corporate obligations within level 2 and level 3, respectively, of the fair value hierarchy.

⁽³⁾ Consists of level 3 assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.

⁽⁴⁾ Consists of publicly listed equity securities.

⁽⁵⁾ Principally consists of U.S. Treasury securities and money market instruments as well as insurance separate account assets measured at fair value.

⁽⁶⁾ Substantially all consists of less liquid publicly listed securities.

⁽⁷⁾ Includes \$31.44 billion and \$9.58 billion of credit derivative assets within level 2 and level 3, respectively, of the fair value hierarchy. These amounts exclude the effects of netting under enforceable netting agreements across other derivative product types.

⁽⁸⁾ Principally consists of securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

⁽⁹⁾ Includes \$10.56 billion of private equity investments, \$1.23 billion of real estate investments and \$79 million of convertible debentures.

⁽¹⁰⁾ Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

	Financial Liabilities at Fair Value as of December 2009				
	Level 1	Level 2	Level 3 (in millions)	Netting and Collateral	Total
U.S. government and federal agency obligations	\$20,940	\$ 42	\$ —	\$ —	\$ 20,982
Non-U.S. government obligations . . .	23,306	537	—	—	23,843
Mortgage and other asset-backed loans and securities:					
Loans and securities backed by commercial real estate	—	29	—	—	29
Loans and securities backed by residential real estate	—	74	—	—	74
Bank loans and bridge loans	—	1,128	413	—	1,541
Corporate debt securities ⁽¹⁾	65	6,018	146	—	6,229
State and municipal obligations	—	36	—	—	36
Equities and convertible debentures ⁽²⁾	19,072	1,168	13	—	20,253
Physical commodities	—	23	—	—	23
Total cash instruments	63,383	9,055	572	—	73,010
Derivative contracts	126	66,943 ⁽³⁾	6,400 ⁽³⁾	(17,460) ⁽⁵⁾	56,009
Trading liabilities, at fair value	63,509	75,998	6,972	(17,460)	129,019
Deposits	—	1,947	—	—	1,947
Securities sold under agreements to repurchase, at fair value	—	127,966	394	—	128,360
Securities loaned	—	6,194	—	—	6,194
Other secured financings	118	8,354	6,756	—	15,228
Unsecured short-term borrowings	—	16,093	2,310	—	18,403
Unsecured long-term borrowings	—	18,315	3,077	—	21,392
Other liabilities and accrued expenses . . .	—	141	1,913	—	2,054
Total financial liabilities at fair value	<u>\$63,627</u>	<u>\$255,008</u>	<u>\$21,422</u> ⁽⁴⁾	<u>\$(17,460)</u>	<u>\$322,597</u>

⁽¹⁾ Includes \$45 million of CDOs and CLOs backed by corporate obligations within level 3 of the fair value hierarchy.

⁽²⁾ Substantially all consists of publicly listed equity securities.

⁽³⁾ Includes \$7.96 billion and \$3.20 billion of credit derivative liabilities within level 2 and level 3, respectively, of the fair value hierarchy. These amounts exclude the effects of netting under enforceable netting agreements across other derivative product types.

⁽⁴⁾ Level 3 liabilities were 6.6% of Total financial liabilities at fair value.

⁽⁵⁾ Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The fair value of the firm's derivative contracts is reflected net of cash posted or received pursuant to credit support agreements and is reported on a net-by-counterparty basis in the firm's consolidated statements of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. The following table sets forth the fair value of the firm's derivative contracts on a gross basis by level within the fair value hierarchy and major product type as of June 2010. Gross fair values in the tables below exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted pursuant to credit support agreements both within and across the levels of the fair value hierarchy, and therefore are not representative of the firm's exposure.

Derivative Assets at Fair Value as of June 2010					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u> (in millions)	<u>Cross-Level Netting</u>	<u>Total</u>
Interest rates	\$207	\$ 569,264	\$ 350		\$ 569,821
Credit.	—	138,829	14,120		152,949
Currencies	—	84,839	1,792		86,631
Commodities	—	34,907	1,893		36,800
Equities	77	69,979	1,182		71,238
Gross fair value of derivative assets	\$284	\$ 897,818	\$19,337		\$ 917,439
Counterparty netting ⁽¹⁾	—	(716,218)	(5,381)	\$(2,275) ⁽³⁾	(723,874)
Subtotal	\$284	\$ 181,600	\$13,956	\$(2,275)	\$ 193,565
Cash collateral netting ⁽²⁾					(113,764)
Fair value included in trading assets, at fair value					<u>\$ 79,801</u>

Derivative Liabilities at Fair Value as of June 2010					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u> (in millions)	<u>Cross-Level Netting</u>	<u>Total</u>
Interest rates	\$ 9	\$ 499,520	\$ 370		\$ 499,899
Credit.	—	119,953	5,738		125,691
Currencies	—	75,663	658		76,321
Commodities	—	35,575	2,164		37,739
Equities	73	56,840	2,535		59,448
Gross fair value of derivative liabilities	\$82	\$ 787,551	\$11,465		\$ 799,098
Counterparty netting ⁽¹⁾	—	(716,218)	(5,381)	\$(2,275) ⁽³⁾	(723,874)
Subtotal	\$82	\$ 71,333	\$ 6,084	\$(2,275)	\$ 75,224
Cash collateral netting ⁽²⁾					(17,650)
Fair value included in trading liabilities, at fair value					<u>\$ 57,574</u>

⁽¹⁾ Represents the netting of receivable balances with payable balances for the same counterparty pursuant to enforceable netting agreements.

⁽²⁾ Represents the netting of cash collateral received and posted on a counterparty basis pursuant to credit support agreements.

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Level 3 Unrealized Gains/(Losses)

The table below sets forth a summary of unrealized gains/(losses) on the firm's level 3 financial assets and financial liabilities at fair value still held at the reporting date for the three and six months ended June 2010 and June 2009:

	Level 3 Unrealized Gains/(Losses)			
	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Cash instruments — assets	\$ 191	\$(1,932)	\$ 855	\$(5,597)
Cash instruments — liabilities	(109)	289	(60)	280
Net unrealized gains/(losses) on level 3 cash instruments	82	(1,643)	795	(5,317)
Derivative contracts — net	1,386	(1,403)	2,852	(171)
Receivables from customers and counterparties	(21)	—	(48)	—
Other secured financings	50	(442)	39	(426)
Unsecured short-term borrowings	224	(189)	307	(50)
Unsecured long-term borrowings	124	(133)	137	(98)
Other liabilities and accrued expenses	(17)	18	47	81
Total level 3 unrealized gains/(losses)	<u>\$1,828</u>	<u>\$(3,792)</u>	<u>\$4,129</u>	<u>\$(5,981)</u>

Cash Instruments

The net unrealized gain on level 3 cash instruments of \$82 million for the three months ended June 2010 primarily consisted of unrealized gains across most asset classes, partially offset by unrealized losses on bank loans and bridge loans. The net unrealized loss on level 3 cash instruments of \$1.64 billion for the three months ended June 2009 primarily consisted of unrealized losses on real estate fund investments, and loans and securities backed by commercial real estate, reflecting continued weakness in the commercial real estate market. The net unrealized gain on level 3 cash instruments of \$795 million for the six months ended June 2010 primarily consisted of unrealized gains on loans and securities backed by commercial real estate, private equity investments and real estate fund investments, loans and securities backed by residential real estate, and other debt obligations evidenced by sales of similar assets in each of these asset classes during the period. The net unrealized loss on level 3 cash instruments of \$5.32 billion for the six months ended June 2009 primarily consisted of unrealized losses on private equity investments and real estate fund investments, and loans and securities backed by commercial real estate, reflecting weakness in the global equity markets in the first quarter of 2009, as well as weakness in the commercial real estate market.

Level 3 cash instruments are frequently economically hedged with instruments classified within level 1 and level 2, and accordingly, gains or losses that have been reported in level 3 can be partially offset by gains or losses attributable to instruments classified within level 1 or level 2 or by gains or losses on derivative contracts classified within level 3 of the fair value hierarchy.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Derivative Contracts

The net unrealized gain on level 3 derivative contracts of \$1.39 billion for the three months ended June 2010 was primarily driven by wider credit spreads (which are level 2 inputs) on the underlying instruments as well as decreases in certain equity prices (which are either level 1 or level 2 inputs). These unrealized gains were substantially offset by unrealized losses on currency, interest rate and credit derivative contracts which are classified within level 2 of the fair value hierarchy and are used to economically hedge derivative contracts classified within level 3 of the fair value hierarchy. The net unrealized loss on level 3 derivative contracts of \$1.40 billion for the three months ended June 2009 was primarily driven by tighter credit spreads (which are level 2 observable inputs) on the underlying instruments. The net unrealized gain on level 3 derivative contracts of \$2.85 billion for the six months ended June 2010 was primarily attributable to foreign exchange rates and interest rates (which are level 2 inputs) underlying certain credit derivative contracts. These unrealized gains were substantially offset by unrealized losses on currency, interest rate and credit derivative contracts which are classified within level 2 of the fair value hierarchy and are used to economically hedge derivative contracts classified within level 3 of the fair value hierarchy. The net unrealized loss on level 3 derivative contracts of \$171 million for the six months ended June 2009 was primarily attributable to tighter credit spreads on the underlying instruments partially offset by increases in commodities prices (which are level 2 observable inputs). Level 3 gains and losses on derivative contracts should be considered in the context of the following:

- A derivative contract with level 1 and/or level 2 inputs is classified as a level 3 financial instrument in its entirety if it has at least one significant level 3 input.
- If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2) is still classified as level 3.
- Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to instruments classified within level 1 or level 2 or cash instruments reported within level 3 of the fair value hierarchy.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The tables below set forth a summary of changes in the fair value of the firm's level 3 financial assets and financial liabilities at fair value for the three and six months ended June 2010 and June 2009. The tables reflect gains and losses, including gains and losses for the entire period on financial assets and financial liabilities at fair value that were transferred to level 3 during the period, for all financial assets and financial liabilities at fair value categorized as level 3 as of June 2010 and June 2009, respectively. Transfers between levels and sales are recognized at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses that were reported in level 3 in prior periods for financial instruments that were transferred out of level 3 or sold prior to the end of the period presented.

Level 3 Financial Assets and Financial Liabilities at Fair Value

	Balance, beginning of period	Net realized gains/(losses)	Net unrealized gains/(losses) relating to instruments still held at the reporting date	Net purchases, issuances and settlements	Net transfers in and/or out of level 3	Balance, end of period
	(in millions)					
Three Months Ended June 2010						
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	\$ 4,070	\$ 88	\$ 60	\$(327)	\$ (23) ⁽⁴⁾	\$ 3,868
Loans and securities backed by residential real estate	2,131	57	61	37	(162) ⁽⁴⁾	2,124
Loan portfolios	1,291	4	(16)	(72)	51 ⁽⁴⁾	1,258
Bank loans and bridge loans	9,323	134	(205)	(162)	483 ⁽⁵⁾	9,573
Corporate debt securities	2,703	36	49	(202)	6 ⁽⁴⁾	2,592
State and municipal obligations	870	(5)	34	(73)	(1) ⁽⁴⁾	825
Other debt obligations	1,487	(1)	78	(116)	(72) ⁽⁴⁾	1,376
Equities and convertible debentures	10,653	21	130	248	(717) ⁽⁶⁾	10,335
Total cash instruments — assets	<u>32,528</u>	<u>334</u> ⁽¹⁾	<u>191</u> ⁽¹⁾	<u>(667)</u>	<u>(435)</u>	<u>31,951</u>
Cash instruments — liabilities	(483)	112 ⁽²⁾	(109) ⁽²⁾	(113)	(2) ⁽⁴⁾	(595)
Derivative contracts:						
Interest rates — net	94	(6)	43	(51)	(195) ⁽⁴⁾	(115)
Credit — net	7,137	(1)	949	83	358 ⁽⁴⁾	8,526
Currencies — net	468	—	75	287	270 ⁽⁴⁾	1,100
Commodities — net	(244)	(92)	(4)	92	(23) ⁽⁴⁾	(271)
Equities — net	(1,119)	(5)	323	(500)	(67) ⁽⁴⁾	(1,368)
Total derivative contracts — net	<u>6,336</u>	<u>(104)</u> ⁽²⁾	<u>1,386</u> ⁽²⁾⁽³⁾	<u>(89)</u>	<u>343</u>	<u>7,872</u>
Securities purchased under agreements to resell	268	—	—	—	(268) ⁽⁴⁾	—
Receivables from customers and counterparties	234	5 ⁽²⁾	(21) ⁽²⁾	—	— ⁽⁴⁾	218
Securities sold under agreements to repurchase, at fair value	(1,055)	—	—	(531)	167 ⁽⁴⁾	(1,419)
Other secured financings	(8,139)	(12) ⁽²⁾	50 ⁽²⁾	(38)	53 ⁽⁴⁾	(8,086)
Unsecured short-term borrowings	(2,994)	(47) ⁽²⁾	224 ⁽²⁾	224	(175) ⁽⁴⁾	(2,768)
Unsecured long-term borrowings	(1,715)	(2) ⁽²⁾	124 ⁽²⁾	53	(359) ⁽⁴⁾	(1,899)
Other liabilities and accrued expenses	(2,327)	(2) ⁽²⁾	(17) ⁽²⁾	(21)	(19) ⁽⁴⁾	(2,386)

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Level 3 Financial Assets and Financial Liabilities at Fair Value

	<u>Balance, beginning of year</u>	<u>Net realized gains/(losses)</u>	<u>Net unrealized gains/(losses) relating to instruments still held at the reporting date</u>	<u>Net purchases, issuances and settlements</u>	<u>Net transfers in and/or out of level 3</u>	<u>Balance, end of period</u>
			(in millions)			
Six Months Ended June 2010						
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	\$ 4,620	\$ 172	\$ 202	\$(1,002)	\$ (124) ⁽⁴⁾	\$ 3,868
Loans and securities backed by residential real estate	1,880	66	143	52	(17) ⁽⁴⁾	2,124
Loan portfolios	1,364	28	(6)	(194)	66 ⁽⁴⁾	1,258
Bank loans and bridge loans	9,560	260	83	(404)	74 ⁽⁴⁾	9,573
Corporate debt securities	2,235	72	141	793	(649) ⁽⁷⁾	2,592
State and municipal obligations	1,114	(3)	26	(299)	(13) ⁽⁴⁾	825
Other debt obligations	2,235	(10)	119	(105)	(863) ⁽⁸⁾	1,376
Equities and convertible debentures	11,871	150	147	(903)	(930) ⁽⁶⁾	10,335
Total cash instruments — assets	<u>34,879</u>	<u>735</u> ⁽¹⁾	<u>855</u> ⁽¹⁾	<u>(2,062)</u>	<u>(2,456)</u>	<u>31,951</u>
Cash instruments — liabilities	(572)	132 ⁽²⁾	(60) ⁽²⁾	(169)	74 ⁽⁴⁾	(595)
Derivative contracts:						
Interest rates — net	(71)	(14)	7	21	(58) ⁽⁴⁾	(115)
Credit — net	6,366	(39)	2,238	(19)	(20) ⁽⁴⁾	8,526
Currencies — net	215	(37)	64	331	527 ⁽⁹⁾	1,100
Commodities — net	(90)	(259)	105	259	(286) ⁽⁴⁾	(271)
Equities — net	(1,224)	(52)	438	(439)	(91) ⁽⁴⁾	(1,368)
Total derivative contracts — net	<u>5,196</u>	<u>(401)</u> ⁽²⁾	<u>2,852</u> ⁽²⁾⁽³⁾	<u>153</u>	<u>72</u>	<u>7,872</u>
Receivables from customers and counterparties	—	10 ⁽²⁾	(48) ⁽²⁾	—	256 ⁽⁴⁾	218
Securities sold under agreements to repurchase, at fair value	(394)	—	—	(1,025)	— ⁽⁴⁾	(1,419)
Other secured financings	(6,756)	(21) ⁽²⁾	39 ⁽²⁾	(1,174)	(174) ⁽¹⁰⁾	(8,086)
Unsecured short-term borrowings	(2,310)	(67) ⁽²⁾	307 ⁽²⁾	267	(965) ⁽¹⁰⁾	(2,768)
Unsecured long-term borrowings	(3,077)	(15) ⁽²⁾	137 ⁽²⁾	19	1,037 ⁽¹¹⁾	(1,899)
Other liabilities and accrued expenses	(1,913)	(5) ⁽²⁾	47 ⁽²⁾	(22)	(493) ⁽¹²⁾	(2,386)

(1) The aggregate amounts include approximately \$173 million and \$352 million reported in "Trading and principal investments" and "Interest income," respectively, in the condensed consolidated statement of earnings for the three months ended June 2010. The aggregate amounts include approximately \$932 million and \$658 million reported in "Trading and principal investments" and "Interest income," respectively, in the condensed consolidated statement of earnings for the six months ended June 2010.

(2) Substantially all is reported in "Trading and principal investments" in the condensed consolidated statements of earnings.

(3) Principally resulted from changes in level 2 inputs.

(4) Includes no individually significant transfers into or out of level 3 during the three and six months ended June 2010.

(5) Principally reflects transfers from level 2 within the fair value hierarchy reflecting reduced transparency of prices for these financial instruments as a result of less trading activity.

(6) Principally reflects transfers to level 2 within the fair value hierarchy of certain private equity investments, reflecting improved transparency of prices for these financial instruments, primarily as a result of market transactions.

(7) Principally reflects a reduction in financial instruments as a result of the consolidation of a VIE, which holds identifiable intangible assets, as a result of the adoption of ASU No. 2009-17. Such assets are included in "Other assets" in the condensed consolidated statements of financial condition.

(8) Principally reflects a reduction in financial instruments as a result of the consolidation of a VIE, which holds real estate assets. Such assets are included in "Other assets" in the condensed consolidated statements of financial condition.

(9) Principally reflects transfers from level 2 within the fair value hierarchy of certain currency derivative assets reflecting reduced transparency of the correlation inputs used to value these financial instruments.

(10) Principally reflects consolidation of certain VIEs as a result of the adoption of ASU No. 2009-17.

(11) Upon the firm's consolidation of certain VIEs as a result of the adoption of ASU No. 2009-17, the firm's borrowings from such VIEs, substantially all of which were level 3, became intercompany borrowings and were eliminated in consolidation.

(12) Principally reflects an increase related to subordinated liabilities issued by VIEs which were consolidated upon the adoption of ASU No. 2009-17.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Level 3 Financial Assets and Financial Liabilities at Fair Value

	<u>Balance, beginning of period</u>	<u>Net realized gains/(losses)</u>	<u>Net unrealized gains/(losses) relating to instruments still held at the reporting date</u>	<u>Net purchases, issuances and settlements</u>	<u>Net transfers in and/or out of level 3</u>	<u>Balance, end of period</u>
			(in millions)			
Three Months Ended June 2009						
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	\$ 7,705	\$(207)	\$ (637)	\$ (92)	\$ 70	\$ 6,839
Loans and securities backed by residential real estate	2,088	101	(14)	(301)	(12)	1,862
Loan portfolios	1,851	41	(29)	(89)	—	1,774
Bank loans and bridge loans	9,866	169	(74)	(679)	387	9,669
Corporate debt securities	2,648	23	(70)	(161)	(68)	2,372
State and municipal obligations	1,157	3	(5)	(33)	308	1,430
Other debt obligations	3,749	119	(166)	(626)	(273)	2,803
Equities and convertible debentures	<u>13,620</u>	<u>11</u>	<u>(937)</u>	<u>118</u>	<u>(133)</u>	<u>12,679</u>
Total cash instruments — assets	<u>42,684</u>	<u>260</u> ⁽¹⁾	<u>(1,932)</u> ⁽¹⁾	<u>(1,863)</u>	<u>279</u>	<u>39,428</u>
Cash instruments — liabilities	(1,304)	(9) ⁽²⁾	289 ⁽²⁾	(31)	35	(1,020)
Derivative contracts — net	4,116	474 ⁽²⁾	(1,403) ⁽²⁾⁽³⁾	(141)	30 ⁽⁴⁾	3,076
Other secured financings	(7,277)	(15) ⁽²⁾	(442) ⁽²⁾	90	(423) ⁽⁵⁾	(8,067)
Unsecured short-term borrowings	(3,143)	1 ⁽²⁾	(189) ⁽²⁾	(219)	1,321 ⁽⁶⁾	(2,229)
Unsecured long-term borrowings	(1,916)	(25) ⁽²⁾	(133) ⁽²⁾	54	(1,407) ⁽⁶⁾	(3,427)
Other liabilities and accrued expenses	(1,510)	(11) ⁽²⁾	18 ⁽²⁾	(141)	—	(1,644)

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Level 3 Financial Assets and Financial Liabilities at Fair Value

	<u>Balance, beginning of period</u>	<u>Net realized gains/(losses)</u>	<u>Net unrealized gains/(losses) relating to instruments still held at the reporting date</u>	<u>Net purchases, issuances and settlements</u>	<u>Net transfers in and/or out of level 3</u>	<u>Balance, end of period</u>
			(in millions)			
Six Months Ended June 2009						
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	\$ 9,170	\$(148)	\$(1,546)	\$ (530)	\$ (107)	\$ 6,839
Loans and securities backed by residential real estate	1,927	183	(123)	(505)	380	1,862
Loan portfolios	4,266	90	(269)	(766)	(1,547) ⁽⁷⁾	1,774
Bank loans and bridge loans	11,169	344	(682)	(1,227)	65	9,669
Corporate debt securities	2,734	163	(349)	13	(189)	2,372
State and municipal obligations	1,356	7	(9)	(219)	295	1,430
Other debt obligations	3,903	68	(211)	(920)	(37)	2,803
Equities and convertible debentures	<u>15,127</u>	<u>7</u>	<u>(2,408)</u>	<u>(56)</u>	<u>9</u>	<u>12,679</u>
Total cash instruments — assets	<u>49,652</u>	<u>714</u> ⁽¹⁾	<u>(5,597)</u> ⁽¹⁾	<u>(4,210)</u>	<u>(1,131)</u>	<u>39,428</u>
Cash instruments — liabilities	(1,727)	(2) ⁽²⁾	280 ⁽²⁾	274	155	(1,020)
Derivative contracts — net	3,315	577 ⁽²⁾	(171) ⁽²⁾⁽³⁾	(1,446)	801 ⁽⁸⁾	3,076
Other secured financings	(4,039)	(21) ⁽²⁾	(426) ⁽²⁾	(1,053)	(2,528) ⁽⁹⁾	(8,067)
Unsecured short-term borrowings	(4,712)	8 ⁽²⁾	(50) ⁽²⁾	(1,039)	3,564 ⁽⁹⁾	(2,229)
Unsecured long-term borrowings	(1,689)	15 ⁽²⁾	(98) ⁽²⁾	225	(1,880) ⁽⁹⁾	(3,427)
Other liabilities and accrued expenses	—	(21) ⁽²⁾	81 ⁽²⁾	(751)	(953) ⁽¹⁰⁾	(1,644)

⁽¹⁾ The aggregate amounts include approximately \$(2.18) billion and \$510 million reported in “Trading and principal investments” and “Interest income,” respectively, in the condensed consolidated statement of earnings for the three months ended June 2009. The aggregate amounts include approximately \$(5.96) billion and \$1.08 billion reported in “Trading and principal investments” and “Interest income,” respectively, in the condensed consolidated statement of earnings for the six months ended June 2009.

⁽²⁾ Substantially all is reported in “Trading and principal investments” in the condensed consolidated statements of earnings.

⁽³⁾ Primarily resulted from changes in level 2 inputs.

⁽⁴⁾ Principally reflects transfers from level 2 within the fair value hierarchy of credit derivative assets, reflecting reduced transparency of the correlation inputs used to value these financial instruments, offset by transfers to level 2 within the fair value hierarchy of equity derivative assets, reflecting improved transparency of the equity index volatility inputs used to value these financial instruments.

⁽⁵⁾ Principally reflects transfers from level 2 within the fair value hierarchy due to reduced transparency of prices for municipal obligations that collateralize certain secured financings.

⁽⁶⁾ Principally reflects transfers from level 3 unsecured short-term borrowings to level 3 unsecured long-term borrowings related to changes in the terms of certain notes.

⁽⁷⁾ Principally reflects the deconsolidation of certain loan portfolios for which the firm did not bear economic exposure.

⁽⁸⁾ Principally reflects transfers from level 2 within the fair value hierarchy of credit derivative assets, reflecting reduced transparency of certain credit spread inputs used to value these financial instruments, partially offset by transfers to level 2 within the fair value hierarchy of equity derivative assets, reflecting improved transparency of the equity index volatility inputs used to value these financial instruments.

⁽⁹⁾ Principally reflects transfers from level 3 unsecured short-term borrowings to level 3 other secured financings and level 3 unsecured long-term borrowings related to changes in the terms of certain notes.

⁽¹⁰⁾ Principally reflects transfers from level 2 within the fair value hierarchy of certain insurance contracts, reflecting reduced transparency of mortality curve inputs used to value these financial instruments as a result of less observable trading activity.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Derivative Activities

Derivative contracts are instruments such as futures, forwards, swaps or option contracts that derive their value from underlying asset prices, indices, reference rates and other inputs or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange. Derivatives may involve future commitments to purchase or sell financial instruments or commodities, or to exchange currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, commodities, currencies or indices.

Certain cash instruments such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments are not considered derivatives even though their values or contractually required cash flows are derived from the price of some other security or index. However, certain commodity-related contracts are included in the firm's derivatives disclosure, as these contracts may be settled in cash or the assets to be delivered under the contract are readily convertible into cash.

The firm enters into derivative transactions to facilitate client transactions, as a means of risk management or to take proprietary positions. Risk exposures are managed through diversification, by controlling position sizes and by entering into offsetting positions. For example, the firm may manage the risk related to a portfolio of common stock by entering into an offsetting position in a related equity-index futures contract.

Gains and losses on derivatives used for trading purposes are included in "Trading and principal investments" in the condensed consolidated statements of earnings. See Note 2 for information regarding the firm's accounting policy and use of derivatives for hedge accounting.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The fair value of the firm's derivative contracts is reflected net of cash posted or received pursuant to credit support agreements and is reported on a net-by-counterparty basis in the firm's condensed consolidated statements of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. The following table sets forth the fair value and the number of contracts of the firm's derivative contracts by major product type on a gross basis as of June 2010 and December 2009. Gross fair values in the table below exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted pursuant to credit support agreements, and therefore are not representative of the firm's exposure:

	As of June 2010			As of December 2009		
	Derivative Assets	Derivative Liabilities	Number of Contracts	Derivative Assets	Derivative Liabilities	Number of Contracts
	(in millions, except number of contracts)					
Derivative contracts for trading activities						
Interest rates	\$ 543,982	\$ 499,894	281,630	\$ 458,614	\$ 407,125	270,707
Credit	152,949	125,691	401,265	164,669	134,810	443,450
Currencies	86,563	76,300	244,554	77,223	62,413	171,760
Commodities	36,800	37,739	69,553	47,234	48,163	73,010
Equities	71,238	59,448	289,887	67,559	53,207	237,625
Subtotal	\$ 891,532	\$ 799,072	1,286,889	\$ 815,299	\$ 705,718	1,196,552
Derivative contracts accounted for as hedges						
Interest rates	\$ 25,839	\$ 5	868	\$ 19,563	\$ 1	806
Currencies	68	21	71	8	47	58
Subtotal	\$ 25,907	\$ 26	939	\$ 19,571	\$ 48	864
Gross fair value of derivative contracts						
	\$ 917,439	\$ 799,098	<u>1,287,828</u>	\$ 834,870	\$ 705,766	<u>1,197,416</u>
Counterparty netting ⁽¹⁾	(723,874)	(723,874)		(635,014)	(635,014)	
Cash collateral netting ⁽²⁾	(113,764)	(17,650)		(124,603)	(14,743)	
Fair value included in trading assets, at fair value						
	<u>\$ 79,801</u>			<u>\$ 75,253</u>		
Fair value included in trading liabilities, at fair value						
		<u>\$ 57,574</u>		<u>\$ 56,009</u>		

⁽¹⁾ Represents the netting of receivable balances with payable balances for the same counterparty pursuant to enforceable netting agreements.

⁽²⁾ Represents the netting of cash collateral received and posted on a counterparty basis pursuant to credit support agreements.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

For the three months ended June 2010 and June 2009, the gain/(loss) recognized on interest rate derivative contracts accounted for as hedges was \$4.95 billion and \$(5.54) billion, respectively, and the related gain/(loss) recognized on the hedged borrowings and bank deposits was \$(5.37) billion and \$5.54 billion, respectively. For the six months ended June 2010 and June 2009, the gain/(loss) recognized on interest rate derivative contracts accounted for as hedges was \$5.64 billion and \$(8.01) billion, respectively, and the related gain/(loss) recognized on the hedged borrowings and bank deposits was \$(6.47) billion and \$7.97 billion, respectively. These gains and losses are included in "Interest expense" in the condensed consolidated statements of earnings. The hedge ineffectiveness recognized on these derivative contracts for the three and six months ended June 2010 was a loss of \$418 million and \$831 million, respectively. This loss consisted primarily of the amortization of prepaid credit spreads, and was not material for the three and six months ended June 2009. The gain/(loss) excluded from the assessment of hedge effectiveness was not material for the three and six months ended June 2010 and was a loss of \$350 million and \$666 million for the three and six months ended June 2009, respectively.

For the three months ended June 2010 and June 2009, the gain/(loss) on currency derivative contracts accounted for as hedges was \$196 million and \$(450) million, respectively. For the six months ended June 2010 and June 2009, the gain/(loss) on currency derivative contracts accounted for as hedges was \$317 million and \$(297) million, respectively. Such amounts are included in "Currency translation adjustment, net of tax" in the condensed consolidated statements of comprehensive income. The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income were not material for the three and six months ended June 2010 and June 2009.

The firm also has embedded derivatives that have been bifurcated from related borrowings. Such derivatives, which are classified in unsecured short-term and unsecured long-term borrowings in the firm's condensed consolidated statements of financial condition, had a net asset carrying value of \$86 million and \$96 million as of June 2010 and December 2009, respectively. The net asset as of June 2010, which represented 322 contracts, included gross assets of \$384 million (primarily comprised of equity and interest rate derivatives) and gross liabilities of \$298 million (primarily comprised of interest rate and equity derivatives). The net asset as of December 2009, which represented 297 contracts, included gross assets of \$478 million (primarily comprised of equity and interest rate derivatives) and gross liabilities of \$382 million (primarily comprised of equity and interest rate derivatives). See Notes 6 and 7 for further information regarding the firm's unsecured borrowings.

As of June 2010 and December 2009, the firm has designated \$3.56 billion and \$3.38 billion, respectively, of foreign currency-denominated debt, included in unsecured long-term borrowings and unsecured short-term borrowings in the firm's condensed consolidated statements of financial condition, as hedges of net investments in non-U.S. subsidiaries. For the three months ended June 2010 and June 2009, the loss on these debt instruments was \$190 million and \$90 million, respectively. For the six months ended June 2010 and June 2009, the gain/(loss) on these debt instruments was \$(178) million and \$179 million, respectively. Such amounts are included in "Currency translation adjustment, net of tax" in the condensed consolidated statements of comprehensive income. The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income was not material for the three and six months ended June 2010 and June 2009.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table sets forth by major product type the firm's gains/(losses) related to trading activities, including both derivative and nonderivative financial instruments, for the three and six months ended June 2010 and June 2009. These gains/(losses) are not representative of the firm's individual business unit results because many of the firm's trading strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm's longer-term derivative contracts are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm's cash and derivatives trading inventory has exposure to foreign currencies and may be economically hedged with foreign currency contracts. The gains/(losses) set forth below are included in "Trading and principal investments" in the condensed consolidated statements of earnings and exclude related interest income and interest expense.

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Interest rates	\$(2,814)	\$ 4,215	\$ (4,728)	\$ 4,875
Credit	2,376	1,558	6,479	3,114
Currencies ⁽¹⁾	3,470	(1,398)	6,791	(421)
Equities	376	1,798	1,949	2,842
Commodities and other	343	1,574	1,161	3,343
Total	<u>\$ 3,751</u>	<u>\$ 7,747</u>	<u>\$11,652</u>	<u>\$13,753</u>

⁽¹⁾ Includes gains/(losses) on currency contracts used to economically hedge positions included in other product types in this table.

Certain of the firm's derivative instruments have been transacted pursuant to bilateral agreements with certain counterparties that may require the firm to post collateral or terminate the transactions based on the firm's long-term credit ratings. As of June 2010, the aggregate fair value of such derivative contracts that were in a net liability position was \$26.51 billion, and the aggregate fair value of assets posted by the firm as collateral for these derivative contracts was \$19.79 billion. As of June 2009, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately \$1.33 billion and \$2.68 billion could have been called by counterparties in the event of a one-notch and two-notch reduction, respectively, in the firm's long-term credit ratings. As of December 2009, the aggregate fair value of such derivative contracts that were in a net liability position was \$20.85 billion, and the aggregate fair value of assets posted by the firm as collateral for these derivative contracts was \$14.48 billion. As of December 2009, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately \$1.12 billion and \$2.36 billion could have been called by counterparties in the event of a one-notch and two-notch reduction, respectively, in the firm's long-term credit ratings.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The firm enters into a broad array of credit derivatives to facilitate client transactions, to take proprietary positions and as a means of risk management. The firm uses each of the credit derivatives described below for these purposes. These credit derivatives are entered into by various trading desks around the world, and are actively managed based on the underlying risks. These activities are frequently part of a broader trading strategy and are dynamically managed based on the net risk position. As individually negotiated contracts, credit derivatives can have numerous settlement and payment conventions. The more common types of triggers include bankruptcy of the reference credit entity, acceleration of indebtedness, failure to pay, restructuring, repudiation and dissolution of the entity.

- **Credit default swaps.** Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event of a default by the issuer (reference entity). The buyer of protection pays an initial or periodic premium to the seller and receives credit default protection for the period of the contract. If there is no credit default event, as defined by the specific derivative contract, then the seller of protection makes no payments to the buyer of protection. However, if a credit default event occurs, the seller of protection will be required to make a payment to the buyer of protection. Typical credit default events requiring payment include bankruptcy of the reference credit entity, failure to pay the principal or interest, and restructuring of the relevant obligations of the reference entity.
- **Credit indices, baskets and tranches.** Credit derivatives may reference a basket of single-name credit default swaps or a broad-based index. Typically, in the event of a default of one of the underlying reference obligations, the protection seller will pay to the protection buyer a pro-rata portion of a transaction's total notional amount relating to the underlying defaulted reference obligation. In tranching transactions, the credit risk of a basket or index is separated into various portions each having different levels of subordination. The most junior tranches cover initial defaults, and once losses exceed the notional amount of these tranches, the excess is covered by the next most senior tranche in the capital structure.
- **Total return swaps.** A total return swap transfers the risks relating to economic performance of a reference obligation from the protection buyer to the protection seller. Typically, the protection buyer receives from the protection seller a floating rate of interest and protection against any reduction in fair value of the reference obligation, and in return the protection seller receives the cash flows associated with the reference obligation, plus any increase in the fair value of the reference obligation.
- **Credit options.** In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

Substantially all of the firm's purchased credit derivative transactions are with financial institutions and are subject to stringent collateral thresholds. The firm economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underlyings. In addition, upon the occurrence of a specified trigger event, the firm may take possession of the reference obligations underlying a particular written credit derivative, and consequently may, upon liquidation of the reference obligations, recover amounts on the underlying reference obligations in the event of default. As of June 2010, the firm's written and purchased credit derivatives had total gross notional amounts of \$2.15 trillion and \$2.29 trillion, respectively, for total net purchased protection of \$140.73 billion in notional value. As of December 2009, the firm's written and purchased credit derivatives had total gross notional amounts of \$2.54 trillion and \$2.71 trillion, respectively, for total net purchased protection of \$164.13 billion in notional value.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table sets forth certain information related to the firm's credit derivatives. Fair values in the table below exclude the effects of both netting under enforceable netting agreements and netting of cash posted or received pursuant to credit support agreements, and therefore are not representative of the firm's exposure.

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor ⁽¹⁾				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives		
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives ⁽²⁾	Other Purchased Credit Derivatives ⁽³⁾	Asset	Liability	Net Asset/ Liability
	(\$ in millions)								
As of June 2010									
Credit spread on underlying (basis points) ⁽⁴⁾									
0-250	\$220,472	\$1,011,103	\$283,685	\$1,515,260	\$1,423,331	\$216,075	\$20,272	\$19,324	\$ 948
251-500	22,176	214,903	54,160	291,239	272,856	39,163	5,016	12,209	(7,193)
501-1,000	15,064	137,022	44,841	196,927	163,787	23,345	4,086	15,599	(11,513)
Greater than 1,000	9,887	112,152	23,356	145,395	115,449	35,542	2,164	52,420	(50,256)
Total	<u>\$267,599</u>	<u>\$1,475,180</u>	<u>\$406,042</u>	<u>\$2,148,821</u>	<u>\$1,975,423</u>	<u>\$314,125</u>	<u>\$31,538</u>	<u>\$99,552</u>	<u>\$(68,014)</u> ⁽⁵⁾
As of December 2009									
Credit spread on underlying (basis points) ⁽⁴⁾									
0-250	\$283,353	\$1,342,649	\$414,809	\$2,040,811	\$1,884,864	\$299,329	\$39,740	\$13,441	\$ 26,299
251-500	15,151	142,732	39,337	197,220	182,583	27,194	5,008	6,816	(1,808)
501-1,000	10,364	101,621	34,194	146,179	141,317	5,673	2,841	12,448	(9,607)
Greater than 1,000	20,262	107,768	31,208	159,238	117,914	48,699	1,524	60,279	(58,755)
Total	<u>\$329,130</u>	<u>\$1,694,770</u>	<u>\$519,548</u>	<u>\$2,543,448</u>	<u>\$2,326,678</u>	<u>\$380,895</u>	<u>\$49,113</u>	<u>\$92,984</u>	<u>\$(43,871)</u> ⁽⁵⁾

⁽¹⁾ Tenor is based on expected duration for mortgage-related credit derivatives and on remaining contractual maturity for other credit derivatives.

⁽²⁾ Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they economically hedge written credit derivatives with identical underlyings.

⁽³⁾ Comprised of purchased protection in excess of the amount of written protection on identical underlyings and purchased protection on other underlyings on which the firm has not written protection.

⁽⁴⁾ Credit spread on the underlying, together with the tenor of the contract, are indicators of payment/performance risk. For example, the firm is least likely to pay or otherwise be required to perform where the credit spread on the underlying is "0-250" basis points and the tenor is "0-12 Months." The likelihood of payment or performance is generally greater as the credit spread on the underlying and tenor increase.

⁽⁵⁾ These net liabilities differ from the carrying values related to credit derivatives in the firm's condensed consolidated statements of financial condition because they exclude the effects of both netting under enforceable netting agreements and netting of cash collateral posted or received pursuant to credit support agreements.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Impact of Credit Spreads

On an ongoing basis, the firm realizes gains or losses relating to changes in credit risk on derivative contracts through changes in credit mitigants or the sale or unwind of the contracts. The net gain attributable to the impact of changes in credit exposure and credit spreads on derivative contracts (including derivative assets and liabilities and related hedges) was \$145 million and \$38 million for the three months ended June 2010 and June 2009, respectively, and \$189 million and \$86 million for the six months ended June 2010 and June 2009, respectively.

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

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Net gains/(losses) including hedges	\$390	\$(348)	\$497	\$(545)
Net gains/(losses) excluding hedges	405	(353)	514	(545)

The net gain/(loss) attributable to changes in instrument-specific credit spreads on loans and loan commitments for which the fair value option was elected was a gain/(loss) of \$(118) million and \$917 million for the three months ended June 2010 and June 2009, respectively, and a gain/(loss) of \$952 million and \$(297) million for the six months ended June 2010 and June 2009, respectively. The firm attributes changes in the fair value of floating rate loans and loan commitments to changes in instrument-specific credit spreads. For fixed rate loans and loan commitments, the firm allocates changes in fair value between interest rate-related changes and credit spread-related changes based on changes in interest rates. See below for additional details regarding the fair value option.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The Fair Value Option

Gains/(Losses)

The following table sets forth the gains/(losses) included in earnings for the three and six months ended June 2010 and June 2009 as a result of the firm electing to apply the fair value option to certain financial assets and financial liabilities, as described in Note 2. The table excludes gains and losses related to (i) trading assets, at fair value and trading liabilities, at fair value, (ii) gains and losses on assets and liabilities that would have been accounted for at fair value under other GAAP if the firm had not elected the fair value option, (iii) gains and losses on secured financings related to transfers of financial assets accounted for as financings rather than sales, as such gains and losses are offset by gains and losses on the related financial assets, and (iv) gains and losses on subordinated liabilities issued by consolidated VIEs, as such gains and losses are offset by gains and losses on the financial assets held by the consolidated VIEs.

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Unsecured long-term borrowings ⁽¹⁾	\$ 286	\$(307)	\$370	\$(442)
Other secured financings ⁽²⁾	58	(442)	54	(417)
Unsecured short-term borrowings ⁽³⁾	61	(27)	74	(94)
Receivables from customers and counterparties ⁽⁴⁾	(55)	84	(93)	82
Other liabilities and accrued expenses ⁽⁵⁾⁽⁶⁾	(142)	(162)	(73)	(80)
Other ⁽⁷⁾	<u>20</u>	<u>34</u>	<u>17</u>	<u>8</u>
Total ⁽⁸⁾	<u>\$ 228</u>	<u>\$(820)</u>	<u>\$349</u>	<u>\$(943)</u>

⁽¹⁾ Excludes losses of \$2.17 billion and \$2.96 billion for the three months ended June 2010 and June 2009, respectively, and \$1.59 billion and \$1.72 billion for the six months ended June 2010 and June 2009, respectively, related to the embedded derivative component of hybrid financial instruments. Such losses would have been recognized even if the firm had not elected to account for the entire hybrid instrument at fair value under the fair value option.

⁽²⁾ Excludes gains/(losses) of \$(12) million for the three months ended June 2009 and \$(5) million and \$7 million for the six months ended June 2010 and June 2009, respectively, related to financings recorded as a result of transactions that were accounted for as secured financings rather than sales. Changes in the fair value of these secured financings are offset by changes in the fair value of the related financial instruments included in "Trading assets, at fair value" in the condensed consolidated statements of financial condition. Such gains/(losses) were not material for the three months ended June 2010.

⁽³⁾ Excludes gains/(losses) of \$964 million and \$(1.18) billion for the three months ended June 2010 and June 2009, respectively, and \$759 million and \$(1.48) billion for the six months ended June 2010 and June 2009, respectively, related to the embedded derivative component of hybrid financial instruments. Such gains and losses would have been recognized even if the firm had not elected to account for the entire hybrid instrument at fair value under the fair value option.

⁽⁴⁾ Primarily consists of gains/(losses) on certain reinsurance contracts.

⁽⁵⁾ Excludes gains of \$44 million and \$151 million for the three and six months ended June 2010, respectively, related to subordinated liabilities issued by consolidated VIEs. Changes in the fair value of these financial instruments are offset by changes in the fair value of the financial assets held by the consolidated VIEs.

⁽⁶⁾ Primarily consists of losses on certain insurance and reinsurance contracts.

⁽⁷⁾ Primarily consists of gains/(losses) on resale and repurchase agreements, securities borrowed and loaned within Trading and Principal Investments, and deposits.

⁽⁸⁾ Reported in "Trading and principal investments" in the condensed consolidated statements of earnings. The amounts exclude contractual interest, which is included in "Interest income" and "Interest expense" in the condensed consolidated statements of earnings, for all instruments other than hybrid financial instruments.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

All trading assets and trading liabilities are accounted for at fair value either under the fair value option or as required by other accounting standards (principally ASC 320, ASC 940 and ASC 815). Excluding equities commissions of \$977 million and \$1.02 billion for the three months ended June 2010 and June 2009, respectively, and \$1.86 billion and \$2.00 billion for the six months ended June 2010 and June 2009, respectively, and the gains and losses on the instruments accounted for under the fair value option described above, "Trading and principal investments" in the condensed consolidated statements of earnings primarily represents gains and losses on "Trading assets, at fair value" and "Trading liabilities, at fair value" in the condensed consolidated statements of financial condition.

Loans and Loan Commitments

As of June 2010, the aggregate contractual principal amount of loans and long-term receivables for which the fair value option was elected exceeded the related fair value by \$38.53 billion, including a difference of \$33.75 billion related to loans with an aggregate fair value of \$3.52 billion that were on nonaccrual status (including loans more than 90 days past due). As of December 2009, the aggregate contractual principal amount of loans and long-term receivables for which the fair value option was elected exceeded the related fair value by \$41.96 billion, including a difference of \$36.30 billion related to loans with an aggregate fair value of \$4.28 billion that were on nonaccrual status (including loans more than 90 days past due). The aggregate contractual principal exceeds the related fair value primarily because the firm regularly purchases loans, such as distressed loans, at values significantly below contractual principal amounts.

As of June 2010 and December 2009, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$1.51 billion and \$879 million, respectively, and the related total contractual amount of these lending commitments was \$46.89 billion and \$44.05 billion, respectively.

Long-term Debt Instruments

The aggregate contractual principal amount of long-term debt instruments (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by \$1.66 billion and \$752 million as of June 2010 and December 2009, respectively.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Investments in Funds That Calculate Net Asset Value Per Share

The firm's investments in funds that calculate net asset value per share primarily consist of investments in firm-sponsored funds where the firm co-invests with third-party investors. The private equity, private debt and real estate funds are primarily closed-end funds in which the firm's investments are not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated and it is estimated that substantially all of the underlying assets of these existing funds will be liquidated over the next 10 years. The firm's investments in hedge funds are generally redeemable on a quarterly basis with 91 days notice, subject to a maximum redemption level of 25% of the firm's initial investments at any quarter-end. The following table sets forth the fair value of the firm's investments in and unfunded commitments to funds that calculate net asset value per share:

	<u>As of June 2010</u>		<u>As of December 2009</u>	
	<u>Fair Value of Investments</u>	<u>Unfunded Commitments</u>	<u>Fair Value of Investments</u>	<u>Unfunded Commitments</u>
	(in millions)			
Private equity funds ⁽¹⁾	\$ 7,317	\$ 6,057	\$ 8,229	\$ 5,722
Private debt funds ⁽²⁾	4,180	3,580	3,628	4,048
Hedge funds ⁽³⁾	3,015	—	3,133	—
Real estate and other funds ⁽⁴⁾	<u>910</u>	<u>2,369</u>	<u>939</u>	<u>2,398</u>
Total	<u>\$15,422</u>	<u>\$12,006</u>	<u>\$15,929</u>	<u>\$12,168</u>

- ⁽¹⁾ These funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations, and growth investments.
- ⁽²⁾ These funds generally invest in fixed income instruments and are focused on providing private high-yield capital for mid to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.
- ⁽³⁾ These funds are primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage/special situations and capital structure arbitrage.
- ⁽⁴⁾ These funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and direct property.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Collateralized Transactions

The firm receives financial instruments as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. Such financial instruments may include obligations of the U.S. government, federal agencies, sovereigns and corporations, as well as equities and convertible debentures.

In many cases, the firm is permitted to deliver or repledge these financial instruments in connection with entering into repurchase agreements, securities lending agreements and other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements. As of June 2010 and December 2009, the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or repledge was \$590.15 billion and \$561.77 billion, respectively, of which the firm delivered or repledged \$419.39 billion and \$392.89 billion, respectively.

The firm also pledges assets that it owns to counterparties who may or may not have the right to deliver or repledge them. Trading assets pledged to counterparties that have the right to deliver or repledge are included in "Trading assets, at fair value" in the condensed consolidated statements of financial condition and were \$35.64 billion and \$31.49 billion as of June 2010 and December 2009, respectively. Trading assets, pledged in connection with repurchase agreements, securities lending agreements and other secured financings to counterparties that did not have the right to sell or repledge are included in "Trading assets, at fair value" in the condensed consolidated statements of financial condition and were \$112.89 billion and \$109.11 billion as of June 2010 and December 2009, respectively. Other assets (primarily real estate and cash) owned and pledged in connection with other secured financings to counterparties that did not have the right to sell or repledge were \$6.49 billion and \$7.93 billion as of June 2010 and December 2009, respectively.

In addition to repurchase agreements and securities lending agreements, the firm obtains secured funding through the use of other arrangements. Other secured financings include arrangements that are nonrecourse, that is, only the subsidiary that executed the arrangement or a subsidiary guaranteeing the arrangement is obligated to repay the financing. Other secured financings consist of liabilities related to the firm's William Street credit extension program; consolidated VIEs; collateralized central bank financings and other transfers of financial assets accounted for as financings rather than sales (primarily pledged bank loans and mortgage whole loans); and other structured financing arrangements.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Other secured financings by maturity are set forth in the table below:

	As of	
	June 2010	December 2009
	(in millions)	
Other secured financings (short-term) ⁽¹⁾⁽²⁾	\$13,432	\$12,931
Other secured financings (long-term):		
2011	1,609	3,832
2012	4,816	1,726
2013	1,266	1,518
2014	2,055	1,617
2015	246	255
2016-thereafter	<u>2,410</u>	<u>2,255</u>
Total other secured financings (long-term) ⁽³⁾⁽⁴⁾⁽⁵⁾	<u>12,402</u>	<u>11,203</u>
Total other secured financings ⁽⁶⁾⁽⁷⁾	<u>\$25,834</u>	<u>\$24,134</u>

⁽¹⁾ As of June 2010 and December 2009, consists of U.S. dollar-denominated financings of \$4.40 billion and \$6.47 billion (including \$4.19 billion and \$6.15 billion at fair value) and non-U.S. dollar-denominated financings of \$9.03 billion and \$6.46 billion (including \$1.60 billion and \$1.08 billion at fair value), respectively. As of June 2010 and December 2009, after giving effect to hedging activities, the U.S. dollar-denominated financings not at fair value had a weighted average interest rate of 4.18% and 3.44%, respectively, and the non-U.S. dollar-denominated financings not at fair value had a weighted average interest rate of 0.71% and 1.57%, respectively.

⁽²⁾ Includes other secured financings maturing within one year of the financial statement date and other secured financings that are redeemable within one year of the financial statement date at the option of the holder.

⁽³⁾ As of June 2010 and December 2009, consists of U.S. dollar-denominated financings of \$8.77 billion and \$7.28 billion (including \$7.37 billion and \$5.90 billion at fair value) and non-U.S. dollar-denominated financings of \$3.63 billion and \$3.92 billion (including \$2.72 billion and \$2.10 billion at fair value), respectively. As of June 2010 and December 2009, after giving effect to hedging activities, the U.S. dollar-denominated financings not at fair value had a weighted average interest rate of 1.85% and 1.83%, respectively, and the non-U.S. dollar-denominated financings not at fair value had a weighted average interest rate of 2.77% and 2.30%, respectively.

⁽⁴⁾ Secured long-term financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates. Secured long-term financings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

⁽⁵⁾ The aggregate contractual principal amount of other secured financings (long-term) for which the fair value option was elected, primarily consisting of transfers of financial assets accounted for as financings rather than sales, debt raised through the William Street credit extension program and certain other nonrecourse financings, exceeded the related fair value by \$725 million as of June 2010.

⁽⁶⁾ As of June 2010 and December 2009, \$21.81 billion and \$18.25 billion, respectively, of these financings were collateralized by trading assets and \$4.02 billion and \$5.88 billion, respectively, by other assets (primarily real estate and cash). Other secured financings include \$9.77 billion and \$10.63 billion of nonrecourse obligations as of June 2010 and December 2009, respectively.

⁽⁷⁾ As of June 2010 and December 2009, other secured financings include \$10.61 billion and \$9.51 billion, respectively, related to transfers of financial assets accounted for as financings rather than sales. Such financings were collateralized by financial assets included in "Trading assets, at fair value" in the condensed consolidated statements of financial condition of \$10.87 billion and \$9.78 billion as of June 2010 and December 2009, respectively.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 4. Securitization Activities and Variable Interest Entities

Securitization Activities

The firm securitizes residential and commercial mortgages, corporate bonds and other types of financial assets. The firm acts as underwriter of the beneficial interests that are sold to investors. The firm derecognizes financial assets transferred in securitizations, provided it has relinquished control over such assets. Transferred assets are accounted for at fair value prior to securitization. The firm generally receives cash in exchange for the transferred assets. Net revenues related to underwriting activities are recognized in connection with the sales of the underlying beneficial interests to investors.

The firm may have continuing involvement with transferred assets, including: retaining interests in securitized financial assets, primarily in the form of senior or subordinated securities; and retaining servicing rights. The firm may also purchase senior or subordinated securities in connection with secondary market-making activities. Retained interests and other interests related to the firm's continuing involvement are accounted for at fair value and are included in "Trading assets, at fair value" in the condensed consolidated statements of financial condition and are generally classified within level 2 of the fair value hierarchy. See Note 2 for additional information regarding fair value measurement.

During the three months ended June 2010 and June 2009, the firm securitized \$13.46 billion and \$12.91 billion, respectively, of financial assets in which the firm had continuing involvement, including \$13.46 billion and \$12.41 billion, respectively, of residential mortgages, primarily in connection with government agency securitizations, and \$0 and \$496 million, respectively, of other financial assets. During the six months ended June 2010 and June 2009, the firm securitized \$23.43 billion and \$16.47 billion, respectively, of financial assets in which the firm had continuing involvement, including \$23.42 billion and \$15.88 billion, respectively, of residential mortgages, primarily in connection with government agency securitizations, and \$14 million and \$591 million, respectively, of other financial assets. Cash flows received on retained interests were \$218 million and \$106 million for the three months ended June 2010 and June 2009, respectively, and \$417 million and \$200 million for the six months ended June 2010 and June 2009, respectively.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table sets forth certain information related to the firm's continuing involvement in securitization entities to which the firm sold assets, as well as the total outstanding principal amount of transferred assets in which the firm has continuing involvement, as of June 2010 and December 2009. The outstanding principal amount set forth in the table below is presented for the purpose of providing information about the size of the securitization entities in which the firm has continuing involvement, and is not representative of the firm's risk of loss. For retained or purchased interests, the firm's risk of loss is limited to the fair value of these interests.

	As of June 2010			As of December 2009		
	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests ⁽¹⁾	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests ⁽¹⁾
	(in millions)					
Residential mortgage-backed ⁽²⁾ . . .	\$60,564	\$3,755	\$ 8	\$59,410	\$3,956	\$ 17
Commercial mortgage-backed . . .	6,685	56	86	11,643	56	96
Other ⁽³⁾	16,503	110	140	17,768	93	54
Total ⁽⁴⁾	<u>\$83,752</u>	<u>\$3,921</u>	<u>\$234</u>	<u>\$88,821</u>	<u>\$4,105</u>	<u>\$167</u>

- ⁽¹⁾ Comprised of senior and subordinated interests in securitization-related entities purchased in connection with secondary market-making activities in which the firm also holds retained interests. In addition to these interests, the firm had other continuing involvement in the form of derivative transactions and guarantees with certain nonconsolidated VIEs for which the carrying value was a net liability of \$95 million and \$87 million as of June 2010 and December 2009, respectively. The notional amounts of these transactions are included in maximum exposure to loss in the nonconsolidated VIE table below.
- ⁽²⁾ Primarily consists of outstanding principal and retained interests related to government agency securitization entities.
- ⁽³⁾ Primarily consists of CDOs backed by corporate and mortgage obligations and CLOs.
- ⁽⁴⁾ Includes \$8.08 billion of outstanding principal amount and \$24 million of fair value of retained interests as of June 2010 related to securitization entities in which the firm's only continuing involvement is retained servicing, which is market-based and therefore not a variable interest.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table sets forth the weighted average key economic assumptions used in measuring the fair value of the firm's retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions:

	As of June 2010		As of December 2009	
	Type of Retained Interests		Type of Retained Interests	
	Mortgage-Backed	Other ⁽¹⁾	Mortgage-Backed	Other ⁽¹⁾
	(\$ in millions)			
Fair value of retained interests	\$3,811	\$ 110	\$4,012	\$ 93
Weighted average life (years)	5.0	2.3	4.4	4.4
Constant prepayment rate ⁽²⁾	21.9%	N.M.	23.5%	N.M.
Impact of 10% adverse change ⁽²⁾	\$ (47)	N.M.	\$ (44)	N.M.
Impact of 20% adverse change ⁽²⁾	(96)	N.M.	(92)	N.M.
Discount rate ⁽³⁾	7.8%	N.M.	8.4%	N.M.
Impact of 10% adverse change	\$ (70)	N.M.	\$ (76)	N.M.
Impact of 20% adverse change	(137)	N.M.	(147)	N.M.

⁽¹⁾ Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of June 2010 and December 2009. The firm's maximum exposure to adverse changes in the value of these interests is the firm's carrying value of \$110 million and \$93 million as of June 2010 and December 2009, respectively.

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

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

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

Variable Interest Entities

The firm, in the ordinary course of business, retains interests in VIEs in connection with its securitization activities. The firm also purchases and sells variable interests in VIEs, which primarily issue residential and commercial mortgage-backed and other asset-backed securities, CDOs and CLOs, in connection with its market-making activities and makes investments in and loans to VIEs that hold performing and nonperforming debt, equity, real estate, power-related and other assets. In addition, the firm utilizes VIEs to provide investors with principal-protected notes, credit-linked notes and asset-repackaged notes designed to meet their objectives. VIEs generally finance the purchase of assets by issuing debt and equity instruments.

The firm's variable interests in VIEs include senior and subordinated debt interests in mortgage-backed and asset-backed securitization vehicles, CDOs and CLOs; loan commitments; limited and general partnership interests; preferred and common stock; interest rate, foreign currency, equity, commodity and credit derivatives; and guarantees.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities. In the tables set forth below, the maximum exposure to loss for retained and purchased interests and loans and investments is the carrying value of these interests. In certain instances, the firm provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs. For these contracts, maximum exposure to loss set forth in the tables below is the notional amount of such guarantees, which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded by the firm in connection with these guarantees. As a result, the maximum exposure to loss exceeds the firm's liabilities related to VIEs. The firm has aggregated nonconsolidated VIEs based on principal business activity, as reflected in the tables below. The nature of the firm's variable interests can take different forms, as described in the rows under maximum exposure to loss.

The following tables set forth total assets in nonconsolidated VIEs in which the firm holds variable interests, the firm's maximum exposure to loss excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests and the total assets and total liabilities included in the condensed consolidated statements of financial condition related to the firm's variable interests in these nonconsolidated VIEs. For June 2010, in accordance with ASU Nos. 2009-16 and 2009-17, the following table also includes nonconsolidated VIEs in which the firm holds variable interests (and to which the firm sold assets and has continuing involvement as of June 2010) that were formerly considered to be QSPEs prior to the adoption of these standards on January 1, 2010.

	As of June 2010						
	Mortgage- backed ⁽¹⁾	Corporate CDOs and CLOs ⁽¹⁾	Real estate, credit-related and other investing ⁽²⁾	Other asset- backed ⁽¹⁾	Power- related ⁽³⁾	Investment funds ⁽⁴⁾	Total
	(in millions)						
Assets in VIE	\$73,779 ⁽⁶⁾	\$21,807	\$13,865	\$2,188	\$553	\$1,965	\$114,157
Carrying Value of the Firm's Variable Interests							
Assets	\$ 4,481	\$ 1,052	\$ 1,210	\$ 109	\$235	\$ 7	\$ 7,094
Liabilities	4	147	163	4	1	—	319
Maximum Exposure to Loss in Nonconsolidated VIEs ⁽⁵⁾							
Retained interests	\$ 3,786	\$ 96	\$ —	\$ 14	\$ —	\$ —	\$ 3,896
Purchased interests	511	191	—	87	—	—	789
Commitments and guarantees	—	1	301	—	37	—	339 ⁽⁹⁾
Derivatives	3,829 ⁽⁶⁾⁽⁷⁾	6,884 ⁽⁸⁾	—	1,145	—	—	11,858 ⁽⁹⁾
Loans and investments	127	—	1,210	—	235	7	1,579
Total	<u>\$ 8,253</u>	<u>\$ 7,172</u>	<u>\$ 1,511</u>	<u>\$1,246</u>	<u>\$272</u>	<u>\$ 7</u>	<u>\$ 18,461</u>

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

As of December 2009

	Mortgage CDOs ⁽¹⁾	Corporate CDOs and CLOs ⁽¹⁾	Real estate, credit-related and other investing ⁽²⁾	Other asset- backed ⁽¹⁾	Power- related ⁽³⁾	Principal- protected notes ⁽¹⁰⁾	Total
	(in millions)						
Assets in VIE	\$9,114	\$32,490	\$22,618	\$497	\$592	\$2,209	\$67,520
Carrying Value of the Firm's Variable Interests							
Assets	\$ 182	\$ 834	\$ 2,386	\$ 16	\$224	\$ 12	\$ 3,654
Liabilities	10	400	204	12	3	1,357	1,986
Maximum Exposure to Loss in Nonconsolidated VIEs ⁽⁵⁾							
Retained and purchased interests . . .	135	259	—	—	—	—	394
Commitments and guarantees	—	3	397	—	37	—	437 ⁽⁹⁾
Derivatives	4,111 ⁽⁷⁾	7,577 ⁽⁸⁾	—	497	—	2,512	14,697 ⁽⁹⁾
Loans and investments	—	—	2,425	—	224	—	2,649
Total	<u>\$4,246</u>	<u>\$ 7,839</u>	<u>\$ 2,822</u>	<u>\$497</u>	<u>\$261</u>	<u>\$2,512</u>	<u>\$18,177</u>

- (1) These VIEs are generally financed through the issuance of debt instruments collateralized by assets held by the VIE. Substantially all assets and liabilities held by the firm related to these VIEs are included in "Trading assets, at fair value" and "Trading liabilities, at fair value," respectively, in the condensed consolidated statements of financial condition.
- (2) The firm obtains interests in these VIEs in connection with making investments in real estate, distressed loans and other types of debt, mezzanine instruments and equities. These VIEs are generally financed through the issuance of debt and equity instruments which are either collateralized by or indexed to assets held by the VIE. Substantially all assets and liabilities held by the firm related to these VIEs are included in "Trading assets, at fair value" and "Other assets," and "Other liabilities and accrued expenses," respectively, in the condensed consolidated statements of financial condition.
- (3) These VIEs are financed through the issuance of debt instruments. Assets and liabilities held by the firm related to these VIEs are included in "Other assets" and "Other liabilities and accrued expenses," respectively, in the condensed consolidated statements of financial condition.
- (4) These VIEs are generally financed through the issuance of equity instruments. Assets and liabilities held by the firm related to these VIEs are included in "Trading assets, at fair value" and "Other liabilities and accrued expenses," respectively, in the condensed consolidated statement of financial condition.
- (5) Such amounts do not represent the anticipated losses in connection with these transactions because they exclude the effect of offsetting financial instruments that are held to mitigate these risks.
- (6) Assets in VIE and maximum exposure to loss include \$6.99 billion and \$4.01 billion, respectively, related to CDOs backed by mortgage obligations as of June 2010.
- (7) Primarily consists of written protection on investment-grade, short-term collateral held by VIEs that have issued CDOs.
- (8) Primarily consists of total return swaps on CDOs and CLOs. The firm has generally transferred the risks related to the underlying securities through derivatives with non-VIEs.
- (9) The aggregate amounts include \$4.77 billion and \$4.66 billion as of June 2010 and December 2009, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.
- (10) Consists of out-of-the-money written put options that provide principal protection to clients invested in various fund products, with risk to the firm mitigated through portfolio rebalancing. Assets related to these VIEs are included in "Trading assets, at fair value" and liabilities related to these VIEs are included in "Other secured financings," "Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings" or "Unsecured long-term borrowings" in the condensed consolidated statement of financial condition. Assets in VIE, carrying value of liabilities and maximum exposure to loss exclude \$3.97 billion as of December 2009, associated with guarantees related to the firm's performance under borrowings from the VIE, which are recorded as liabilities in the condensed consolidated statement of financial condition. Substantially all of the liabilities included in the table above relate to additional borrowings from the VIE associated with principal-protected notes guaranteed by the firm. These VIEs were consolidated by the firm upon adoption of ASU No. 2009-17.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following tables set forth the carrying amount and classification of the firm's assets and liabilities in consolidated VIEs, excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with its variable interests. For June 2010, in accordance with ASU No. 2009-17, the following table excludes VIEs in which the firm holds a majority voting interest if (i) the VIE meets the definition of a business as defined in ASC 805 and (ii) the VIE's assets can be used for purposes other than the settlement of its obligations. For December 2009, prior to the adoption of ASU No. 2009-17, the following table excludes VIEs in which the firm holds a majority voting interest unless the activities of the VIE are primarily related to securitization, asset-backed financings or single-lessee leasing arrangements. The increase in total assets of consolidated VIEs from December 2009 to June 2010 is primarily related to (i) VIEs that are required to be disclosed in accordance with ASU No. 2009-17 that were not required to be disclosed under previous GAAP, as described above, and (ii) VIEs that were consolidated by the firm upon adoption of ASU No. 2009-17.

The firm has aggregated consolidated VIEs based on principal business activity, as reflected in the table below. Consolidated VIE assets and liabilities are presented after intercompany eliminations and include assets financed on a nonrecourse basis.

	As of June 2010				
	Real estate, credit-related and other investing ⁽¹⁾	Municipal bond securitizations ⁽²⁾	CDOs, mortgage- backed and other asset- backed ⁽³⁾	Principal- protected notes ⁽⁴⁾	Total
	(in millions)				
Assets ⁽⁵⁾					
Cash and cash equivalents	\$ 314	\$ —	\$ 37	\$ 148	\$ 499
Cash and securities segregated for regulatory and other purposes	173	—	—	—	173
Receivables from brokers, dealers and clearing organizations	1	—	—	—	1
Receivables from customers and counterparties	4	6	46	—	56
Trading assets, at fair value	2,963	650	695	707	5,015
Other assets	<u>3,718</u>	<u>—</u>	<u>530</u>	<u>—</u>	<u>4,248</u>
Total	<u>\$7,173</u>	<u>\$656</u>	<u>\$1,308</u>	<u>\$ 855</u>	<u>\$ 9,992</u>
Liabilities					
Other secured financings	\$2,801	\$761	\$ 510	\$3,142	\$ 7,214
Payables to customers and counterparties	6	—	28	—	34
Trading liabilities, at fair value	—	—	111	—	111
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	263	—	—	2,593	2,856
Unsecured long-term borrowings	29	—	—	163	192
Other liabilities and accrued expenses	<u>2,351</u>	<u>—</u>	<u>39</u>	<u>—</u>	<u>2,390</u>
Total	<u>\$5,450</u>	<u>\$761</u>	<u>\$ 688</u>	<u>\$5,898</u>	<u>\$12,797</u>

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

As of December 2009

	Real estate, credit-related and other investing ⁽¹⁾	Municipal bond securitizations ⁽²⁾	CDOs, mortgage- backed and other asset- backed ⁽³⁾ <small>(in millions)</small>	Principal- protected notes ⁽⁴⁾	Foreign exchange and commodities	Total
Assets						
Cash and cash equivalents . . .	\$ 13	\$ —	\$ —	\$ —	\$ 13	\$ 26
Receivables from customers and counterparties	1	—	—	—	—	1
Trading assets, at fair value . . .	721	679	639	214	134	2,387
Other assets	207	—	—	—	80	287
Total	<u>\$942</u>	<u>\$679</u>	<u>\$639</u>	<u>\$214</u>	<u>\$227</u>	<u>\$2,701</u>
Liabilities						
Securities sold under agreements to repurchase, at fair value	\$ —	\$ —	\$432	\$ —	\$ —	\$ 432
Other secured financings	620	782	151	—	—	1,553
Payables to customers and counterparties	1	—	—	—	—	1
Trading liabilities, at fair value . .	—	—	—	—	169	169
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	—	—	—	214	—	214
Other liabilities and accrued expenses	59	—	—	—	10	69
Total	<u>\$680</u>	<u>\$782</u>	<u>\$583</u>	<u>\$214</u>	<u>\$179</u>	<u>\$2,438</u>

⁽¹⁾ These VIEs are generally financed through the issuance of subordinated liabilities and debt and equity instruments. The VIE liabilities are generally collateralized by or indexed to the related VIE assets and generally do not provide for recourse to the general credit of the firm.

⁽²⁾ These VIEs are generally financed through the issuance of debt instruments and the VIE liabilities are partially collateralized by the related VIE assets.

⁽³⁾ These VIEs are generally financed through the issuance of debt instruments collateralized by assets held by the VIE and the VIE liabilities generally do not provide for recourse to the general credit of the firm.

⁽⁴⁾ These VIEs are financed through the issuance of debt instruments.

⁽⁵⁾ A majority of these VIE assets can be used only to settle obligations of the VIE.

The firm did not have off-balance-sheet commitments to purchase or finance any CDOs held by structured investment vehicles as of June 2010 or December 2009.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 5. Deposits

The following table sets forth deposits as of June 2010 and December 2009:

	<u>As of</u>	
	<u>June 2010</u>	<u>December 2009</u>
	(in millions)	
U.S. offices ⁽¹⁾	\$30,461	\$32,797
Non-U.S. offices ⁽²⁾	<u>6,563</u>	<u>6,621</u>
Total	<u>\$37,024</u>	<u>\$39,418</u>

⁽¹⁾ Substantially all U.S. deposits were interest-bearing and were held at GS Bank USA.

⁽²⁾ Substantially all non-U.S. deposits were interest-bearing and were held at Goldman Sachs Bank (Europe) PLC (GS Bank Europe).

Included in the above table are time deposits of \$9.92 billion and \$9.30 billion as of June 2010 and December 2009, respectively. The following table sets forth the maturities of time deposits as of June 2010:

	<u>As of June 2010</u>		
	<u>U.S.</u>	<u>Non-U.S.</u>	<u>Total</u>
	(in millions)		
2010	\$1,343	\$1,020	\$2,363
2011	1,761	53	1,814
2012	1,018	—	1,018
2013	1,975	—	1,975
2014	495	—	495
2015-thereafter	<u>2,253</u>	<u>—</u>	<u>2,253</u>
Total	<u>\$8,845</u>	<u>\$1,073</u>	<u>\$9,918</u>

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 6. Short-Term Borrowings

As of June 2010 and December 2009, short-term borrowings were \$52.55 billion and \$50.45 billion, respectively, comprised of \$13.43 billion and \$12.93 billion, respectively, included in “Other secured financings” in the condensed consolidated statements of financial condition and \$39.12 billion and \$37.52 billion, respectively, of unsecured short-term borrowings. See Note 3 for information on other secured financings.

Unsecured short-term borrowings include the portion of unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder. The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under the fair value option. Short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations.

Unsecured short-term borrowings are set forth below:

	As of	
	June 2010	December 2009
	(in millions)	
Current portion of unsecured long-term borrowings ⁽¹⁾	\$18,036	\$17,928
Hybrid financial instruments	12,689	10,741
Promissory notes	2,238	2,119
Commercial paper	1,688	1,660
Other short-term borrowings	4,472	5,068
Total ⁽²⁾	\$39,123	\$37,516

⁽¹⁾ Includes \$3.73 billion and \$1.73 billion as of June 2010 and December 2009, respectively, guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP).

⁽²⁾ The weighted average interest rates for these borrowings, after giving effect to hedging activities, were 2.10% and 1.31% as of June 2010 and December 2009, respectively, and excluded financial instruments accounted for at fair value under the fair value option.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 7. Long-Term Borrowings

As of June 2010 and December 2009, long-term borrowings were \$190.98 billion and \$196.29 billion, respectively, comprised of \$12.40 billion and \$11.20 billion, respectively, included in “Other secured financings” in the condensed consolidated statements of financial condition and \$178.58 billion and \$185.09 billion, respectively, of unsecured long-term borrowings. See Note 3 for information regarding other secured financings.

The firm’s unsecured long-term borrowings extend through 2043 and consist principally of senior borrowings.

Unsecured long-term borrowings are set forth below:

	As of	
	June 2010	December 2009
	(in millions)	
Fixed rate obligations ⁽¹⁾	\$118,569	\$117,413
Floating rate obligations ⁽²⁾	60,013	67,672
Total ⁽³⁾	\$178,582	\$185,085

⁽¹⁾ As of June 2010 and December 2009, \$83.45 billion and \$79.12 billion, respectively, of the firm’s fixed rate debt obligations were denominated in U.S. dollars and interest rates ranged from 1.20% to 10.04% and 1.63% to 10.04% as of June 2010 and December 2009, respectively. As of June 2010 and December 2009, \$35.12 billion and \$38.29 billion, respectively, of the firm’s fixed rate debt obligations were denominated in non-U.S. dollars and interest rates ranged from 0.85% to 8.64% and 0.80% to 7.45%, respectively.

⁽²⁾ As of June 2010 and December 2009, \$32.87 billion and \$32.26 billion, respectively, of the firm’s floating rate debt obligations were denominated in U.S. dollars. As of June 2010 and December 2009, \$27.14 billion and \$35.41 billion, respectively, of the firm’s floating rate debt obligations were denominated in non-U.S. dollars. Floating interest rates generally are based on LIBOR or the federal funds target rate. Equity-linked and indexed instruments are included in floating rate obligations.

⁽³⁾ Includes \$16.84 billion and \$19.03 billion as of June 2010 and December 2009, respectively, guaranteed by the FDIC under the TLGP.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Unsecured long-term borrowings by maturity date are set forth below:

	<u>As of</u> <u>June 2010</u> (in millions)
2011.....	\$ 11,647
2012.....	25,614
2013.....	22,187
2014.....	17,109
2015.....	13,518
2016-thereafter.....	<u>88,507</u>
Total ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	<u><u>\$178,582</u></u>

- (1) Unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder are included as unsecured short-term borrowings in the condensed consolidated statements of financial condition.
- (2) Unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates. Unsecured long-term borrowings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.
- (3) Amount includes an increase of \$11.53 billion to the carrying amount of certain of the firm's unsecured long-term borrowings related to fair value hedges. The amounts related to the carrying value of the firm's unsecured long-term borrowings associated with fair value hedges by year of maturity are as follows: \$50 million in 2011, \$633 million in 2012, \$850 million in 2013, \$950 million in 2014, \$477 million in 2015 and \$8.57 billion in 2016 and thereafter.
- (4) The aggregate contractual principal amount of unsecured long-term borrowings (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by \$936 million.

The firm designates certain derivative contracts as fair value hedges to effectively convert a substantial portion of its unsecured long-term borrowings which are not accounted for at fair value into floating rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of June 2010 and December 2009. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to the widening of the firm's own credit spreads would be a reduction in the carrying value of total unsecured long-term borrowings of approximately 2% and less than 1% as of June 2010 and December 2009, respectively.

The effective weighted average interest rates for unsecured long-term borrowings are set forth below:

	<u>As of</u>			
	<u>June 2010</u>		<u>December 2009</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
	(\$ in millions)			
Fixed rate obligations.....	\$ 5,186	5.08%	\$ 4,320	5.49%
Floating rate obligations ⁽¹⁾⁽²⁾	<u>173,396</u>	1.64	<u>180,765</u>	1.33
Total	<u><u>\$178,582</u></u>	1.76	<u><u>\$185,085</u></u>	1.42

- (1) Includes fixed rate obligations that have been converted into floating rate obligations through hedge accounting.
- (2) The weighted average interest rates as of June 2010 and December 2009 excluded financial instruments accounted for at fair value under the fair value option.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Subordinated Borrowings

As of June 2010 and December 2009, unsecured long-term borrowings were comprised of subordinated borrowings with outstanding principal amounts of \$19.25 billion and \$19.16 billion, respectively, as set forth below.

Junior Subordinated Debt Issued to Trusts in Connection with Fixed-to-Floating and Floating Rate Normal Automatic Preferred Enhanced Capital Securities. In 2007, Group Inc. issued a total of \$2.25 billion of remarketable junior subordinated debt to Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts), Delaware statutory trusts that, in turn, issued \$2.25 billion of guaranteed perpetual Normal Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to Group Inc. Group Inc. also entered into contracts with the APEX Trusts to sell \$2.25 billion of perpetual non-cumulative preferred stock to be issued by Group Inc. (the stock purchase contracts). The APEX Trusts are wholly owned finance subsidiaries of the firm for regulatory and legal purposes but are not consolidated for accounting purposes.

The firm pays interest semi-annually on \$1.75 billion of junior subordinated debt issued to Goldman Sachs Capital II at a fixed annual rate of 5.59% and the debt matures on June 1, 2043. The firm pays interest quarterly on \$500 million of junior subordinated debt issued to Goldman Sachs Capital III at a rate per annum equal to three-month LIBOR plus 0.57% and the debt matures on September 1, 2043. In addition, the firm makes contract payments at a rate of 0.20% per annum on the stock purchase contracts held by the APEX Trusts. The firm has the right to defer payments on the junior subordinated debt and the stock purchase contracts, subject to limitations, and therefore cause payment on the APEX to be deferred. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. The junior subordinated debt is junior in right of payment to all of Group Inc.'s senior indebtedness and all of Group Inc.'s other subordinated borrowings.

In connection with the APEX issuance, the firm covenanted in favor of certain of its debtholders, who are initially the holders of Group Inc.'s 6.345% Junior Subordinated Debentures due February 15, 2034, that, subject to certain exceptions, the firm would not redeem or purchase (i) Group Inc.'s junior subordinated debt issued to the APEX Trusts prior to the applicable stock purchase date or (ii) APEX or shares of Group Inc.'s Series E or Series F Preferred Stock prior to the date that is ten years after the applicable stock purchase date, unless the applicable redemption or purchase price does not exceed a maximum amount determined by reference to the aggregate amount of net cash proceeds that the firm has received from the sale of qualifying equity securities during the 180-day period preceding the redemption or purchase.

The firm accounted for the stock purchase contracts as equity instruments and, accordingly, recorded the cost of the stock purchase contracts as a reduction to additional paid-in capital. See Note 9 for information on the preferred stock that Group Inc. will issue in connection with the stock purchase contracts.

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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

Subordinated Debt. As of June 2010, the firm had \$14.16 billion of other subordinated debt outstanding with maturities ranging from 2014 to 2038. The effective weighted average interest rate on this debt was 1.20%, after giving effect to fair value hedges that effectively convert fixed rate obligations into floating rate obligations. As of December 2009, the firm had \$14.07 billion of other subordinated debt outstanding with maturities ranging from 2017 to 2038. The effective weighted average interest rate on this debt was 1.51%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. This debt is junior in right of payment to all of the firm's senior indebtedness.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 8. Commitments, Contingencies and Guarantees

Commitments

The following table summarizes the firm's commitments as of June 2010 and December 2009:

	Commitment Amount by Period of Expiration as of June 2010				Total Commitments as of	
	Remainder of 2010	2011- 2012	2013- 2014	2015- Thereafter	June 2010	December 2009
	(in millions)					
Commitments to extend credit ⁽¹⁾						
Commercial lending:						
Investment-grade	\$ 3,020	\$ 5,704	\$ 2,768	\$ 31	\$ 11,523	\$ 11,415
Non-investment-grade	4,223	3,507	3,026	3,373	14,129	8,153
William Street credit extension program	2,693	18,146	4,714	412	25,965	25,218
Warehouse financing	—	62	—	—	62	12
Total commitments to extend credit . .	9,936	27,419	10,508	3,816	51,679	44,798
Forward starting resale and securities borrowing agreements . .	46,675	—	—	—	46,675	34,844
Forward starting repurchase and securities lending agreements	12,945	—	—	—	12,945	10,545
Underwriting commitments	157	—	—	—	157	1,811
Letters of credit ⁽²⁾	913	561	187	4	1,665	1,804
Investment commitments ⁽³⁾	2,136	9,015	155	1,062	12,368	13,240
Other	155	60	41	31	287	380
Total commitments	<u>\$72,917</u>	<u>\$37,055</u>	<u>\$10,891</u>	<u>\$4,913</u>	<u>\$125,776</u>	<u>\$107,422</u>

⁽¹⁾ Commitments to extend credit are presented net of amounts syndicated to third parties.

⁽²⁾ Consists of commitments under letters of credit issued by various banks which the firm provides to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements.

⁽³⁾ Consists of the firm's commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages in connection with its merchant banking and other investing activities, consisting of \$2.40 billion and \$2.46 billion as of June 2010 and December 2009, respectively, related to real estate private investments and \$9.97 billion and \$10.78 billion as of June 2010 and December 2009, respectively, related to corporate and other private investments. Such commitments include \$11.35 billion and \$11.38 billion as of June 2010 and December 2009, respectively, of commitments to invest in funds managed by the firm, which will be funded at market value on the date of investment.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Commitments to Extend Credit. The firm's commitments to extend credit are agreements to lend to counterparties that have fixed termination dates and are contingent on the satisfaction of all conditions to borrowing set forth in the contract. Since these commitments may expire unused or be reduced or cancelled at the counterparty's request, the total commitment amount does not necessarily reflect the actual future cash flow requirements. The firm accounts for these commitments at fair value. To the extent that the firm recognizes losses on these commitments, such losses are recorded within the firm's Trading and Principal Investments segment net of any related underwriting fees.

- **Commercial lending commitments.** The firm's commercial lending commitments are generally extended in connection with contingent acquisition financing and other types of corporate lending as well as commercial real estate financing. The total commitment amount does not necessarily reflect the actual future cash flow requirements, as the firm may syndicate all or substantial portions of these commitments in the future, the commitments may expire unused, or the commitments may be cancelled or reduced at the request of the counterparty. In addition, 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.
- **William Street credit extension program.** Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are principally extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of GS Bank USA, GS Bank USA and other subsidiaries of GS Bank USA. The commitments extended by Commitment Corp. are supported, in part, by funding raised by William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of GS Bank USA. The assets and liabilities of Commitment Corp. and Funding Corp. are legally separated from other assets and liabilities of the firm. The assets of Commitment Corp. and of Funding Corp. will not be available to their respective shareholders until the claims of their respective creditors have been paid. In addition, no affiliate of either Commitment Corp. or Funding Corp., except in limited cases as expressly agreed in writing, is responsible for any obligation of either entity. With respect to most of the William Street commitments, Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection that is generally limited to 95% of the first loss the firm realizes on approved loan commitments, up to a maximum of approximately \$950 million. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$1.13 billion, of which \$375 million of protection had been provided as of both June 2010 and December 2009. The firm also uses other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.
- **Warehouse financing.** The firm provides financing for the warehousing of financial assets. These arrangements are secured by the warehoused assets, primarily consisting of residential and commercial mortgages as of June 2010 and December 2009.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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

	<u>As of</u> <u>June 2010</u> (in millions)
Remainder of 2010	\$ 248
2011	488
2012	363
2013	304
2014	217
2015-thereafter	<u>1,673</u>
Total	<u>\$3,293</u>

Contingencies

The firm is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses. Management believes, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on the firm's financial condition, but may be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period. Given the inherent difficulty of predicting the outcome of the firm's litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, the firm cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. In July 2010, Goldman, Sachs & Co. (GS&Co.) agreed to a settlement to resolve the SEC's action against GS&Co. in connection with a CDO offering made in early 2007. The firm accrued a liability of \$550 million for this settlement as of June 2010.

In connection with its insurance business, the firm is contingently liable to provide guaranteed minimum death and income benefits to certain contract holders and has established a reserve related to \$6.08 billion and \$6.35 billion of contract holder account balances as of June 2010 and December 2009, respectively, for such benefits. The weighted average attained age of these contract holders was 69 years and 68 years as of June 2010 and December 2009, respectively. The net amount at risk, representing guaranteed minimum death and income benefits in excess of contract holder account balances, was \$1.88 billion and \$1.96 billion as of June 2010 and December 2009, respectively. See Note 12 for more information on the firm's insurance liabilities.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Guarantees

The firm enters into various derivative contracts that meet the definition of a guarantee under ASC 460. Disclosures about derivative contracts are not required if such contracts may be cash settled and the firm has no basis to conclude it is probable that the counterparties held, at inception, the underlying instruments related to the derivative contracts. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties and certain other counterparties. Accordingly, the firm has not included such contracts in the tables below.

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

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

The following table sets forth certain information about the firm's derivative contracts that meet the definition of a guarantee and certain other guarantees as of June 2010. Derivative contracts set forth below include written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. See Note 3 for information regarding credit derivative contracts that meet the definition of a guarantee, which are not included below.

	Carrying Value of Net Liability	Maximum Payout/ Notional Amount by Period of Expiration ⁽¹⁾				Total
		2010	2011-2012	2013-2014	2015-Thereafter	
(in millions)						
As of June 2010						
Derivatives ⁽²⁾	\$8,376	\$105,946	\$305,134	\$53,399	\$61,796	\$526,275
Securities lending indemnifications ⁽³⁾	—	28,659	—	—	—	28,659
Other financial guarantees ⁽⁴⁾	174	322	568	300	947	2,137

⁽¹⁾ Such amounts do not represent the anticipated losses in connection with these contracts.

⁽²⁾ Because derivative contracts are accounted for at fair value, carrying value is considered the best indication of payment/performance risk for individual contracts. However, the carrying value excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement and the effect of netting of cash posted pursuant to credit support agreements. These derivative contracts are risk managed together with derivative contracts that do not meet the definition of a guarantee under ASC 460 and, therefore, these amounts do not reflect the firm's overall risk related to its derivative activities. As of December 2009, the carrying value of the net liability related to derivative guarantees was \$7.22 billion.

⁽³⁾ Collateral held by the lenders in connection with securities lending indemnifications was \$29.67 billion as of June 2010. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities on loan from the borrower, there is minimal performance risk associated with these guarantees.

⁽⁴⁾ As of December 2009, the carrying value of the net liability related to other financial guarantees was \$207 million.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The firm has established trusts, including Goldman Sachs Capital I, II and III, and other entities for the limited purpose of issuing securities to third parties, lending the proceeds to the firm and entering into contractual arrangements with the firm and third parties related to this purpose. See Note 7 for information regarding the transactions involving Goldman Sachs Capital I, II and III. The firm effectively provides for the full and unconditional guarantee of the securities issued by these entities, which are not consolidated for accounting purposes. Timely payment by the firm of amounts due to these entities under the borrowing, preferred stock and related contractual arrangements will be sufficient to cover payments due on the securities issued by these entities. Management believes that it is unlikely that any circumstances will occur, such as nonperformance on the part of paying agents or other service providers, that would make it necessary for the firm to make payments related to these entities other than those required under the terms of the borrowing, preferred stock and related contractual arrangements and in connection with certain expenses incurred by these entities. Group Inc. also fully and unconditionally guarantees the securities issued by GS Finance Corp., a wholly owned finance subsidiary of the firm, which is consolidated for accounting purposes.

In the ordinary course of business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates. The firm also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults. In connection with its prime brokerage and clearing businesses, the firm agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. In connection with joint venture investments, the firm may issue loan guarantees under which it may be liable in the event of fraud, misappropriation, environmental liabilities and certain other matters involving the borrower. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the condensed consolidated statements of financial condition as of June 2010 and December 2009.

The firm provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The firm may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions such as securities issuances, borrowings or derivatives. In addition, the firm may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws. These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these arrangements have been recognized in the condensed consolidated statements of financial condition as of June 2010 and December 2009.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 9. Shareholders' Equity

Common and Preferred Equity

On July 19, 2010, Group Inc. declared a dividend of \$0.35 per common share to be paid on September 29, 2010 to common shareholders of record on September 1, 2010.

During the six months ended June 2010, the firm repurchased 13.2 million shares of its common stock at an average cost per share of \$172.14, for a total cost of \$2.27 billion. In addition, to satisfy minimum statutory employee tax withholding requirements related to the delivery of common stock underlying RSUs, the firm cancelled 6.1 million of RSUs with a total value of \$962 million during the six months ended June 2010.

The firm's share repurchase program is intended to substantially offset increases in share count over time resulting from employee share-based compensation and to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm's issuance of shares resulting from employee share-based compensation as well as its current and projected capital position (i.e., comparisons of the firm's desired level of capital to its actual level of capital), but which may also be influenced by general market conditions and the prevailing price and trading volumes of the firm's common stock. Any repurchase of the firm's common stock requires approval by the Board of Governors of the Federal Reserve System (Federal Reserve Board).

Perpetual preferred stock issued and outstanding as of June 2010 is set forth in the following table:

<u>Series</u>	<u>Shares Authorized</u>	<u>Shares Issued</u>	<u>Shares Outstanding</u>	<u>Dividend Rate</u>	<u>Earliest Redemption Date</u>	<u>Redemption Value (in millions)</u>
A	50,000	30,000	29,999	3 month LIBOR + 0.75%, with floor of 3.75% per annum	April 25, 2010	\$ 750
B	50,000	32,000	32,000	6.20% per annum	October 31, 2010	800
C	25,000	8,000	8,000	3 month LIBOR + 0.75%, with floor of 4.00% per annum	October 31, 2010	200
D	60,000	54,000	53,999	3 month LIBOR + 0.67%, with floor of 4.00% per annum	May 24, 2011	1,350
G	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	10.00% per annum	October 1, 2008	<u>5,500</u>
	<u>235,000</u>	<u>174,000</u>	<u>173,998</u>			<u>\$8,600</u>

Each share of non-cumulative Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock issued and outstanding has a par value of \$0.01, has a liquidation preference of \$25,000, is represented by 1,000 depositary shares and is redeemable at the firm's option, subject to the approval of the Federal Reserve Board, at a redemption price equal to \$25,000 plus declared and unpaid dividends.

Each share of 10% Cumulative Perpetual Preferred Stock, Series G (Series G Preferred Stock) issued and outstanding has a par value of \$0.01, has a liquidation preference of \$100,000 and is redeemable at the firm's option, subject to the approval of the Federal Reserve Board, at a redemption price equal to \$110,000 plus accrued and unpaid dividends. In connection with the issuance of the Series G Preferred Stock, the firm issued a five-year warrant to purchase up to 43.5 million shares of common stock at an exercise price of \$115.00 per share. The warrant is exercisable at any time until October 1, 2013 and the number of shares of common stock underlying the warrant and the exercise price are subject to adjustment for certain dilutive events.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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

In 2007, the Board of Directors of Group Inc. (Board) authorized 17,500.1 shares of perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock), and 5,000.1 shares of perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock), in connection with the APEX issuance. See Note 7 for further information on the APEX issuance. Under the stock purchase contracts, Group Inc. will issue on the relevant stock purchase dates (on or before June 1, 2013 and September 1, 2013 for Series E and Series F Preferred Stock, respectively) one share of Series E and Series F Preferred Stock to Goldman Sachs Capital II and III, respectively, for each \$100,000 principal amount of subordinated debt held by these trusts. When issued, each share of Series E and Series F Preferred Stock will have a par value of \$0.01 and a liquidation preference of \$100,000 per share. Dividends on Series E Preferred Stock, if declared, will be payable semi-annually at a fixed annual rate of 5.79% if the stock is issued prior to June 1, 2012 and quarterly thereafter, at a rate per annum equal to the greater of (i) three-month LIBOR plus 0.77% and (ii) 4.00%. Dividends on Series F Preferred Stock, if declared, will be payable quarterly at a rate per annum equal to three-month LIBOR plus 0.77% if the stock is issued prior to September 1, 2012 and quarterly thereafter, at a rate per annum equal to the greater of (i) three-month LIBOR plus 0.77% and (ii) 4.00%. The preferred stock may be redeemed at the option of the firm on the stock purchase dates or any day thereafter, subject to regulatory approval and certain covenant restrictions governing the firm's ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics.

On July 14, 2010, Group Inc. declared dividends of \$239.58, \$387.50, \$255.56 and \$255.56 per share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, respectively, to be paid on August 10, 2010 to preferred shareholders of record on July 26, 2010. In addition, Group Inc. declared a dividend of \$2,500 per share of Series G Preferred Stock to be paid on August 10, 2010 to preferred shareholders of record on July 26, 2010.

Accumulated Other Comprehensive Income

The following table sets forth the firm's accumulated other comprehensive income/(loss) by type:

	As of	
	June	December
	2010	2009
	(in millions)	
Currency translation adjustment, net of tax	\$(146)	\$(132)
Pension and postretirement liability adjustments, net of tax	(306)	(317)
Net unrealized gains on available-for-sale securities, net of tax ⁽¹⁾	<u>134</u>	<u>87</u>
Total accumulated other comprehensive loss, net of tax	<u>\$(318)</u>	<u>\$(362)</u>

⁽¹⁾ Consists of net unrealized gains of \$138 million and \$84 million on available-for-sale securities held by the firm's insurance subsidiaries as of June 2010 and December 2009, respectively, and net unrealized gains/(losses) of \$(4) million and \$3 million on available-for-sale securities held by investees accounted for under the equity method as of June 2010 and December 2009, respectively.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 10. Earnings Per Common Share

The computations of basic and diluted earnings per common share are set forth below:

	<u>Three Months</u> <u>Ended June</u>		<u>Six Months</u> <u>Ended June</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(in millions, except per share amounts)			
Numerator for basic and diluted EPS — net earnings applicable to common shareholders	<u>\$ 453</u>	<u>\$2,718</u>	<u>\$3,749</u>	<u>\$4,377</u>
Denominator for basic EPS — weighted average number of common shares	539.8	514.1	542.9	495.7
Effect of dilutive securities ⁽¹⁾				
Restricted stock units	14.2	15.8	13.2	12.6
Stock options and warrants	<u>26.4</u>	<u>21.1</u>	<u>29.1</u>	<u>11.8</u>
Dilutive potential common shares	<u>40.6</u>	<u>36.9</u>	<u>42.3</u>	<u>24.4</u>
Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares	<u>580.4</u>	<u>551.0</u>	<u>585.2</u>	<u>520.1</u>
Basic EPS ⁽²⁾	\$ 0.82	\$ 5.27	\$ 6.87	\$ 8.81
Diluted EPS	0.78	4.93	6.41	8.42

⁽¹⁾ The diluted EPS computations do not include the antidilutive effect of RSUs, stock options and warrants as follows:

	<u>Three Months</u> <u>Ended June</u>		<u>Six Months</u> <u>Ended June</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(in millions)			
Number of antidilutive RSUs and common shares underlying antidilutive stock options and warrants	<u>6.1</u>	<u>14.3</u>	<u>6.0</u>	<u>53.3</u>

⁽²⁾ Unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating earnings per common share. The impact of applying this methodology was a reduction to basic earnings per common share of \$0.02 for both the three months ended June 2010 and June 2009, and \$0.04 and \$0.02 for the six months ended June 2010 and June 2009, respectively.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 11. Goodwill and Identifiable Intangible Assets

Goodwill

The following table sets forth the carrying value of the firm's goodwill by operating segment, which is included in "Other assets" in the condensed consolidated statements of financial condition:

	As of	
	June 2010	December 2009
	(in millions)	
Investment Banking		
Underwriting	\$ 125	\$ 125
Trading and Principal Investments		
FICC	298	265
Equities ⁽¹⁾	2,361	2,389
Principal Investments	84	84
Asset Management and Securities Services		
Asset Management ⁽²⁾	563	563
Securities Services	<u>117</u>	<u>117</u>
Total	<u>\$3,548</u>	<u>\$3,543</u>

⁽¹⁾ Primarily related to SLK LLC (SLK).

⁽²⁾ Primarily related to The Ayco Company, L.P. (Ayco).

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Identifiable Intangible Assets

The following table sets forth the gross carrying amount, accumulated amortization and net carrying amount of the firm's identifiable intangible assets, which are included in "Other assets" in the condensed consolidated statements of financial condition:

		As of	
		June 2010	December 2009
		(in millions)	
Customer lists ⁽¹⁾	Gross carrying amount	\$ 1,104	\$ 1,117
	Accumulated amortization	(497)	(472)
	Net carrying amount	<u>\$ 607</u>	<u>\$ 645</u>
Broadcast royalties ⁽²⁾	Gross carrying amount	\$ 560	\$ —
	Accumulated amortization	(31)	—
	Net carrying amount	<u>\$ 529</u>	<u>\$ —</u>
Commodities-related intangibles ⁽³⁾	Gross carrying amount	\$ 596	\$ 40
	Accumulated amortization	(25)	(10)
	Net carrying amount	<u>\$ 571</u>	<u>\$ 30</u>
NYSE DMM rights	Gross carrying amount	\$ 714	\$ 714
	Accumulated amortization	(314)	(294)
	Net carrying amount	<u>\$ 400</u>	<u>\$ 420</u>
Insurance-related intangibles ⁽⁴⁾	Gross carrying amount	\$ 292	\$ 292
	Accumulated amortization	(176)	(142)
	Net carrying amount	<u>\$ 116</u>	<u>\$ 150</u>
Exchange-traded fund (ETF) lead market maker rights	Gross carrying amount	\$ 138	\$ 138
	Accumulated amortization	(51)	(48)
	Net carrying amount	<u>\$ 87</u>	<u>\$ 90</u>
Other ⁽⁵⁾	Gross carrying amount	\$ 109	\$ 130
	Accumulated amortization	(73)	(88)
	Net carrying amount	<u>\$ 36</u>	<u>\$ 42</u>
Total	Gross carrying amount	\$ 3,513	\$ 2,431
	Accumulated amortization	(1,167)	(1,054)
	Net carrying amount	<u>\$ 2,346</u>	<u>\$ 1,377</u>

⁽¹⁾ Primarily includes the firm's clearance and execution and NASDAQ customer lists related to SLK and financial counseling customer lists related to Ayco.

⁽²⁾ Represents television broadcast royalties held by a VIE consolidated upon adoption of ASU No. 2009-17.

⁽³⁾ Primarily includes commodity-related customer contracts and relationships, permits and access rights acquired during the first quarter of 2010.

⁽⁴⁾ Primarily includes VOBA related to the firm's insurance businesses.

⁽⁵⁾ Primarily includes marketing-related assets and other contractual rights.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Substantially all of the firm's identifiable intangible assets are considered to have finite lives and are amortized over their estimated lives. The weighted average remaining life of the firm's identifiable intangible assets is approximately 12 years. "Depreciation and amortization" in the condensed consolidated statements of earnings includes amortization related to identifiable intangible assets of \$82 million and \$24 million for the three months ended June 2010 and June 2009, respectively, and \$126 million and \$62 million for the six months ended June 2010 and June 2009, respectively.

The estimated future amortization for existing identifiable intangible assets through 2015 is set forth below:

	<u>As of</u> <u>June 2010</u>
	(in millions)
Remainder of 2010	\$134
2011	288
2012	273
2013	251
2014	220
2015	188

Note 12. Other Assets and Other Liabilities

Other Assets

Other assets are generally less liquid, non-financial assets. The following table sets forth the firm's other assets by type:

	<u>As of</u>	
	<u>June</u> <u>2010</u>	<u>December</u> <u>2009</u>
	(in millions)	
Property, leasehold improvements and equipment ⁽¹⁾⁽²⁾	\$11,958	\$11,380
Goodwill and identifiable intangible assets ⁽³⁾	5,894	4,920
Income tax-related assets	6,292	7,937
Equity-method investments ⁽⁴⁾	1,359	1,484
Miscellaneous receivables and other	3,697	3,747
Total.	<u>\$29,200</u>	<u>\$29,468</u>

⁽¹⁾ Net of accumulated depreciation and amortization of \$7.80 billion and \$7.28 billion as of June 2010 and December 2009, respectively.

⁽²⁾ Includes \$5.99 billion and \$5.90 billion as of June 2010 and December 2009, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities consolidated by the firm. The increase in property, leasehold improvements and equipment from December 2009 to June 2010 is primarily related to consolidated VIEs.

⁽³⁾ See Note 11 for further information regarding the firm's goodwill and identifiable intangible assets.

⁽⁴⁾ Excludes investments of \$4.00 billion and \$2.95 billion accounted for at fair value under the fair value option as of June 2010 and December 2009, respectively, which are included in "Trading assets, at fair value" in the condensed consolidated statements of financial condition. The increase in investments accounted for at fair value under the fair value option from December 2009 to June 2010 is primarily related to investments held by VIEs consolidated upon adoption of ASU No. 2009-17.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Other Liabilities

The following table sets forth the firm's other liabilities and accrued expenses by type:

	As of	
	June 2010	December 2009
	(in millions)	
Compensation and benefits	\$ 8,729	\$11,170
Insurance-related liabilities ⁽¹⁾	11,411	11,832
Noncontrolling interests ⁽²⁾	969	960
Income tax-related liabilities	2,193	4,022
Employee interests in consolidated funds	442	416
Subordinated liabilities issued by consolidated VIEs	1,844 ⁽³⁾	612
Accrued expenses and other	4,812	4,843
Total	<u>\$30,400</u>	<u>\$33,855</u>

⁽¹⁾ Insurance-related liabilities are set forth in the table below:

	As of	
	June 2010	December 2009
	(in millions)	
Separate account liabilities	\$ 3,689	\$ 4,186
Liabilities for future benefits and unpaid claims	6,617	6,484
Contract holder account balances	810	874
Reserves for guaranteed minimum death and income benefits	295	288
Total insurance-related liabilities	<u>\$11,411</u>	<u>\$11,832</u>

Separate account liabilities are supported by separate account assets, representing segregated contract holder funds under variable annuity and life insurance contracts. Separate account assets are included in "Cash and securities segregated for regulatory and other purposes" in the condensed consolidated statements of financial condition.

Liabilities for future benefits and unpaid claims include liabilities arising from reinsurance provided by the firm to other insurers. The firm had a receivable of \$1.34 billion and \$1.29 billion as of June 2010 and December 2009, respectively, related to such reinsurance contracts, which is reported in "Receivables from customers and counterparties" in the condensed consolidated statements of financial condition. In addition, the firm has ceded risks to reinsurers related to certain of its liabilities for future benefits and unpaid claims and had a receivable of \$869 million and \$870 million as of June 2010 and December 2009, respectively, related to such reinsurance contracts, which is reported in "Receivables from customers and counterparties" in the condensed consolidated statements of financial condition. Contracts to cede risks to reinsurers do not relieve the firm from its obligations to contract holders. Liabilities for future benefits and unpaid claims include \$1.93 billion and \$1.84 billion carried at fair value under the fair value option as of June 2010 and December 2009, respectively.

Reserves for guaranteed minimum death and income benefits represent a liability for the expected value of guaranteed benefits in excess of projected annuity account balances. These reserves are based on total payments expected to be made less total fees expected to be assessed over the life of the contract.

⁽²⁾ Includes \$613 million and \$598 million related to consolidated investment funds as of June 2010 and December 2009, respectively.

⁽³⁾ Includes \$1.29 billion related to entities consolidated upon adoption of ASU No. 2009-17.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 13. Transactions with Affiliated Funds

The firm has formed numerous nonconsolidated investment funds with third-party investors. The firm generally acts as the investment manager for these funds and, as such, is entitled to receive management fees and, in certain cases, advisory fees, incentive fees or overrides from these funds. These fees amounted to \$1.15 billion and \$1.19 billion for the six months ended June 2010 and June 2009, respectively. As of June 2010 and December 2009, the fees receivable from these funds were \$751 million and \$1.04 billion, respectively. Additionally, the firm may invest alongside the third-party investors in certain funds. The aggregate carrying value of the firm's interests in these funds was \$13.68 billion and \$13.84 billion as of June 2010 and December 2009, respectively.

The firm has provided voluntary financial support to certain of its funds that have experienced significant reductions in capital and liquidity or had limited access to the debt markets during the financial crisis. As of July 31, 2010, the firm had exposure to these funds in the form of loans and guarantees of \$355 million, primarily related to certain real estate funds. In addition, as of July 31, 2010, the firm had outstanding commitments to extend credit to these funds of \$151 million. The firm may provide additional voluntary financial support to these funds if they were to experience significant financial distress; however, such amounts are not expected to be material to the firm. In the ordinary course of business, the firm may also engage in other activities with these funds, including, among others, securities lending, trade execution, trading, custody, and acquisition and bridge financing. See Note 8 for the firm's investment commitments related to these funds.

Note 14. Income Taxes

The firm is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the firm has significant business operations, such as the United Kingdom, Japan, Hong Kong, Korea and various states, such as New York. The tax years under examination vary by jurisdiction. The firm believes that within the twelve months subsequent to June 2010, certain audits have a reasonable possibility of being completed. The firm does not expect completion of these audits to have a material impact on the firm's financial condition but it may be material to the firm's operating results for a particular period, depending, in part, upon the operating results for that period.

Below is a table of the earliest tax years that remain subject to examination by major jurisdiction:

<u>Jurisdiction</u>	<u>As of June 2010</u>
U.S. Federal	2005 ⁽¹⁾
New York State and City	2004 ⁽²⁾
United Kingdom	2005
Japan	2005 ⁽³⁾
Hong Kong	2004
Korea	2003

⁽¹⁾ IRS examination of fiscal 2005, 2006 and 2007 began during 2008. IRS examination of fiscal 2003 and 2004 has been completed but the liabilities for those years are not yet final.

⁽²⁾ New York State and City examination of fiscal 2004, 2005 and 2006 began in 2008.

⁽³⁾ Japan National Tax Agency examination of fiscal 2005 through 2009 began during the first quarter of 2010.

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 15. Regulation and Capital Adequacy

The Federal Reserve Board is the primary U.S. regulator of Group Inc., a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956. As a bank holding company, the firm is subject to consolidated regulatory capital requirements administered by the Federal Reserve Board. The firm's bank depository institution subsidiaries, including GS Bank USA, are subject to similar capital requirements. Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action (PCA) that is applicable to GS Bank USA, the firm 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. The firm 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.

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

The following table sets forth information regarding Group Inc.'s capital ratios as of June 2010 and December 2009 calculated in accordance with the Federal Reserve Board's 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.

	As of	
	June 2010	December 2009
	(\$ in millions)	
Tier 1 capital	\$ 68,484	\$ 64,642
Tier 2 capital	13,449	13,828
Total capital	81,933	78,470
Risk-weighted assets	451,247	431,890
Tier 1 capital ratio	15.2%	15.0%
Total capital ratio	18.2%	18.2%
Tier 1 leverage ratio	8.0%	7.6%

Risk-Weighted Assets (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 are determined by reference to the firm's VaR models, supplemented by other measures to capture risks not reflected in the firm's VaR models. Credit risk for on-balance sheet assets is based on the balance sheet value. For off-balance sheet exposures, including OTC derivatives and commitments, a credit equivalent amount is calculated based on the notional amount of each trade. All such assets and 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).

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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

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%.

The firm is 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 it 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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act will subject the firm at a firmwide level to the same leverage and risk-based capital requirements that apply to depository institutions specifically, and directs banking regulators to impose additional capital requirements. The Federal Reserve Board will be required to implement the new leverage and risk-based capital regulation by January 2012. As a consequence of these changes, Tier 1 capital treatment for the firm's junior subordinated debt issued to trusts and the firm's cumulative preferred stock will be phased out over a three-year period beginning on January 1, 2013.

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 (NYSBD) and is subject to minimum capital requirements that (subject to certain exceptions) are similar to those applicable to bank holding companies. 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. In order to be considered a "well capitalized" depository institution under the Federal Reserve Board guidelines, GS Bank USA must maintain a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. In November 2008, the firm contributed subsidiaries into GS Bank USA. In connection with this contribution, 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%.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table sets forth information regarding GS Bank USA's capital ratios under Basel I as implemented by the Federal Reserve Board, as of June 2010 and December 2009:

	As of	
	June 2010	December 2009
Tier 1 capital ratio	17.5%	14.9%
Total capital ratio	22.3%	19.3%
Tier 1 leverage ratio	20.0%	15.4%

GS Bank USA is currently working to implement the Basel II framework. Similar to the firm's requirement as a bank holding company, GS Bank USA is required to transition to Basel II over the next several years.

The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The amount deposited by the firm's depository institution subsidiaries held at the Federal Reserve Bank was approximately \$21.02 billion and \$27.43 billion as of June 2010 and December 2009, respectively, which exceeded required reserve amounts by \$20.33 billion and \$25.86 billion as of June 2010 and December 2009, respectively. GS Bank Europe, a wholly owned credit institution, is regulated by the Irish Financial Services Regulatory Authority and is subject to minimum capital requirements. As of June 2010 and December 2009, GS Bank USA and GS Bank Europe were both in compliance with all regulatory capital requirements.

Transactions between GS Bank USA and its subsidiaries and Group Inc. and its subsidiaries and affiliates (other than, generally, subsidiaries of GS Bank USA) are regulated by the Federal Reserve Board. These regulations generally limit the types and amounts of transactions (including loans to and borrowings from GS Bank USA) that may take place and generally require those transactions to be on an arm's-length basis.

The firm's U.S. regulated broker-dealer subsidiaries include GS&Co. and Goldman Sachs Execution & Clearing, L.P. (GSEC). GS&Co. and GSEC are registered U.S. broker-dealers and futures commission merchants subject to Rule 15c3-1 of the SEC and Rule 1.17 of the Commodity Futures Trading Commission, which specify uniform minimum net capital requirements, as defined, for their registrants, and also effectively require that a significant part of the registrants' assets be kept in relatively liquid form. GS&Co. and GSEC have elected to compute their minimum capital requirements in accordance with the "Alternative Net Capital Requirement" as permitted by Rule 15c3-1. As of June 2010, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$10.37 billion, which exceeded the amount required by \$8.51 billion. As of June 2010, GSEC had regulatory net capital, as defined by Rule 15c3-1, of \$1.91 billion, which exceeded the amount required by \$1.82 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 June 2010 and December 2009, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The firm has U.S. insurance subsidiaries that are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed. In addition, certain of the firm's insurance subsidiaries outside of the U.S. are regulated by the U.K.'s Financial Services Authority (FSA) and certain are regulated by the Bermuda Monetary Authority. The firm's insurance subsidiaries were in compliance with all regulatory capital requirements as of June 2010 and December 2009.

The firm's principal non-U.S. regulated subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's regulated U.K. broker-dealer, is subject to the capital requirements of the FSA. GSJCL, the firm's regulated Japanese broker-dealer, is subject to the capital requirements imposed by Japan's Financial Services Agency. As of June 2010 and December 2009, GSI and GSJCL were in compliance with their local capital adequacy requirements. Certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of June 2010 and December 2009, these subsidiaries were in compliance with their local capital adequacy requirements.

The regulatory requirements referred to above restrict Group Inc.'s ability to withdraw capital from its regulated subsidiaries. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board, the FDIC and the NYSBD have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization.

Note 16. Business Segments

In reporting to management, the firm's operating results are categorized into the following three business segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services. See Note 18 to the consolidated financial statements in Part II, Item 8 of the firm's Annual Report on Form 10-K for the fiscal year ended December 2009 for a discussion of the basis of presentation for the firm's business segments.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Segment Operating Results

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

		As of or for the			
		Three Months Ended June		Six Months Ended June	
		2010	2009	2010	2009
		(in millions)			
Investment Banking	Net revenues	\$ 917	\$ 1,440	\$ 2,101	\$ 2,263
	Operating expenses	760	1,167	1,710	1,872
	Pre-tax earnings	<u>\$ 157</u>	<u>\$ 273</u>	<u>\$ 391</u>	<u>\$ 391</u>
	Segment assets	<u>\$ 1,339</u>	<u>\$ 1,473</u>	<u>\$ 1,339</u>	<u>\$ 1,473</u>
Trading and Principal Investments	Net revenues	\$ 6,551	\$ 10,784	\$ 16,801	\$ 17,934
	Operating expenses	4,954	6,290	10,519	11,163
	Pre-tax earnings	<u>\$ 1,597</u>	<u>\$ 4,494</u>	<u>\$ 6,282</u>	<u>\$ 6,771</u>
	Segment assets	<u>\$688,612</u>	<u>\$696,454</u>	<u>\$688,612</u>	<u>\$696,454</u>
Asset Management and Securities Services	Net revenues	\$ 1,373	\$ 1,537	\$ 2,714	\$ 2,989
	Operating expenses	1,064	1,250	2,144	2,455
	Pre-tax earnings	<u>\$ 309</u>	<u>\$ 287</u>	<u>\$ 570</u>	<u>\$ 534</u>
	Segment assets	<u>\$193,237</u>	<u>\$191,617</u>	<u>\$193,237</u>	<u>\$191,617</u>
Total	Net revenues ⁽¹⁾⁽²⁾	\$ 8,841	\$ 13,761	\$ 21,616	\$ 23,186
	Operating expenses ⁽³⁾	7,393	8,732	15,009	15,528
	Pre-tax earnings ⁽⁴⁾	<u>\$ 1,448</u>	<u>\$ 5,029</u>	<u>\$ 6,607</u>	<u>\$ 7,658</u>
	Total assets	<u>\$883,188</u>	<u>\$889,544</u>	<u>\$883,188</u>	<u>\$889,544</u>

⁽¹⁾ Net revenues include net interest income as set forth in the table below:

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Investment Banking	\$ —	\$ —	\$ —	\$ —
Trading and Principal Investments	1,259	1,462	2,314	2,906
Asset Management and Securities Services	360	580	723	1,043
Total net interest	<u>\$1,619</u>	<u>\$2,042</u>	<u>\$3,037</u>	<u>\$3,949</u>

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

(2) Net revenues include non-interest revenues as set forth in the table below:

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Investment banking fees	\$ 917	\$ 1,440	\$ 2,101	\$ 2,263
Equities commissions	977	1,021	1,858	1,995
Asset management and other fees	1,013	957	1,991	1,946
Trading and principal investments revenues	<u>4,315</u>	<u>8,301</u>	<u>12,629</u>	<u>13,033</u>
Total non-interest revenues	<u>\$7,222</u>	<u>\$11,719</u>	<u>\$18,579</u>	<u>\$19,237</u>

Trading and principal investments revenues include \$37 million and \$10 million for the three months ended June 2010 and June 2009, respectively, and \$63 million and \$16 million for the six months ended June 2010 and June 2009, respectively, of realized gains on securities held within the firm's insurance subsidiaries which are accounted for as available-for-sale.

(3) Operating expenses include net provisions for a number of litigation and regulatory proceedings of \$615 million and \$25 million for the three months ended June 2010 and June 2009, respectively, and \$636 million and \$38 million for the six months ended June 2010 and June 2009, respectively, that have not been allocated to the firm's segments.

(4) Pre-tax earnings include total depreciation and amortization as set forth in the table below:

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Investment Banking	\$ 41	\$ 39	\$ 85	\$ 76
Trading and Principal Investments	341	428	611	951
Asset Management and Securities Services	58	60	119	149
Total depreciation and amortization	<u>\$440</u>	<u>\$527</u>	<u>\$815</u>	<u>\$1,176</u>

Geographic Information

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. Since a significant portion of the firm's activities require cross-border coordination in order to facilitate the needs of the firm's clients, the methodology for allocating the firm's profitability to geographic regions is dependent on estimates and management judgment. Specifically, in interim periods, the firm generally allocates compensation and benefits to geographic regions based upon the firmwide compensation to net revenues ratio. In the fourth quarter when compensation by employee is finalized, compensation and benefits are allocated to the geographic regions based upon total actual compensation during the fiscal year. See Note 18 to the consolidated financial statements in Part II, Item 8 of the firm's Annual Report on Form 10-K for the fiscal year ended December 2009 for a discussion of the method of allocating by geographic region.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

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

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(\$ in millions)			
Net revenues				
Americas ⁽¹⁾	\$4,575	52%	\$ 7,019	51%
EMEA ⁽²⁾	2,146	24	3,727	27
Asia	2,120	24	3,015	22
Total net revenues	<u>\$8,841</u>	<u>100%</u>	<u>\$13,761</u>	<u>100%</u>
Pre-tax earnings				
Americas ⁽¹⁾	\$1,202	59%	\$ 2,385	47%
EMEA ⁽²⁾	113	5	1,562	31
Asia	748	36	1,107	22
Subtotal	<u>2,063</u>	<u>100%</u>	<u>5,054</u>	<u>100%</u>
Corporate ⁽³⁾	<u>(615)</u>		<u>(25)</u>	
Total pre-tax earnings . . .	<u>\$1,448</u>		<u>\$ 5,029</u>	

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

⁽²⁾ EMEA (Europe, Middle East and Africa). Pre-tax earnings includes the impact of the U.K. bank payroll tax for the three and six months ended June 2010.

⁽³⁾ Consists of net provisions for a number of litigation and regulatory proceedings.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Note 17. Interest Income and Interest Expense

The following table sets forth the details of the firm's interest income and interest expense:

	<u>Three Months</u> <u>Ended June</u>		<u>Six Months</u> <u>Ended June</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(in millions)			
Interest income ⁽¹⁾				
Deposits with banks	\$ 18	\$ 18	\$ 33	\$ 40
Securities borrowed, securities purchased under agreements to resell and federal funds sold	136	176	215	727
Trading assets, at fair value	2,785	2,881	5,406	6,039
Other interest ⁽²⁾	<u>363</u>	<u>395</u>	<u>649</u>	<u>1,026</u>
Total interest income	<u>\$3,302</u>	<u>\$3,470</u>	<u>\$6,303</u>	<u>\$7,832</u>
Interest expense				
Deposits	\$ 69	\$ 119	\$ 137	\$ 269
Securities loaned and securities sold under agreements to repurchase, at fair value	163	366	299	911
Trading liabilities, at fair value	481	406	976	869
Short-term borrowings ⁽³⁾	113	154	231	394
Long-term borrowings ⁽⁴⁾	738	648	1,484	1,597
Other interest ⁽⁵⁾	<u>119</u>	<u>(265)</u>	<u>139</u>	<u>(157)</u>
Total interest expense	<u>\$1,683</u>	<u>\$1,428</u>	<u>\$3,266</u>	<u>\$3,883</u>
Net interest income	<u>\$1,619</u>	<u>\$2,042</u>	<u>\$3,037</u>	<u>\$3,949</u>

⁽¹⁾ Interest income is recorded on an accrual basis based on contractual interest rates.

⁽²⁾ Primarily includes interest income on customer debit balances and other interest-earning assets.

⁽³⁾ Includes interest on unsecured short-term borrowings and short-term other secured financings.

⁽⁴⁾ Includes interest on unsecured long-term borrowings and long-term other secured financings.

⁽⁵⁾ Primarily includes interest expense on customer credit balances and other interest-bearing liabilities.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of
The Goldman Sachs Group, Inc.:

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of June 30, 2010, the related condensed consolidated statements of earnings for the three and six months ended June 30, 2010 and June 26, 2009, the condensed consolidated statement of changes in shareholders' equity for the six months ended June 30, 2010, the condensed consolidated statements of cash flows for the six months ended June 30, 2010 and June 26, 2009, and the condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2010 and June 26, 2009. These condensed consolidated interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2009, and the related consolidated statements of earnings, changes in shareholders' equity, cash flows and comprehensive income for the year then ended (not presented herein), and in our report dated February 26, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2009 and the condensed consolidated statement of changes in shareholders' equity for the year ended December 31, 2009, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
August 6, 2010

STATISTICAL DISCLOSURES

Distribution of Assets, Liabilities and Shareholders' Equity

The following tables set forth a summary of consolidated average balances and interest rates for the three and six months ended June 2010 and June 2009:

	Three Months Ended June					
	2010			2009		
	Average balance	Interest	Average rate (annualized)	Average balance	Interest	Average rate (annualized)
	(in millions, except rates)					
Assets						
Deposits with banks	\$ 25,789	\$ 18	0.28%	\$ 25,040	\$ 18	0.29%
U.S.	21,519	14	0.26	18,220	13	0.29
Non-U.S.	4,270	4	0.38	6,820	5	0.29
Securities borrowed, securities purchased under agreements to resell, at fair value, and federal funds sold	357,201	136	0.15	354,792	176	0.20
U.S.	248,180	24	0.04	268,925	(109)	(0.16)
Non-U.S.	109,021	112	0.41	85,867	285	1.33
Trading assets ⁽¹⁾⁽²⁾	270,875	2,785	4.12	267,542	2,881	4.32
U.S.	190,166	2,178	4.59	193,117	2,231	4.63
Non-U.S.	80,709	607	3.02	74,425	650	3.50
Other interest-earning assets ⁽³⁾	114,987	363	1.27	125,783	395	1.26
U.S.	79,984	200	1.00	77,381	206	1.07
Non-U.S.	35,003	163	1.87	48,402	189	1.57
Total interest-earning assets	768,852	3,302	1.72	773,157	3,470	1.80
Cash and due from banks	3,193			9,428		
Other noninterest-earning assets ⁽²⁾	110,754			122,478		
Total assets	\$882,799			\$905,063		
Liabilities						
Interest-bearing deposits	\$ 36,576	\$ 69	0.76%	\$ 42,571	\$ 119	1.12%
U.S.	30,024	64	0.85	36,717	107	1.17
Non-U.S.	6,552	5	0.31	5,854	12	0.82
Securities loaned and securities sold under agreements to repurchase, at fair value	161,571	163	0.40	150,602	366	0.97
U.S.	115,658	87	0.30	108,002	110	0.41
Non-U.S.	45,913	76	0.66	42,600	256	2.41
Trading liabilities ⁽¹⁾⁽²⁾	90,497	481	2.13	67,262	406	2.42
U.S.	43,979	230	2.10	35,324	86	0.98
Non-U.S.	46,518	251	2.16	31,938	320	4.02
Commercial paper	1,652	1	0.23	381	—	0.26
U.S.	521	—	0.24	260	—	0.22
Non-U.S.	1,131	1	0.23	121	—	0.36
Other borrowings ⁽⁴⁾⁽⁵⁾	52,608	112	0.85	60,017	154	1.03
U.S.	29,953	95	1.27	36,250	130	1.44
Non-U.S.	22,655	17	0.30	23,767	24	0.41
Long-term borrowings ⁽⁵⁾⁽⁶⁾	189,015	738	1.57	205,941	648	1.26
U.S.	179,403	684	1.53	194,460	596	1.23
Non-U.S.	9,612	54	2.25	11,481	52	1.82
Other interest-bearing liabilities ⁽⁷⁾	184,947	119	0.26	210,979	(265)	(0.50)
U.S.	140,113	(45)	(0.13)	146,049	(374)	(1.03)
Non-U.S.	44,834	164	1.47	64,930	109	0.67
Total interest-bearing liabilities	716,866	1,683	0.94	737,753	1,428	0.78
Noninterest-bearing deposits	213			83		
Other noninterest-bearing liabilities ⁽²⁾	92,191			100,357		
Total liabilities	809,270			838,193		
Shareholders' equity						
Preferred stock	6,957			14,125		
Common stock	66,572			52,745		
Total shareholders' equity	73,529			66,870		
Total liabilities, preferred stock and shareholders' equity	\$882,799			\$905,063		
Interest rate spread			0.78%			1.02%
Net interest income and net yield on interest-earning assets		\$1,619	0.84	\$2,042		1.06
U.S.		1,301	0.97	1,686		1.21
Non-U.S.		318	0.56	356		0.66
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations ⁽⁸⁾						
Assets			29.79%			27.87%
Liabilities			24.72			24.49

STATISTICAL DISCLOSURES

	Six Months Ended June					
	2010			2009		
	Average balance	Interest	Average rate (annualized)	Average balance	Interest	Average rate (annualized)
	(in millions, except rates)					
Assets						
Deposits with banks	\$ 25,748	\$ 33	0.26%	\$ 22,960	\$ 40	0.35%
U.S.	20,730	25	0.24	18,321	26	0.28
Non-U.S.	5,018	8	0.32	4,639	14	0.61
Securities borrowed, securities purchased under agreements to resell, at fair value, and federal funds sold	354,904	215	0.12	355,035	727	0.41
U.S.	245,287	(3)	0.00	266,682	52	0.04
Non-U.S.	109,617	218	0.40	88,353	675	1.53
Trading assets ⁽¹⁾⁽²⁾	270,465	5,406	4.03	281,637	6,039	4.30
U.S.	188,310	4,142	4.44	205,771	4,807	4.69
Non-U.S.	82,155	1,264	3.10	75,866	1,232	3.26
Other interest-earning assets ⁽³⁾	111,642	649	1.17	142,857	1,026	1.44
U.S.	77,506	346	0.90	93,725	568	1.22
Non-U.S.	34,136	303	1.79	49,132	458	1.87
Total interest-earning assets	762,759	6,303	1.67	802,489	7,832	1.96
Cash and due from banks	2,942			6,344		
Other noninterest-earning assets ⁽²⁾	109,942			133,510		
Total assets	\$875,643			\$942,343		
Liabilities						
Interest-bearing deposits	\$ 37,801	\$ 137	0.73%	\$ 41,049	\$ 269	1.31%
U.S.	31,180	127	0.82	35,493	243	1.37
Non-U.S.	6,621	10	0.30	5,556	26	0.94
Securities loaned and securities sold under agreements to repurchase, at fair value	155,631	299	0.39	168,946	911	1.08
U.S.	111,458	142	0.26	122,369	259	0.42
Non-U.S.	44,173	157	0.72	46,577	652	2.81
Trading liabilities ⁽¹⁾⁽²⁾	87,186	976	2.26	65,273	869	2.67
U.S.	44,709	459	2.07	33,166	238	1.44
Non-U.S.	42,477	517	2.45	32,107	631	3.94
Commercial paper	1,673	2	0.25	525	3	1.15
U.S.	422	—	0.18	322	3	1.87
Non-U.S.	1,251	2	0.27	203	—	0.19
Other borrowings ⁽⁴⁾⁽⁵⁾	50,934	229	0.91	67,122	391	1.17
U.S.	29,736	193	1.31	42,701	337	1.58
Non-U.S.	21,198	36	0.34	24,421	54	0.44
Long-term borrowings ⁽⁵⁾⁽⁶⁾	191,243	1,484	1.56	203,337	1,597	1.58
U.S.	181,049	1,363	1.52	191,978	1,470	1.54
Non-U.S.	10,194	121	2.39	11,359	127	2.24
Other interest-bearing liabilities ⁽⁷⁾	187,009	139	0.15	218,758	(157)	(0.14)
U.S.	142,003	(129)	(0.18)	152,450	(447)	(0.59)
Non-U.S.	45,006	268	1.20	66,308	290	0.88
Total interest-bearing liabilities	711,477	3,266	0.93	765,010	3,883	1.02
Noninterest-bearing deposits	226			83		
Other noninterest-bearing liabilities ⁽²⁾	90,954			112,083		
Total liabilities	802,657			877,176		
Shareholders' equity						
Preferred stock	6,957			15,139		
Common stock	66,029			50,028		
Total shareholders' equity	72,986			65,167		
Total liabilities, preferred stock and shareholders' equity	\$875,643			\$942,343		
Interest rate spread			0.74%			0.94%
Net interest income and net yield on interest-earning assets		\$3,037	0.80		\$3,949	0.99
U.S.		2,355	0.89		3,350	1.15
Non-U.S.		682	0.60		599	0.55
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations ⁽⁸⁾						
Assets			30.28%			27.16%
Liabilities			24.02			24.38

STATISTICAL DISCLOSURES

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

Ratios

The following table sets forth selected financial ratios:

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
Annualized net earnings to average assets	0.7% ⁽³⁾	1.5%	1.1% ⁽³⁾	1.1%
Annualized return on average common shareholders' equity ⁽¹⁾	7.9 ⁽³⁾	23.0 ⁽⁴⁾	13.1 ⁽³⁾	18.3 ⁽⁴⁾
Annualized return on average total shareholders' equity ⁽²⁾	8.0 ⁽³⁾	20.5	12.7 ⁽³⁾	16.1
Total average equity to average assets.	8.3	7.4	8.3	6.9

- (1) Based on annualized net earnings applicable to common shareholders divided by average monthly common shareholders' equity.
- (2) Based on annualized net earnings divided by average monthly total shareholders' equity.
- (3) The \$600 million U.K. bank payroll tax and the \$550 million SEC settlement were not annualized in the calculation of annualized net earnings or annualized return as these are one-time events and therefore these amounts have no impact on other quarters in the year.
- (4) The one-time preferred dividend of \$426 million related to the repurchase of the firm's preferred stock issued pursuant to the U.S. Treasury's TARP Capital Purchase Program (calculated as the difference between the carrying value and the redemption value of the preferred stock) in the second quarter of 2009 was not annualized in the calculation of annualized return since it was a one-time event and therefore it has no impact on other quarters in the year.

Cross-border Outstandings

Cross-border outstandings are based upon the Federal Financial Institutions Examination Council's (FFIEC) regulatory guidelines for reporting cross-border risk. Claims include cash, receivables, securities purchased under agreements to resell, securities borrowed and cash trading instruments, but exclude derivative instruments and commitments. Securities purchased under agreements to resell and securities borrowed are presented based on the domicile of the counterparty, without reduction for related securities collateral held.

The following tables set forth cross-border outstandings for each country in which cross-border outstandings exceed 0.75% of consolidated assets as of June 2010 and December 2009 in accordance with the FFIEC guidelines:

Country	As of June 2010			Total
	Banks	Governments	Other	
	(in millions)			
United Kingdom	\$ 5,878	\$5,554	\$51,720	\$63,152
Cayman Islands	8	—	33,470	33,478
France	15,045	2,536	6,487	24,068
Japan	18,430	13	3,445	21,888
China	13,352	1,479	2,211	17,042
Germany	9,176	2,308	1,739	13,223
Switzerland	2,009	46	6,735	8,790
Netherlands	1,929	179	4,750	6,858

Country	As of December 2009			Total
	Banks	Governments	Other	
	(in millions)			
United Kingdom	\$ 3,284	\$4,843	\$51,664	\$59,791
Japan	18,259	107	4,833	23,199
Cayman Islands	53	16	21,476	21,545
France	8,846	4,648	5,655	19,149
Germany	8,610	6,080	2,885	17,575
China	9,105	108	4,187	13,400
Ireland	5,634	20	1,577	7,231

Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

INDEX

	Page No.
Introduction	87
Executive Overview	88
Business Environment	91
Critical Accounting Policies	92
Use of Estimates	101
Results of Operations	102
Off-Balance-Sheet Arrangements	117
Equity Capital	118
Contractual Obligations	125
Market Risk	127
Credit Risk	132
Derivatives	133
Liquidity and Funding Risk	137
Recent Accounting Developments	146
Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995 . . .	147

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.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. 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.

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

All references to June 2010 and June 2009, unless specifically stated otherwise, refer to our fiscal periods ended, or the dates, as the context requires, June 30, 2010 and June 26, 2009, respectively. Beginning with the fourth quarter of fiscal 2009, we changed our fiscal year-end from the last Friday of December to December 31. All references to December 2009, unless specifically stated otherwise, refer to our fiscal year ended, or the date, as the context requires, December 31, 2009. All references to 2010, unless specifically stated otherwise, refer to our year ending, or the date, as the context requires, December 31, 2010.

Executive Overview

Three Months Ended June 2010 versus June 2009. Our diluted earnings per common share were \$0.78 for the second quarter of 2010 compared with \$4.93 for the second quarter of 2009. Annualized return on average common shareholders' equity (ROE)⁽¹⁾ was 7.9% for the second quarter of 2010. On July 20, 2010, the U.S. District Court for the Southern District of New York approved a settlement to resolve the SEC's pending case against Goldman, Sachs & Co. (GS&Co.), including the payment of \$550 million, the accrual for which is reflected in our operating expenses for the second quarter of 2010. Operating expenses for the quarter also included \$600 million related to the U.K. bank payroll tax. Excluding the impact of these items, diluted earnings per common share were \$2.75⁽²⁾ and annualized ROE was 9.5%⁽²⁾ for the second quarter of 2010. Despite the \$1.15 billion of additional expenses related to these items, book value per common share and tangible book value per common share⁽³⁾ each increased 1% during the quarter to \$123.73 and \$112.82, respectively. Our Tier 1 capital ratio under Basel I⁽⁴⁾ was 15.2% and our Tier 1 common ratio under Basel I⁽⁵⁾ was 12.5% as of June 2010.

Net revenues in Trading and Principal Investments were significantly lower compared with the second quarter of 2009, reflecting significantly lower net revenues in Fixed Income, Currency and Commodities (FICC) and Equities compared with a strong second quarter of 2009, partially offset by higher net revenues in Principal Investments. Results in FICC were impacted by a challenging environment generally characterized by lower activity levels and wider corporate credit spreads. The decline in net revenues in FICC compared with the second quarter of 2009 reflected significantly lower results in credit products, interest rate products and currencies. These decreases were partially offset by higher net revenues in mortgages and, to a lesser extent, commodities. During the second quarter of 2009, mortgages included a loss of approximately \$700 million on commercial mortgage loans. Equities also operated in a challenging environment during the second quarter of 2010, which was characterized by a significant decline in global equity prices, a sharp increase in volatility levels and lower activity levels. The decline in net revenues in Equities compared with the second quarter of 2009 primarily reflected significantly lower results in derivatives and, to a lesser extent, principal strategies. In addition, net revenues in shares were lower compared with a solid second quarter of

⁽¹⁾ Annualized ROE is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders' equity. The \$600 million U.K. bank payroll tax and the \$550 million SEC settlement were not annualized in the calculation of annualized net earnings applicable to common shareholders as these are one-time events and therefore these amounts have no impact on other quarters in the year. See "— Results of Operations — Financial Overview" below for further information regarding our calculation of ROE.

⁽²⁾ We believe that presenting our results excluding the impact of the \$600 million U.K. bank payroll tax and the \$550 million SEC settlement is meaningful as these are one-time events and excluding them increases the comparability of period-to-period results. See "— Results of Operations — Financial Overview" below for further information regarding our calculation of diluted earnings per common share and ROE excluding the impact of these amounts.

⁽³⁾ 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 and tangible book value per common share are meaningful because they are 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 and tangible book value per common share.

⁽⁴⁾ 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 ratio 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 risk-weighted assets (RWAs). See "— Equity Capital — Consolidated Capital Requirements" below for further information regarding our Tier 1 capital ratio.

⁽⁵⁾ The Tier 1 common ratio equals Tier 1 capital less preferred stock and junior subordinated debt issued to trusts, divided by RWAs. We believe that the Tier 1 common ratio is meaningful because it is one of the measures that we and investors use to assess capital adequacy. See "— Equity Capital — Capital Ratios and Metrics" below for further information regarding our Tier 1 common ratio.

2009. Commissions declined slightly compared with the second quarter of 2009. In the second quarter of 2010, results in Principal Investments primarily reflected a gain of \$905 million related to our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC), principally due to the expiration of transfer restrictions related to these shares.

Net revenues in Investment Banking also decreased significantly compared with the second quarter of 2009, reflecting significantly lower net revenues in our Underwriting business. Net revenues in equity underwriting were significantly lower than a strong second quarter of 2009, primarily reflecting lower levels of industry-wide activity, as the second quarter of 2009 included significant capital-raising activity by financial institutions. Net revenues in debt underwriting were also significantly lower, primarily reflecting a decline in industry-wide activity. Net revenues in Financial Advisory increased compared with the second quarter of 2009, primarily reflecting an increase in client activity. Our investment banking transaction backlog increased during the quarter. ⁽¹⁾

Net revenues in Asset Management and Securities Services declined compared with the second quarter of 2009, reflecting significantly lower net revenues in Securities Services. The decline in Securities Services primarily reflected tighter securities lending spreads, principally due to the impact of changes in the composition of securities lending customer balances, partially offset by the impact of higher average customer balances. Net revenues in Asset Management increased compared with the second quarter of 2009, primarily due to the impact of changes in the composition of assets managed. During the second quarter of 2010, assets under management decreased \$38 billion to \$802 billion, due to \$24 billion of net outflows, primarily reflecting outflows in money market and equity assets, and \$14 billion of net market depreciation, primarily reflecting depreciation in equity assets.

Six Months Ended June 2010 versus June 2009. Our diluted earnings per common share were \$6.41 for the first half of 2010 compared with \$8.42 for the first half of 2009. Annualized ROE ⁽²⁾ was 13.1% for the first half of 2010. Excluding the impact of the \$600 million related to the U.K. bank payroll tax and the \$550 million related to the SEC settlement, diluted earnings per common share were \$8.36 ⁽³⁾ and annualized ROE was 14.8% ⁽³⁾ for the first half of 2010.

Net revenues in Trading and Principal Investments declined compared with the first half of 2009, reflecting significantly lower net revenues in Equities and lower net revenues in FICC, partially offset by significantly improved results in Principal Investments. The decline in Equities reflected significantly lower net revenues in derivatives and, to a lesser extent, shares and principal strategies. Commissions declined compared with the first half of 2009. Although global equity prices largely increased during the first quarter of 2010, the operating environment for Equities became challenging during the second quarter, as global equity prices decreased significantly, volatility levels increased sharply and activity levels declined. The decrease in FICC primarily reflected significantly lower results in interest rate products and, to a lesser extent, commodities, compared with a strong first half of 2009. In addition, net revenues in credit products and currencies were lower compared with the same prior year period. These decreases were partially offset by significantly higher net revenues in mortgages. In the first half of 2009, mortgages included a loss of approximately \$1.5 billion on commercial mortgage loans. Although activity levels in FICC were strong in the first quarter of 2010, the environment became challenging during the second quarter, as activity levels declined and

⁽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.

⁽²⁾ Annualized ROE is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders' equity. The \$600 million U.K. bank payroll tax and the \$550 million SEC settlement were not annualized in the calculation of annualized net earnings applicable to common shareholders as these are one-time events and therefore these amounts have no impact on other quarters in the year. See "— Results of Operations — Financial Overview" below for further information regarding our calculation of ROE.

⁽³⁾ We believe that presenting our results excluding the impact of the \$600 million U.K. bank payroll tax and the \$550 million SEC settlement is meaningful as these are one-time events and excluding them increases the comparability of period-to-period results. See "— Results of Operations — Financial Overview" below for further information regarding our calculation of diluted earnings per common share and ROE excluding the impact of these amounts.

corporate credit spreads widened. In the first half of 2010, results in Principal Investments included a gain of \$683 million related to our investment in the ordinary shares of ICBC, primarily reflecting the expiration of transfer restrictions related to these shares, a net gain of \$794 million from corporate principal investments and a net loss of \$44 million from real estate principal investments. In the first half of 2009, results in Principal Investments included a gain of \$797 million related to our investment in the ordinary shares of ICBC, and net losses of \$1.14 billion from real estate principal investments and \$278 million from corporate principal investments.

Net revenues in Asset Management and Securities Services declined compared with the first half of 2009, reflecting significantly lower net revenues in Securities Services. The decline in Securities Services primarily reflected tighter securities lending spreads, principally due to the impact of changes in the composition of securities lending customer balances, partially offset by the impact of higher average customer balances. Net revenues in Asset Management increased compared with the first half of 2009, primarily due to the impact of changes in the composition of assets managed, as well as higher average assets under management. During the first half of 2010, assets under management decreased \$69 billion, due to \$63 billion of net outflows, primarily in money market assets, and \$6 billion of net market depreciation.

Net revenues in Investment Banking declined compared with the first half of 2009, reflecting lower net revenues in our Underwriting business. Net revenues in equity underwriting were significantly lower, primarily reflecting a decline in client activity, as the first half of 2009 included significant capital-raising activity by financial institutions. Net revenues in debt underwriting were slightly lower compared with the first half of 2009. Net revenues in Financial Advisory increased compared with the first half of 2009, primarily reflecting an increase in client activity.

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 "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K.

Business Environment

Although real gross domestic product (GDP) appears to have increased in most economies, the second quarter was characterized by broad market concerns, including European sovereign debt risk, a slowdown in China's growth trajectory and uncertainty regarding financial regulatory reform, particularly in the U.S. Global equity markets declined significantly during the second quarter and equity volatility levels increased sharply, reaching their highest levels since March 2009. In addition, corporate credit spreads widened during the second quarter. The U.S. dollar appreciated against the Euro and the British pound, but depreciated against the Japanese yen. Investment banking activity levels continued to slow during the second quarter, including a significant decline in industry-wide debt offerings, as well as declines in industry-wide equity and equity-related offerings and announced mergers and acquisitions.

In the U.S., real GDP increased during the second quarter, although at a slower pace than in the first quarter, driven by moderate growth in domestic demand and a rise in inventory levels. The rate of unemployment ended the quarter slightly lower. Measures of core inflation remained low during the second quarter, reflecting continued excess production capacity. The U.S. Federal Reserve maintained its federal funds rate at a target range of zero to 0.25% during the second quarter. The 10-year U.S. Treasury note yield ended the second quarter 87 basis points lower at 2.97%. In equity markets, the S&P 500 Index and the NASDAQ Composite Index each decreased 12% and the Dow Jones Industrial Average decreased 10% during the second quarter.

In the Eurozone economies, real GDP growth appears to have accelerated during the second quarter, driven by an increase in industrial production. Although surveys of business and consumer confidence declined slightly during the second quarter, they remained above 2009 levels. However, several Eurozone economies remained under stress, reflecting fiscal challenges and banking sector concerns. In addition, concerns about sovereign debt risk in certain Eurozone economies intensified during the quarter, contributing to higher market volatility and funding pressures. The European Central Bank and certain governments in the Eurozone took a range of policy measures to address these issues. The European Central Bank kept its main refinancing operations rate unchanged at 1.00% and the Euro depreciated by 9% against the U.S. dollar. In the U.K., real GDP growth accelerated during the second quarter, driven by an increase in exports. The Bank of England maintained its official bank rate at 0.50% and the British pound depreciated by 2% against the U.S. dollar. Long-term government bond yields in both the Eurozone and the U.K. decreased during the second quarter. Equity markets in both continental Europe and the U.K. declined significantly during the quarter.

In Japan, real GDP appears to have increased during the second quarter, although at a slower pace than in the first quarter, primarily driven by an increase in exports. Government fiscal stimulus programs continued to support an increase in consumer spending during the quarter. Measures of inflation remained negative. The Bank of Japan left its target overnight call rate unchanged at 0.10% and the yield on 10-year Japanese government bonds declined during the quarter. The Japanese yen appreciated by 5% against the U.S. dollar and the Nikkei 225 Index decreased 15% during the second quarter.

In China, real GDP growth moderated during the second quarter, as strong fixed investment spending and exports were partially offset by a slowdown in the pace of growth in industrial production. Measures of inflation increased during the quarter. The People's Bank of China increased the reserve requirement ratio by 50 basis points during the quarter. The Chinese yuan appreciated slightly against the U.S. dollar following an announcement by The People's Bank of China to allow increased exchange rate flexibility. The Shanghai Composite Index and the Hang Seng Index each decreased significantly during the quarter, while equity markets in Korea ended the quarter essentially unchanged. In India, economic growth remained strong, supported by continued growth in domestic demand. The Indian rupee depreciated by 3% against the U.S. dollar and equity markets in India increased slightly during the quarter.

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 condensed 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 condensed 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 June 2010		As of December 2009	
	Trading Assets, at Fair Value	Trading Liabilities, at Fair Value	Trading Assets, at Fair Value	Trading Liabilities, at Fair Value
Cash trading instruments	\$231,362	\$ 89,596	\$244,124	\$ 72,117
ICBC	9,683 ⁽¹⁾	—	8,111 ⁽¹⁾	—
SMFG	—	—	933	893 ⁽⁵⁾
Other principal investments	14,022 ⁽²⁾	—	13,981 ⁽²⁾	—
Principal investments	<u>23,705</u>	<u>—</u>	<u>23,025</u>	<u>893</u>
Cash instruments	255,067	89,596	267,149	73,010
Exchange-traded	6,518	2,453	6,831	2,548
Over-the-counter	73,283	55,121	68,422	53,461
Derivative contracts	79,801 ⁽³⁾	57,574 ⁽⁴⁾	75,253 ⁽³⁾	56,009 ⁽⁴⁾
Total	<u>\$334,868</u>	<u>\$147,170</u>	<u>\$342,402</u>	<u>\$129,019</u>

⁽¹⁾ Includes interests of \$6.10 billion and \$5.13 billion as of June 2010 and December 2009, 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 June 2010			As of December 2009		
	Corporate	Real Estate	Total	Corporate	Real Estate	Total
	(in millions)					
Private	\$ 9,989	\$1,201	\$11,190	\$ 9,507	\$1,325	\$10,832
Public	2,781	51	2,832	3,091	58	3,149
Total	<u>\$12,770</u>	<u>\$1,252</u>	<u>\$14,022</u>	<u>\$12,598</u>	<u>\$1,383</u>	<u>\$13,981</u>

⁽³⁾ Net of cash received pursuant to credit support agreements of \$113.76 billion and \$124.60 billion as of June 2010 and December 2009, respectively.

⁽⁴⁾ Net of cash posted pursuant to credit support agreements of \$17.65 billion and \$14.74 billion as of June 2010 and December 2009, respectively.

⁽⁵⁾ Represents an economic hedge on the shares of common stock underlying our investment in the convertible preferred stock of SMFG.

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 prices in active markets include U.S. and non-U.S. government obligations, actively traded listed equities and certain money market instruments.

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 commercial paper, certificates of deposit, time deposits, most government agency obligations, most corporate debt securities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, less liquid publicly listed equities, certain state and municipal obligations and certain money market instruments 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. For these instruments, 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.

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. The remaining shares were subject to transfer restrictions until April 28, 2010 and were valued using the quoted market price adjusted for transfer restrictions. As of April 28, 2010, all of our remaining ICBC shares became free from transfer restrictions and are valued using the quoted market price.

Our investment in the convertible preferred stock of SMFG was valued using a model that is principally based on SMFG's common stock price. During the first quarter of 2010, we converted our remaining SMFG preferred stock investment into common stock and delivered the common stock to close out our remaining hedge position.

- **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, calibration to market-clearing transactions, broker or dealer quotations, or other 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.

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 the Audit Committee of the Board of Directors of Group Inc. (Board). 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 generally 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 condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding fair value measurements.

Valuation Methodologies for Level 3 Assets. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. 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. See Note 2 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for an overview of methodologies used to value our level 3 assets subsequent to the transaction date.

Total level 3 assets were \$46.13 billion, \$45.15 billion and \$46.48 billion as of June 2010, March 2010 and December 2009, respectively. The increase in level 3 assets during the three months ended June 2010 primarily reflected (i) an increase in credit derivative contracts as credit spreads widened and certain markets became less active and (ii) transfers from level 2 within the fair value hierarchy of bank loans and bridge loans. These increases were partially offset by sales activity related to loans and securities backed by commercial real estate and private equity investments and real estate fund investments. The slight decrease in level 3 assets during the six months ended June 2010 primarily reflected (i) sales activity related to loans and securities backed by commercial real estate and private equity investments and real estate fund investments, and (ii) net reductions in level 3 financial instruments as a result of the consolidations of certain variable interest entities (VIEs), (iii) partially offset by unrealized gains on credit derivative contracts.

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		
	June 2010	March 2010	December 2009
Mortgage and other asset-backed loans and securities:			
Loans and securities backed by commercial real estate	\$ 3,868	\$ 4,070	\$ 4,620
Loans and securities backed by residential real estate	2,124	2,131	1,880
Loan portfolios ⁽¹⁾	1,258	1,291	1,364
Bank loans and bridge loans ⁽²⁾	9,573	9,323	9,560
Corporate debt securities ⁽³⁾	2,592	2,703	2,235
State and municipal obligations	825	870	1,114
Other debt obligations	1,376	1,487	2,235
Equities and convertible debentures ⁽⁴⁾	<u>10,335</u>	<u>10,653</u>	<u>11,871</u>
Total cash instruments	31,951	32,528	34,879
Derivative contracts	13,956	12,123	11,596
Securities purchased under agreements to resell	—	268	—
Receivables from customers and counterparties	<u>218</u>	<u>234</u>	<u>—</u>
Total level 3 assets at fair value	46,125	45,153	46,475
Level 3 assets for which we do not bear economic exposure ⁽⁵⁾	<u>(2,609)</u>	<u>(2,640)</u>	<u>(3,127)</u>
Level 3 assets for which we bear economic exposure	<u>\$43,516</u>	<u>\$42,513</u>	<u>\$43,348</u>

⁽¹⁾ Consists of acquired portfolios of distressed loans, primarily backed by commercial and residential real estate collateral.

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

⁽³⁾ Includes \$775 million, \$802 million and \$741 million as of June 2010, March 2010 and December 2009, respectively, of CDOs and collateralized loan obligations backed by corporate obligations.

⁽⁴⁾ Substantially all consists of private equity investments and real estate fund investments. Real estate investments were \$918 million, \$968 million and \$1.23 billion as of June 2010, March 2010 and December 2009, respectively.

⁽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.

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	
	June 2010	December 2009
Prime ⁽¹⁾	\$2,259	\$2,483
Alt-A	1,280	1,761
Subprime ⁽²⁾	2,680	2,460
Total ⁽³⁾	<u>\$6,219</u>	<u>\$6,704</u>

⁽¹⁾ Excludes U.S. government agency-issued collateralized mortgage obligations of \$8.78 billion and \$8.62 billion as of June 2010 and December 2009, respectively. Also excludes U.S. government agency-issued mortgage pass-through certificates.

⁽²⁾ Includes \$419 million and \$381 million of CDOs backed by subprime mortgages as of June 2010 and December 2009, respectively.

⁽³⁾ Includes \$2.12 billion and \$1.88 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 June 2010 and December 2009, 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:

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

	As of	
	June 2010	December 2009
Americas ⁽¹⁾	\$5,278	\$5,157
EMEA ⁽²⁾	571	1,032
Asia	10	14
Total ⁽³⁾	<u>\$5,859</u> ⁽⁴⁾	<u>\$6,203</u> ⁽⁵⁾

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

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

⁽³⁾ Includes \$3.87 billion and \$4.62 billion of financial instruments classified within level 3 of the fair value hierarchy as of June 2010 and December 2009, respectively.

⁽⁴⁾ Comprised of loans of \$3.86 billion and commercial mortgage-backed securities of \$2.00 billion as of June 2010, of which \$4.15 billion was floating rate and \$1.71 billion was fixed rate.

⁽⁵⁾ 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.

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 of financial assets 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 of financial assets accounted for as secured loans rather than purchases and prepaid variable share forwards;
- certain insurance and reinsurance contracts and certain guarantees;
- certain subordinated liabilities issued by consolidated VIEs; 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.

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

Goodwill by Operating Segment (in millions)

	As of	
	June 2010	December 2009
Investment Banking		
Underwriting	\$ 125	\$ 125
Trading and Principal Investments		
FICC	298	265
Equities ⁽¹⁾	2,361	2,389
Principal Investments	84	84
Asset Management and Securities Services		
Asset Management ⁽²⁾	563	563
Securities Services	117	117
Total	<u>\$3,548</u>	<u>\$3,543</u>

⁽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 June 2010		As of December 2009
	Carrying Value	Range of Estimated Remaining Lives (in years)	Carrying Value
Customer lists ⁽¹⁾	\$ 607	1-15	\$ 645
Broadcast royalties ⁽²⁾	529	9	—
Commodities-related intangibles ⁽³⁾	571	1-49	30
New York Stock Exchange (NYSE) Designated Market Maker (DMM) rights . . .	400	11	420
Insurance-related intangibles ⁽⁴⁾	116	6	150
Exchange-traded fund (ETF) lead market maker rights	87	17	90
Other ⁽⁵⁾	36	1-7	42
Total	<u>\$2,346</u>		<u>\$1,377</u>

- ⁽¹⁾ Primarily includes our clearance and execution and NASDAQ customer lists related to SLK and financial counseling customer lists related to Ayco.
- ⁽²⁾ Represents television broadcast royalties held by a VIE consolidated upon adoption of Accounting Standards Update (ASU) No. 2009-17, "Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities."
- ⁽³⁾ Primarily includes commodity-related customer contracts and relationships, permits and access rights acquired during the first quarter of 2010.
- ⁽⁴⁾ Primarily includes the value of business acquired related to our insurance businesses.
- ⁽⁵⁾ Primarily includes marketing-related assets and other contractual rights.

A prolonged period of market weakness could adversely impact our businesses and impair the value of our identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including (i) 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, (iii) adverse actual experience on the contracts in our variable annuity and life insurance business, (iv) decreases in cash receipts from television broadcast royalties or (v) decreases in revenues from commodity-related customer contracts and relationships.

Following solid performance during the first half of 2009, our DMM business has been adversely impacted primarily by the lack of timely market data in the internal order/execution system of the NYSE (which, at times, resulted in DMMs making markets without real-time price information) and to a lesser extent, by lower trading volumes and lower volatility. In May 2010, the NYSE introduced changes 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 June 2010, the carrying value of our NYSE DMM rights was \$400 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.

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, the accounting for goodwill and identifiable intangible assets, and discretionary compensation accruals, 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.

A substantial portion of our compensation and benefits represents discretionary compensation, which is finalized at year-end. We believe the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the net revenues earned in such periods. In addition to the level of net revenues, our overall compensation expense in any given year is also influenced by, among other factors, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment. See “— Results of Operations — Financial Overview — Operating Expenses” below for information regarding our ratio of compensation and benefits to net revenues.

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 condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q 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, in Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and in Part II, Item 1 of this Quarterly Report on Form 10-Q 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 “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:

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	Net revenues	\$8,841	\$13,761	\$21,616
Pre-tax earnings	1,448	5,029	6,607	7,658
Net earnings	613	3,435	4,069	5,249
Net earnings applicable to common shareholders . . .	453	2,718	3,749	4,377
Diluted earnings per common share	0.78	4.93	6.41	8.42
Annualized return on average common shareholders' equity ⁽¹⁾	7.9%	23.0%	13.1%	18.3%
Diluted earnings per common share, excluding the impact of U.K. bank payroll tax and SEC settlement ⁽²⁾	\$ 2.75	N/A	\$ 8.36	N/A
Annualized return on average common shareholders' equity, excluding the impact of U.K. bank payroll tax and SEC settlement ⁽²⁾	9.5%	N/A	14.8%	N/A

⁽¹⁾ Annualized ROE is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders' equity. The \$600 million U.K. bank payroll tax and the \$550 million SEC settlement were not annualized in the calculation of annualized net earnings applicable to common shareholders for the three and six months ended June 2010 as these are one-time events and therefore these amounts have no impact on other quarters in the year. In addition, the one-time preferred dividend of \$426 million related to the repurchase of our preferred stock issued pursuant to the U.S. Treasury's TARP Capital Purchase Program (calculated as the difference between the carrying value and the redemption value of the preferred stock) in the second quarter of 2009 was not annualized in the calculation of annualized net earnings applicable to common shareholders for the three and six months ended June 2009 since it was a one-time event and therefore it has no impact on other quarters in the year. The following table sets forth our average common shareholders' equity:

	Average for the			
	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Total shareholders' equity	\$73,529	\$ 66,870	\$72,986	\$ 65,167
Preferred stock	(6,957)	(14,125)	(6,957)	(15,139)
Common shareholders' equity	<u>\$66,572</u>	<u>\$ 52,745</u>	<u>\$66,029</u>	<u>\$ 50,028</u>

⁽²⁾ We believe that presenting our results excluding the impact of the \$600 million U.K. bank payroll tax and the \$550 million SEC settlement is meaningful as these are one-time events and excluding them increases the comparability of period-to-period results. The following tables set forth the calculation of net earnings applicable to common shareholders, diluted earnings per common share and average common shareholders' equity excluding the impact of these amounts:

	Three Months Ended June 2010	Six Months Ended June 2010
	(in millions, except per share amounts)	
Net earnings applicable to common shareholders	\$ 453	\$3,749
Impact of U.K. bank payroll tax	600	600
Pre-tax impact of SEC settlement	550	550
Tax impact of SEC settlement	<u>(6)</u>	<u>(6)</u>
Net earnings applicable to common shareholders, excluding the impact of U.K. bank payroll tax and SEC settlement	\$1,597	\$4,893
Divided by: average diluted common shares outstanding	<u>580.4</u>	<u>585.2</u>
Diluted earnings per common share, excluding the impact of U.K. bank payroll tax and SEC settlement	<u>\$ 2.75</u>	<u>\$ 8.36</u>
	Average for the	
	Three Months Ended June 2010	Six Months Ended June 2010
	(in millions)	
Total shareholders' equity	\$73,529	\$72,986
Preferred stock	<u>(6,957)</u>	<u>(6,957)</u>
Common shareholders' equity	66,572	66,029
Impact of U.K. bank payroll tax on average common shareholders' equity	300	171
Impact of SEC settlement on average common shareholders' equity	<u>136</u>	<u>78</u>
Common shareholders' equity, excluding the impact of U.K. bank payroll tax and SEC settlement	<u>\$67,008</u>	<u>\$66,278</u>

Net Revenues

Three Months Ended June 2010 versus June 2009. Net revenues of \$8.84 billion for the second quarter of 2010 decreased 36% compared with the second quarter of 2009, primarily reflecting significantly lower net revenues in Trading and Principal Investments. The decline in Trading and Principal Investments reflected significantly lower net revenues in FICC and Equities compared with a strong second quarter of 2009, partially offset by higher net revenues in Principal Investments. Results in FICC were impacted by a challenging environment generally characterized by lower activity levels and wider corporate credit spreads. The decline in net revenues in FICC compared with the second quarter of 2009 reflected significantly lower results in credit products, interest rate products and currencies. These decreases were partially offset by higher net revenues in mortgages and, to a lesser extent, commodities. During the second quarter of 2009, mortgages included a loss of approximately \$700 million on commercial mortgage loans. Equities also operated in a challenging environment during the second quarter of 2010, which was characterized by a significant decline in global equity prices, a sharp increase in volatility levels and lower activity levels. The decline in net revenues in Equities compared with the second quarter of 2009 primarily reflected significantly lower results in derivatives and, to a lesser extent, principal strategies. In addition, net revenues in shares were lower compared with a solid second quarter of 2009. Commissions declined slightly compared with the second quarter of 2009. In the second quarter of 2010, results in Principal Investments included a gain of \$905 million related to our investment in the ordinary shares of ICBC, primarily reflecting the expiration of transfer restrictions related to these shares, a net gain of \$34 million from corporate principal investments and a net loss of \$10 million from real estate principal investments.

Net revenues in Investment Banking also decreased significantly compared with the second quarter of 2009, reflecting significantly lower net revenues in our Underwriting business. Net revenues in equity underwriting were significantly lower than a strong second quarter of 2009, primarily reflecting lower levels of industry-wide activity, as the second quarter of 2009 included significant capital-raising activity by financial institutions. Net revenues in debt underwriting were also significantly lower, primarily reflecting a decline in industry-wide activity. Net revenues in Financial Advisory increased compared with the second quarter of 2009, primarily reflecting an increase in client activity.

Net revenues in Asset Management and Securities Services declined compared with the second quarter of 2009, reflecting significantly lower net revenues in Securities Services. The decline in Securities Services primarily reflected tighter securities lending spreads, principally due to the impact of changes in the composition of securities lending customer balances, partially offset by the impact of higher average customer balances. Net revenues in Asset Management increased compared with the second quarter of 2009, primarily due to the impact of changes in the composition of assets managed. During the second quarter of 2010, assets under management decreased \$38 billion to \$802 billion, due to \$24 billion of net outflows, primarily reflecting outflows in money market and equity assets, and \$14 billion of net market depreciation, primarily reflecting depreciation in equity assets.

Net revenues for the second quarter of 2010 included net interest income of \$1.62 billion, a decrease of 21% compared with the second quarter of 2009. The decrease compared with the second quarter of 2009 primarily reflected the impact of tighter securities lending spreads, as well as lower average fixed income trading assets.

Six Months Ended June 2010 versus June 2009. Net revenues of \$21.62 billion for the first half of 2010 decreased 7% compared with the first half of 2009, primarily reflecting lower net revenues in Trading and Principal Investments. The decline in Trading and Principal Investments reflected significantly lower net revenues in Equities and lower net revenues in FICC, partially offset by significantly improved results in Principal Investments. The decline in Equities reflected significantly lower net revenues in derivatives and, to a lesser extent, shares and principal strategies. Commissions declined compared with the first half of 2009. Although global equity prices largely increased during the first quarter of 2010, the operating environment for Equities became challenging during the second quarter, as global equity prices decreased significantly, volatility levels increased sharply and activity levels declined. The decrease in FICC primarily reflected significantly lower results in interest rate products and, to a lesser extent, commodities, compared with a strong first half of 2009. In addition, net revenues in credit products and currencies were lower compared with the same prior year period. These decreases were partially offset by significantly higher net revenues in mortgages. In the first half of 2009, mortgages included a loss of approximately \$1.5 billion on commercial mortgage loans. Although activity levels in FICC were strong in the first quarter of 2010, the environment became challenging during the second quarter, as activity levels declined and corporate credit spreads widened. In the first half of 2010, results in Principal Investments included a gain of \$683 million related to our investment in the ordinary shares of ICBC, primarily reflecting the expiration of transfer restrictions related to these shares, a net gain of \$794 million from corporate principal investments and a net loss of \$44 million from real estate principal investments. In the first half of 2009, results in Principal Investments included a gain of \$797 million related to our investment in the ordinary shares of ICBC, and net losses of \$1.14 billion from real estate principal investments and \$278 million from corporate principal investments.

Net revenues in Asset Management and Securities Services declined compared with the first half of 2009, reflecting significantly lower net revenues in Securities Services. The decline in Securities Services primarily reflected tighter securities lending spreads, principally due to the impact of changes in the composition of securities lending customer balances, partially offset by the impact of higher average customer balances. Net revenues in Asset Management increased compared with the first half of 2009, primarily due to the impact of changes in the composition of assets managed, as well as higher average assets under management. During the first half of 2010, assets under management decreased \$69 billion, due to \$63 billion of net outflows, primarily in money market assets, and \$6 billion of net market depreciation.

Net revenues in Investment Banking declined compared with the first half of 2009, reflecting lower net revenues in our Underwriting business. Net revenues in equity underwriting were significantly lower, primarily reflecting a decline in client activity, as the first half of 2009 included significant capital-raising activity by financial institutions. Net revenues in debt underwriting were slightly lower compared with the first half of 2009. Net revenues in Financial Advisory increased compared with the first half of 2009, primarily reflecting an increase in client activity.

Net revenues for the first half of 2010 included net interest income of \$3.04 billion, a decrease of 23% compared with the first half of 2009. The decrease compared with the first half of 2009 was primarily due to lower average fixed income trading assets, most notably U.S. government agency obligations, tighter securities lending spreads and lower average interest rates on interest-earning assets.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. Compensation and benefits includes salaries, estimated year-end discretionary compensation, amortization of equity awards and other items such as payroll taxes (excluding the U.K. bank payroll tax), benefits and severance costs. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment.

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

Operating Expenses and Total Staff (\$ in millions)

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
Compensation and benefits	\$ 3,802	\$ 6,649	\$ 9,295	\$11,361
U.K. bank payroll tax	600	—	600	—
Brokerage, clearing, exchange and distribution fees	622	574	1,184	1,110
Market development	116	82	226	150
Communications and technology	186	173	362	346
Depreciation and amortization	437	426	809	975
Occupancy	274	242	530	483
Professional fees	227	145	409	280
Other expenses	1,129	441	1,594	823
Total non-compensation expenses	<u>2,991</u>	<u>2,083</u>	<u>5,114</u>	<u>4,167</u>
Total operating expenses	<u>\$ 7,393</u>	<u>\$ 8,732</u>	<u>\$15,009</u>	<u>\$15,528</u>
Total staff at period end ⁽¹⁾	34,100	31,200		
Total staff at period end including consolidated entities held for investment purposes ⁽²⁾	38,900	35,100		

⁽¹⁾ Includes employees, consultants and temporary staff.

⁽²⁾ Compensation and benefits and non-compensation expenses related to consolidated entities held for investment purposes are included in their respective line items in the condensed 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.

Three Months Ended June 2010 versus June 2009. Operating expenses of \$7.39 billion for the second quarter of 2010 decreased 15% compared with the second quarter of 2009. The accrual for compensation and benefits expenses of \$3.80 billion for the second quarter of 2010 decreased 43% compared with the second quarter of 2009, primarily reflecting the impact of lower net revenues. Total staff increased 3% during the second quarter of 2010. Total staff including consolidated entities held for investment purposes increased 1% during the second quarter of 2010.

During the second quarter of 2010, the United Kingdom enacted legislation that imposed 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.” Operating expenses for the second quarter of 2010 included an estimate of \$600 million related to this bank payroll tax.

Non-compensation expenses of \$2.99 billion increased 44% compared with the second quarter of 2009. The increase compared with the second quarter of 2009 was primarily attributable to the impact of net provisions for litigation and regulatory proceedings of \$615 million in the second quarter of 2010 (including \$550 million related to the SEC settlement), as well as higher professional fees and brokerage, clearing, exchange and distribution fees.

Six Months Ended June 2010 versus June 2009. Operating expenses of \$15.01 billion for the first half of 2010 decreased 3% compared with the first half of 2009. The accrual for compensation and benefits expenses of \$9.30 billion for the first half of 2010 decreased 18% compared with the first half of 2009, primarily reflecting a reduction in our ratio of compensation and benefits to net revenues from 49.0% for the first half of 2009 to 43.0% ⁽¹⁾ (which excludes the impact of the U.K. bank payroll tax) for the first half of 2010. Total staff increased 5% during the first half of 2010. Total staff including consolidated entities held for investment purposes increased 7% during the first half of 2010.

Operating expenses for the first half of 2010 included an estimate of \$600 million related to the U.K. bank payroll tax.

Non-compensation expenses of \$5.11 billion increased 23% compared with the first half of 2009. The increase compared with the first half of 2009 was primarily attributable to the impact of net provisions for litigation and regulatory proceedings of \$636 million in the first half of 2010 (including \$550 million related to the SEC settlement), as well as higher professional fees, market development expenses and brokerage, clearing, exchange and distribution fees. These increases were partially offset by decreased depreciation and amortization expenses, due to the impact of significantly higher real estate impairment charges in the first half of 2009 related to our consolidated entities held for investment purposes. These 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.

⁽¹⁾ Our total compensation and benefits expenses including the \$600 million U.K. bank payroll tax were \$4.40 billion and \$9.90 billion for the three and six months ended June 2010, respectively. We believe that presenting our ratio of compensation and benefits to net revenues excluding the impact of the \$600 million U.K. bank payroll tax is meaningful as this is a one-time event and excluding it increases the comparability of period-to-period results.

	Six Months Ended June 2010
	(\$ in millions)
Compensation and benefits (which excludes the impact of the \$600 million U.K. bank payroll tax)	\$9,295
Ratio of compensation and benefits to net revenues.	43.0%
Compensation and benefits, including the impact of the \$600 million U.K. bank payroll tax	\$9,895
Ratio of compensation and benefits to net revenues, including the impact of the \$600 million U.K. bank payroll tax	45.8%

Provision for Taxes

The effective income tax rate for the first half of 2010, excluding the impact of the \$600 million U.K. bank payroll tax and the \$550 million SEC settlement, substantially all of which is non-deductible, was approximately 32.8% ⁽¹⁾, essentially unchanged from the first quarter of 2010 and fiscal year 2009. Including the impact of these amounts, the effective income tax rate for the first half of 2010 was approximately 38.4%.

Effective January 1, 2010, the rules related to the deferral of U.S. tax on certain non-repatriated active financing income expired. This change did not have a material effect on our financial condition, results of operations or cash flows for the three and six months ended June 2010 and we do not expect this change to have a material effect on our financial condition, results of operations or cash flows for the remainder of 2010. This change may have a material impact on our effective tax rate for 2011 if the expired provisions are not re-enacted.

⁽¹⁾ We believe that presenting our effective income tax rate excluding the impact of the \$600 million U.K. bank payroll tax and the \$550 million SEC settlement, substantially all of which is non-deductible, is meaningful as these are one-time events and excluding them increases the comparability of period-to-period results. The following table sets forth the calculation of the effective income tax rate excluding the impact of these amounts:

	Six Months Ended June 2010		
	Pre-tax earnings	Provision for taxes	Effective income tax rate
		(\$ in millions)	
As reported	\$6,607	\$2,538	38.4%
Add back:			
Impact of U.K. bank payroll tax	600	—	
Impact of SEC settlement	550	6	
As adjusted	<u>\$7,757</u>	<u>\$2,544</u>	32.8%

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)			
		Three Months Ended June		Six Months Ended June	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Investment Banking	Net revenues	\$ 917	\$ 1,440	\$ 2,101	\$ 2,263
	Operating expenses	<u>760</u>	<u>1,167</u>	<u>1,710</u>	<u>1,872</u>
	Pre-tax earnings	<u>\$ 157</u>	<u>\$ 273</u>	<u>\$ 391</u>	<u>\$ 391</u>
Trading and Principal Investments	Net revenues	\$6,551	\$10,784	\$16,801	\$17,934
	Operating expenses	<u>4,954</u>	<u>6,290</u>	<u>10,519</u>	<u>11,163</u>
	Pre-tax earnings	<u>\$1,597</u>	<u>\$ 4,494</u>	<u>\$ 6,282</u>	<u>\$ 6,771</u>
Asset Management and Securities Services	Net revenues	\$1,373	\$ 1,537	\$ 2,714	\$ 2,989
	Operating expenses	<u>1,064</u>	<u>1,250</u>	<u>2,144</u>	<u>2,455</u>
	Pre-tax earnings	<u>\$ 309</u>	<u>\$ 287</u>	<u>\$ 570</u>	<u>\$ 534</u>
Total	Net revenues	\$8,841	\$13,761	\$21,616	\$23,186
	Operating expenses ⁽¹⁾ . .	<u>7,393</u>	<u>8,732</u>	<u>15,009</u>	<u>15,528</u>
	Pre-tax earnings	<u>\$1,448</u>	<u>\$ 5,029</u>	<u>\$ 6,607</u>	<u>\$ 7,658</u>

⁽¹⁾ Operating expenses include net provisions for a number of litigation and regulatory proceedings of \$615 million and \$25 million for the three months ended June 2010 and June 2009, respectively, and \$636 million and \$38 million for the six months ended June 2010 and June 2009, 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 16 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q 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.

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)

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
Financial Advisory	\$472	\$ 368	\$ 936	\$ 895
Equity underwriting	222	736	593	784
Debt underwriting	223	336	572	584
Total Underwriting	445	1,072	1,165	1,368
Total net revenues	917	1,440	2,101	2,263
Operating expenses	760	1,167	1,710	1,872
Pre-tax earnings	<u>\$157</u>	<u>\$ 273</u>	<u>\$ 391</u>	<u>\$ 391</u>

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

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

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
Announced mergers and acquisitions ⁽²⁾	\$98	\$146	\$244	\$347
Completed mergers and acquisitions ⁽²⁾	77	163	192	356
Equity and equity-related offerings ⁽³⁾	9	32	23	34
Debt offerings ⁽⁴⁾	46	79	106	148

⁽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.

Three Months Ended June 2010 versus June 2009. Net revenues in Investment Banking of \$917 million for the second quarter of 2010 decreased 36% compared with the second quarter of 2009.

Net revenues in Financial Advisory of \$472 million increased 28% compared with the second quarter of 2009, primarily reflecting an increase in client activity. Net revenues in our Underwriting business of \$445 million decreased 58% compared with the second quarter of 2009. Net revenues in equity underwriting were significantly lower than a strong second quarter of 2009, primarily reflecting lower levels of industry-wide activity, as the second quarter of 2009 included significant capital-raising activity by financial institutions. Net revenues in debt underwriting were also significantly lower, primarily reflecting a decline in industry-wide activity. Our investment banking transaction backlog increased during the quarter. ⁽¹⁾

Operating expenses of \$760 million for the second quarter of 2010 decreased 35% compared with the second quarter of 2009, due to decreased compensation and benefits expenses, primarily resulting from lower net revenues, partially offset by the impact of the U.K. bank payroll tax during the second quarter of 2010. Pre-tax earnings of \$157 million for the second quarter of 2010 decreased 42% compared with the second quarter of 2009.

Six Months Ended June 2010 versus June 2009. Net revenues in Investment Banking of \$2.10 billion for the first half of 2010 decreased 7% compared with the first half of 2009.

Net revenues in Financial Advisory of \$936 million increased 5% compared with the first half of 2009, primarily reflecting an increase in client activity. Net revenues in our Underwriting business of \$1.17 billion decreased 15% compared with the first half of 2009. Net revenues in equity underwriting were significantly lower, primarily reflecting a decline in client activity, as the first half of 2009 included significant capital-raising activity by financial institutions. Net revenues in debt underwriting were slightly lower compared with the first half of 2009.

Operating expenses of \$1.71 billion for the first half of 2010 decreased 9% compared with the first half of 2009, due to decreased compensation and benefits expenses, resulting from lower levels of discretionary compensation, partially offset by the impact of the U.K. bank payroll tax during the first half of 2010. Pre-tax earnings were \$391 million for the first half of 2010, unchanged from the first half of 2009.

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).

⁽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.

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.

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

Trading and Principal Investments Operating Results
(in millions)

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
FICC	\$ 4,396	\$ 6,795	\$11,782	\$13,352
Equities trading	235	2,157	1,708	3,184
Equities commissions	977	1,021	1,858	1,995
Total Equities	1,212	3,178	3,566	5,179
ICBC	905	948	683	797
Gross gains	1,198	1,306	2,046	1,812
Gross losses	(1,174)	(1,462)	(1,296)	(3,229)
Net other corporate and real estate investments . . .	24	(156)	750	(1,417)
Overrides	14	19	20	23
Total Principal Investments	943	811	1,453	(597)
Total net revenues	6,551	10,784	16,801	17,934
Operating expenses	4,954	6,290	10,519	11,163
Pre-tax earnings	<u>\$ 1,597</u>	<u>\$ 4,494</u>	<u>\$ 6,282</u>	<u>\$ 6,771</u>

Three Months Ended June 2010 versus June 2009. Net revenues in Trading and Principal Investments of \$6.55 billion for the second quarter of 2010 decreased 39% compared with the second quarter of 2009.

Net revenues in FICC of \$4.40 billion decreased 35% compared with a strong second quarter of 2009. During the second quarter of 2010, FICC operated in a challenging environment generally characterized by lower activity levels and wider corporate credit spreads. The decline in net revenues compared with the second quarter of 2009 reflected significantly lower results in credit products, interest rate products and currencies. These decreases were partially offset by higher net revenues in mortgages and, to a lesser extent, commodities. During the second quarter of 2009, mortgages included a loss of approximately \$700 million on commercial mortgage loans.

Net revenues in Equities of \$1.21 billion decreased 62% compared with a strong second quarter of 2009. During the second quarter of 2010, Equities operated in a challenging environment characterized by a significant decline in global equity prices, a sharp increase in volatility levels and lower activity levels. The decline in net revenues compared with the second quarter of 2009 primarily reflected significantly lower results in derivatives and, to a lesser extent, principal strategies. In addition, net revenues in shares were lower compared with a solid second quarter of 2009. Commissions declined slightly compared with the second quarter of 2009.

Principal Investments recorded net revenues of \$943 million for the second quarter of 2010. These results included a gain of \$905 million related to our investment in the ordinary shares of ICBC, primarily reflecting the expiration of transfer restrictions related to these shares, a net gain of \$34 million from corporate principal investments and a net loss of \$10 million from real estate principal investments.

Operating expenses of \$4.95 billion for the second quarter of 2010 decreased 21% compared with the second quarter of 2009, due to decreased compensation and benefits, primarily resulting from lower net revenues, partially offset by the impact of the U.K. bank payroll tax during the second quarter of 2010. Pre-tax earnings of \$1.60 billion for the second quarter of 2010 decreased 64% compared with the second quarter of 2009.

Six Months Ended June 2010 versus June 2009. Net revenues in Trading and Principal Investments of \$16.80 billion for the first half of 2010 decreased 6% compared with the first half of 2009.

Net revenues in FICC of \$11.78 billion decreased 12% compared with the first half of 2009, primarily reflecting significantly lower results in interest rate products and, to a lesser extent, commodities, compared with a strong first half of 2009. In addition, net revenues in credit products and currencies were lower compared with the same prior year period. These decreases were partially offset by significantly higher net revenues in mortgages. In the first half of 2009, mortgages included a loss of approximately \$1.5 billion on commercial mortgage loans. Although activity levels in FICC were strong in the first quarter of 2010, the environment became challenging during the second quarter, as activity levels declined and corporate credit spreads widened.

Net revenues in Equities of \$3.57 billion decreased 31% compared with the first half of 2009, reflecting significantly lower net revenues in derivatives and, to a lesser extent, shares and principal strategies. Commissions declined compared with the first half of 2009. Although global equity prices largely increased during the first quarter of 2010, the operating environment for Equities became challenging during the second quarter, as global equity prices decreased significantly, volatility levels increased sharply and activity levels declined.

Principal Investments recorded net revenues of \$1.45 billion for the first half of 2010. These results included a gain of \$683 million related to our investment in the ordinary shares of ICBC, primarily reflecting the expiration of transfer restrictions related to these shares, a net gain of \$794 million from corporate principal investments and a net loss of \$44 million from real estate principal investments. In the first half of 2009, results in Principal Investments included a gain of \$797 million related to our investment in the ordinary shares of ICBC, and net losses of \$1.14 billion from real estate principal investments and \$278 million from corporate principal investments.

Operating expenses of \$10.52 billion for the first half of 2010 decreased 6% compared with the first half of 2009, due to decreased compensation and benefits expenses, resulting from lower levels of discretionary compensation, as well as lower depreciation and amortization expenses, due to significantly higher real estate impairment charges in the first half of 2009 related to consolidated entities held for investment purposes. These decreases were partially offset by the impact of the U.K. bank payroll tax during the first half of 2010. Pre-tax earnings of \$6.28 billion for the first half of 2010 decreased 7% compared with the first half of 2009.

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.

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)

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
Management and other fees	\$ 957	\$ 918	\$1,883	\$1,849
Incentive fees	19	4	39	22
Total Asset Management	976	922	1,922	1,871
Securities Services	397	615	792	1,118
Total net revenues	1,373	1,537	2,714	2,989
Operating expenses	1,064	1,250	2,144	2,455
Pre-tax earnings	<u>\$ 309</u>	<u>\$ 287</u>	<u>\$ 570</u>	<u>\$ 534</u>

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
- 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			
	June 30, 2010	June 30, 2009	December 31, 2009	November 30, 2008
Alternative investments ⁽¹⁾	\$146	\$142	\$146	\$146
Equity	125	121	146	112
Fixed income	<u>326</u>	<u>272</u>	<u>315</u>	<u>248</u>
Total non-money market assets	597	535	607	506
Money markets	<u>205</u>	<u>284</u>	<u>264</u>	<u>273</u>
Total assets under management.	<u><u>\$802</u></u>	<u><u>\$819</u></u>	<u><u>\$871</u></u>	<u><u>\$779</u></u>

⁽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)

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Balance, beginning of period	\$840	\$771	\$871	\$798
Net inflows/(outflows)				
Alternative investments	1	(2)	2	(4)
Equity	(9)	(1)	(11)	(2)
Fixed income	<u>(2)</u>	<u>6</u>	<u>5</u>	<u>3</u>
Total non-money market net inflows/(outflows).	(10)	3	(4)	(3)
Money markets	<u>(14)</u>	<u>3</u>	<u>(59)</u>	<u>(2)</u>
Total net inflows/(outflows)	(24)	6	(63)	(5)
Net market appreciation/(depreciation)	<u>(14)</u>	<u>42</u>	<u>(6)</u>	<u>26</u>
Balance, end of period	<u><u>\$802</u></u>	<u><u>\$819</u></u>	<u><u>\$802</u></u>	<u><u>\$819</u></u>

Three Months Ended June 2010 versus June 2009. Net revenues in Asset Management and Securities Services of \$1.37 billion for the second quarter of 2010 decreased 11% compared with the second quarter of 2009.

Net revenues in Asset Management of \$976 million increased 6% compared with the second quarter of 2009, primarily due to the impact of changes in the composition of assets managed. During the second quarter of 2010, assets under management decreased \$38 billion to \$802 billion, due to \$24 billion of net outflows, primarily reflecting outflows in money market and equity assets, and \$14 billion of net market depreciation, primarily reflecting depreciation in equity assets.

Net revenues in Securities Services of \$397 million decreased 35% compared with the second quarter of 2009. The decrease in net revenues primarily reflected tighter securities lending spreads, principally due to the impact of changes in the composition of securities lending customer balances, partially offset by the impact of higher average customer balances.

Operating expenses of \$1.06 billion for the second quarter of 2010 decreased 15% compared with the second quarter of 2009, due to decreased compensation and benefits expenses, primarily resulting from lower net revenues, partially offset by the impact of the U.K. bank payroll tax during the second quarter of 2010. Pre-tax earnings of \$309 million for the second quarter of 2010 increased 8% compared with the second quarter of 2009.

Six Months Ended June 2010 versus June 2009. Net revenues in Asset Management and Securities Services of \$2.71 billion for the first half of 2010 decreased 9% compared with the first half of 2009.

Net revenues in Asset Management of \$1.92 billion increased 3% compared with the first half of 2009, primarily due to the impact of changes in the composition of assets managed, as well as higher average assets under management. During the first half of 2010, assets under management decreased \$69 billion, due to \$63 billion of net outflows, primarily in money market assets, and \$6 billion of net market depreciation.

Net revenues in Securities Services of \$792 million decreased 29% compared with the first half of 2009. The decline in Securities Services primarily reflected tighter securities lending spreads, principally due to the impact of changes in the composition of securities lending customer balances, partially offset by the impact of higher average customer balances.

Operating expenses of \$2.14 billion for the first half of 2010 decreased 13% compared with the first half of 2009, due to decreased compensation and benefits expenses, resulting from lower levels of discretionary compensation, partially offset by the impact of the U.K. bank payroll tax during the first half of 2010. Pre-tax earnings of \$570 million for the first half of 2010 increased 7% compared with the first half of 2009.

Geographic Data

See Note 16 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a summary of our total net revenues and pre-tax earnings by geographic region.

Regulatory Reform

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted in the U.S. The Dodd-Frank Act requires changes in the regulation of financial institutions and will fundamentally change the system of oversight described under "Business-Regulation" in Part I, Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. While the legislation will affect many of our different businesses, we expect that there will be two principal areas of impact: limitations on proprietary trading and investment in hedge funds and private equity funds by banking entities, including bank holding companies; and increased regulation of and restrictions on OTC derivatives markets and transactions. In addition, the legislation will, among other things: create a new systemic risk oversight body and expand the authority of our existing regulators; change capital requirements; broaden the reporting and regulation of executive compensation; expand the standards for market participants in dealing with clients and customers; further restrict affiliate transactions within banking organizations; and increase fees assessed by banking regulators. The specific impact of the Dodd-Frank Act on our businesses, our clients and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments over the next several years.

Off-Balance-Sheet Arrangements

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

We enter into these arrangements for a variety of business purposes, including the securitization of commercial and residential mortgages, corporate bonds, and other types of financial assets. 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. 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.

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.

When we transfer a security that has very little, if any, default risk under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security (such that we effectively no longer have a repurchase obligation) and we have relinquished control over the underlying security, we record such transactions as sales. We had no such transactions outstanding as of June 2010.

The following table sets forth where a discussion of off-balance-sheet arrangements may be found in Part I, Items 1 and 2 of this Quarterly Report on Form 10-Q:

Type of Off-Balance-Sheet Arrangement	Disclosure in Quarterly Report on Form 10-Q
Variable interests and other obligations, including contingent obligations, arising from variable interests in nonconsolidated VIEs	See Note 4 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.
Leases, letters of credit, and loans and other commitments	See Note 8 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.
Guarantees	See Note 8 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.
Derivative contracts	See Notes 3 and 7 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, “— Critical Accounting Policies” above and “— Derivatives” below.

In addition, see Note 2 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q 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 capital adequacy assessment process (ICAAP), 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. In addition, we maintain a Contingency Capital Plan (CCP) which provides a framework for analyzing and responding to an actual or perceived capital shortfall.

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

As of June 2010, our total shareholders' equity was \$73.82 billion (consisting of common shareholders' equity of \$66.86 billion and preferred stock of \$6.96 billion). 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). 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 and a financial holding company under the U.S. Bank Holding Company Act of 1956. 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.

Consolidated Capital Ratios

The following table sets forth information regarding our consolidated capital ratios as of June 2010 and 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.

	As of	
	June 2010	December 2009
	(\$ in millions)	
Tier 1 Capital		
Common shareholders' equity	\$ 66,862	\$ 63,757
Preferred stock	6,957	6,957
Junior subordinated debt issued to trusts	5,000	5,000
Less: Goodwill	(3,548)	(3,543)
Less: Disallowable intangible assets	(2,346)	(1,377)
Less: Other deductions ⁽¹⁾	<u>(4,441)</u>	<u>(6,152)</u>
Tier 1 Capital	68,484	64,642
Tier 2 Capital		
Qualifying subordinated debt ⁽²⁾	13,680	14,004
Less: Other deductions ⁽¹⁾	<u>(231)</u>	<u>(176)</u>
Tier 2 Capital	<u>\$ 13,449</u>	<u>\$ 13,828</u>
Total Capital	<u>\$ 81,933</u>	<u>\$ 78,470</u>
Risk-Weighted Assets	<u>\$451,247</u>	<u>\$431,890</u>
Tier 1 Capital Ratio	15.2%	15.0%
Total Capital Ratio	18.2%	18.2%
Tier 1 Leverage Ratio	8.0%	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 nonconsolidated 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 are determined by reference to our VaR models, supplemented by other measures to capture risks not reflected in our VaR models. Credit risk for on-balance sheet assets is based on the balance sheet value. For off-balance sheet exposures, including OTC derivatives and commitments, a credit equivalent amount is calculated based on the notional amount of each trade. All such assets and 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 average adjusted total assets (which includes adjustments for disallowed goodwill and intangible assets, and the carrying value of equity investments in non-financial companies that are subject to deductions from Tier 1 capital).

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%.

The Dodd-Frank Act will subject us at a firmwide level to the same leverage and risk-based capital requirements that apply to depository institutions specifically, and directs banking regulators to impose additional capital requirements. The Federal Reserve Board will be required to implement the new leverage and risk-based capital regulation by January 2012. As a consequence of these changes, Tier 1 Capital treatment for our junior subordinated debt issued to trusts and our cumulative preferred stock will be phased out over a three-year period beginning on January 1, 2013.

A number of other governmental entities and regulators, including the U.S. Treasury, the European Union, the Basel Committee on Banking Supervision and the FSA in the United Kingdom, have also proposed or announced changes which will result in increased capital requirements for financial institutions. As a consequence, minimum capital ratios required to be maintained under Federal Reserve Board regulations will be increased. It is also possible that changes in the prescribed calculation methodology could result in higher RWAs and lower capital ratios than those currently computed.

Internal Capital Adequacy Assessment Process

We perform an ICAAP with the objective of ensuring that the firm is appropriately capitalized relative to the risks in our business.

As part of our ICAAP, we perform an IRBC assessment. We evaluate capital adequacy based on the result of our IRBC assessment, supplemented with the results of stress tests which measure the firm’s performance under various market conditions. Our assessment of capital adequacy is viewed in tandem with our assessment of liquidity adequacy and integrated into the overall risk management structure, governance and policy framework of the firm.

We attribute capital usage to each of our business units based upon our IRBC framework and manage the levels of usage based upon the balance sheet and risk limits established.

Contingency Capital Plan

Our CCP outlines the appropriate communication procedures to follow during a crisis period, including internal dissemination of information as well as ensuring timely communication with external stakeholders. It also provides a framework for analyzing and responding to a perceived or actual capital deficiency, including, but not limited to, identification of drivers of a capital deficiency, as well as mitigants and potential actions.

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. In addition, for purposes of assessing the adequacy of its capital, GS Bank USA has established an ICAAP which is similar to that used by Group Inc. 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. (GSEC) are registered U.S. broker-dealers and futures commission merchants, and are subject to regulatory capital requirements, including those imposed by the SEC, the Commodity Futures Trading Commission, CME Group Inc., the Financial Industry Regulatory Authority, Inc. (FINRA) 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 15 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q 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 June 2010 and December 2009, Group Inc.'s equity investment in subsidiaries was \$70.06 billion and \$65.74 billion, respectively, compared with its total shareholders' equity of \$73.82 billion and \$70.71 billion, respectively.

Group Inc. has guaranteed the payment obligations of GS&Co., GS Bank USA, GS Bank Europe and GSEC 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 long-term issuer ratings as well as ratings on its long-term and short-term bank deposits. In addition, credit rating agencies have assigned ratings to debt obligations of certain other subsidiaries of Group Inc.

The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See “— Liquidity 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 and subject to any regulatory approvals. 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 IRBC framework and manage the levels of usage based upon the balance sheet and risk limits established.

Preferred Stock. 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 substantially offset increases in share count over time resulting from employee share-based compensation and to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our issuance of shares resulting from employee share-based compensation as well as our current and projected capital position (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 June 2010, under the Board’s existing share repurchase program, we can repurchase up to 47.7 million additional shares of common stock; however, any such repurchases are subject to the approval of the Federal Reserve Board. See “Unregistered Sales of Equity Securities and Use of Proceeds” in Part II, Item 2 and Note 9 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information on our repurchase program.

See Notes 7 and 9 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

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	
	June 2010	December 2009
	(\$ in millions, except per share amounts)	
Total assets	\$883,188	\$848,942
Adjusted assets ⁽¹⁾	551,117	546,151
Total shareholders' equity	73,819	70,714
Tangible equity capital ⁽²⁾	72,925	70,794
Leverage ratio ⁽³⁾	12.0x	12.0x
Adjusted leverage ratio ⁽⁴⁾	7.6x	7.7x
Debt to equity ratio ⁽⁵⁾	2.4x	2.6x
Common shareholders' equity	\$ 66,862	\$ 63,757
Tangible common shareholders' equity ⁽⁶⁾	60,968	58,837
Book value per common share ⁽⁷⁾	123.73	117.48
Tangible book value per common share ⁽⁶⁾⁽⁷⁾	112.82	108.42

	As of	
	June 2010	December 2009
	Basel I ⁽⁸⁾	
Tier 1 capital ratio	15.2%	15.0%
Total capital ratio	18.2%	18.2%
Tier 1 leverage ratio	8.0%	7.6%
Tier 1 common ratio ⁽⁹⁾	12.5%	12.2%
Tangible common shareholders' equity ⁽⁶⁾ to risk-weighted assets ratio	13.5%	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 securities we segregate for regulatory and other purposes and (iii) goodwill and identifiable intangible assets which are deducted when calculating tangible equity capital (see footnote 2 below).

The following table sets forth the reconciliation of total assets to adjusted assets:

	As of	
	June 2010	December 2009
	(in millions)	
Total assets	\$ 883,188	\$ 848,942
Deduct: Securities borrowed	(190,079)	(189,939)
Securities purchased under agreements to resell and federal funds sold	(169,280)	(144,279)
Add: Trading liabilities, at fair value	147,170	129,019
Less derivative liabilities	(57,574)	(56,009)
Subtotal	89,596	73,010
Deduct: Cash and securities segregated for regulatory and other purposes	(56,414)	(36,663)
Goodwill and identifiable intangible assets	(5,894)	(4,920)
Adjusted assets	<u>\$ 551,117</u>	<u>\$ 546,151</u>

⁽²⁾ Tangible equity capital equals total shareholders' equity and junior subordinated debt issued to trusts less goodwill and identifiable intangible assets. We consider junior subordinated debt issued to trusts to be a component of our tangible equity capital base due to certain characteristics of the debt, including its long-term nature, our ability to defer payments due on the debt and the subordinated nature of the debt in our capital structure.

The following table sets forth the reconciliation of total shareholders' equity to tangible equity capital:

	As of	
	June 2010	December 2009
	(in millions)	
Total shareholders' equity	\$73,819	\$70,714
Add: Junior subordinated debt issued to trusts	5,000	5,000
Deduct: Goodwill and identifiable intangible assets	<u>(5,894)</u>	<u>(4,920)</u>
Tangible equity capital	<u>\$72,925</u>	<u>\$70,794</u>

- (3) The leverage ratio equals total assets divided by total shareholders' equity. This ratio is different from the Tier 1 leverage ratio included above, which is described in Note 15 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.
- (4) The adjusted leverage ratio equals adjusted assets divided by tangible equity capital. We believe that the adjusted leverage ratio is a more meaningful measure of our capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital and reflects the tangible equity capital deployed in our businesses.
- (5) The debt to equity ratio equals unsecured long-term borrowings divided by total shareholders' equity.
- (6) 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 RSUs granted to employees with no future service requirements. We believe that tangible common shareholders' equity and tangible book value per common share are meaningful because they are measures that we and investors use to assess capital adequacy.

The following table sets forth the reconciliation of total shareholders' equity to tangible common shareholders' equity:

	As of	
	June 2010	December 2009
	(in millions)	
Total shareholders' equity	\$73,819	\$70,714
Deduct: Preferred stock	<u>(6,957)</u>	<u>(6,957)</u>
Common shareholders' equity	66,862	63,757
Deduct: Goodwill and identifiable intangible assets	<u>(5,894)</u>	<u>(4,920)</u>
Tangible common shareholders' equity	<u>\$60,968</u>	<u>\$58,837</u>

- (7) Book value and tangible book value per common share are based on common shares outstanding, including RSUs granted to employees with no future service requirements, of 540.4 million and 542.7 million as of June 2010 and December 2009, respectively.
- (8) Calculated in accordance with the regulatory capital requirements currently applicable to bank holding companies. RWAs were \$451.25 billion and \$431.89 billion as of June 2010 and December 2009, respectively, under Basel I. See Note 15 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our regulatory capital ratios.
- (9) The Tier 1 common ratio equals Tier 1 capital less preferred stock and junior subordinated debt issued to trusts, divided by RWAs. We believe that the Tier 1 common ratio is meaningful because it is one of the measures that we and investors use to assess capital adequacy.

The following table sets forth the reconciliation of Tier 1 capital to Tier 1 common capital:

	As of	
	June 2010	December 2009
	(in millions)	
Tier 1 capital	\$68,484	\$64,642
Deduct: Preferred stock	(6,957)	(6,957)
Junior subordinated debt issued to trusts	<u>(5,000)</u>	<u>(5,000)</u>
Tier 1 common capital	<u>\$56,527</u>	<u>\$52,685</u>

Our Tier 1 capital ratio increased to 15.2% as of June 2010 from 15.0% as of December 2009. The growth in our Tier 1 capital during the six months ended June 2010 was partially offset by an increase in our RWAs, resulting in an increase to our Tier 1 capital ratio. Our Tier 1 leverage ratio increased to 8.0% as of June 2010 from 7.6% as of December 2009, as our Tier 1 capital increased and our average adjusted total assets decreased. Our adjusted leverage ratio decreased to 7.6x as of June 2010 from 7.7x as of December 2009 primarily because our tangible equity capital grew at a higher rate than our adjusted assets. Although total assets increased by 4.0% during the period, this growth was principally comprised of increases in low-risk assets (primarily securities purchased under agreements to resell and cash and securities segregated for regulatory and other purposes), which do not impact our adjusted assets.

Contractual Obligations

Goldman Sachs has contractual obligations to make future payments related to our unsecured long-term borrowings, secured long-term financings, time deposits, long-term noncancelable lease agreements and purchase obligations and has commitments under a variety of commercial arrangements.

The following table sets forth our contractual obligations by maturity date as of June 2010:

Contractual Obligations					
(in millions)					
	<u>Remainder of 2010</u>	<u>2011- 2012</u>	<u>2013- 2014</u>	<u>2015- Thereafter</u>	<u>Total</u>
Unsecured long-term borrowings ⁽¹⁾⁽²⁾⁽³⁾	\$ —	\$37,261	\$39,296	\$102,025	\$178,582
Secured long-term financings ⁽¹⁾⁽²⁾⁽⁴⁾	—	6,425	3,321	2,656	12,402
Time deposits ⁽⁵⁾	—	1,992	2,470	2,253	6,715
Contractual interest payments ⁽⁶⁾	3,392	12,686	9,704	29,710	55,492
Insurance liabilities ⁽⁷⁾	350	1,268	1,090	8,415	11,123
Minimum rental payments	248	851	521	1,673	3,293
Purchase obligations	155	60	41	31	287

⁽¹⁾ Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holder are excluded from this table and are treated as short-term obligations. See Note 3 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our secured financings.

⁽²⁾ Obligations that are repayable prior to maturity at the option of Goldman Sachs are reflected at their contractual maturity dates. Obligations that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

⁽³⁾ Amount includes an increase of \$11.53 billion to the carrying amount of certain of the firm's unsecured long-term borrowings related to fair value hedges. In addition, the aggregate contractual principal amount of unsecured long-term borrowings (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by \$936 million.

⁽⁴⁾ The aggregate contractual principal amount of secured long-term financings for which the fair value option was elected, primarily consisting of transfers of financial assets accounted for as financings rather than sales, debt raised through our William Street credit extension program and certain other nonrecourse financings, exceeded the related fair value by \$725 million.

⁽⁵⁾ Excludes \$3.20 billion of time deposits maturing within one year of our financial statement date.

⁽⁶⁾ Represents estimated future interest payments related to unsecured long-term borrowings, secured long-term financings and time deposits based on applicable interest rates as of June 2010. Includes stated coupons, if any, on structured notes.

⁽⁷⁾ Represents estimated undiscounted payments related to future benefits and unpaid claims arising from policies associated with our insurance activities, excluding separate accounts and estimated recoveries under reinsurance contracts.

As of June 2010, our unsecured long-term borrowings were \$178.58 billion, with maturities extending to 2043, and consisted principally of senior borrowings. See Note 7 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our unsecured long-term borrowings.

As of June 2010, our future minimum rental payments, net of minimum sublease rentals, under noncancelable leases were \$3.29 billion. These lease commitments, principally for office space, expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 8 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. During the three and six months ended June 2010, total occupancy expenses for space held in excess of our current requirements were \$33 million and \$53 million, respectively, which includes costs related to the transition to our new headquarters in New York City. 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.

Due to the uncertainty of the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded from the above contractual obligations table.

See Note 8 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding our commitments, contingencies and guarantees.

Market Risk

The potential for changes in the market value of our trading and investing positions is referred to as market risk. Such positions result from market-making, underwriting, investing activities and proprietary trading. Substantially all of our inventory positions are marked-to-market on a daily basis and changes are recorded in net revenues.

Categories of market risk include exposures to interest rates, equity prices, currency rates and commodity prices. A description of each market risk category is set forth below:

- Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads.
- Equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.
- Currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates.
- Commodity price risks result from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

We seek to manage these risks by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. For example, we may seek to hedge a portfolio of common stocks by taking an offsetting position in a related equity-index futures contract. The ability to manage an exposure may, however, be limited by adverse changes in the liquidity of the security or the related hedge instrument and in the correlation of price movements between the security and related hedge instrument.

In addition to applying business judgment, senior management uses a number of quantitative tools to manage our exposure to market risk for “Trading assets, at fair value” and “Trading liabilities, at fair value” in the condensed consolidated statements of financial condition. These tools include:

- risk limits based on a summary measure of market risk exposure referred to as VaR;
- scenario analyses, stress tests and other analytical tools that measure the potential effects on our trading net revenues of various market events, including, but not limited to, a large widening of credit spreads, a substantial decline in equity markets and significant moves in selected emerging markets; and
- inventory position limits for selected business units.

VaR

VaR is the potential loss in value of trading positions due to adverse market movements over a defined time horizon with a specified confidence level.

For the VaR numbers reported below, a one-day time horizon and a 95% confidence level were used. This means that there is a 1 in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Thus, shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once a month. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also occur more frequently or accumulate over a longer time horizon such as a number of consecutive trading days.

The modeling of the risk characteristics of our trading positions involves a number of assumptions and approximations. While we believe that these assumptions and approximations are reasonable, there is no standard methodology for estimating VaR, and different assumptions and/or approximations could produce materially different VaR estimates.

We use historical data to estimate our VaR and, to better reflect current asset volatilities, we generally weight historical data to give greater importance to more recent observations. Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.

The following tables set forth the daily VaR:

Average Daily VaR ⁽¹⁾
(in millions)

<u>Risk Categories</u>	<u>Average for the</u>			
	<u>Three Months Ended June</u>		<u>Six Months Ended June</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest rates	\$ 87	\$205	\$ 98	\$211
Equity prices	61	60	74	49
Currency rates	36	39	36	38
Commodity prices	32	40	40	40
Diversification effect ⁽²⁾	<u>(80)</u>	<u>(99)</u>	<u>(100)</u>	<u>(95)</u>
Total	<u>\$136</u>	<u>\$245</u>	<u>\$ 148</u>	<u>\$243</u>

⁽¹⁾ Certain portfolios and individual positions are not included in VaR, where VaR is not the most appropriate measure of risk (e.g., due to transfer restrictions and/or illiquidity). See “— Other Market Risk Measures” below.

⁽²⁾ Equals the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

Our average daily VaR decreased to \$136 million for the second quarter of 2010 from \$245 million for the second quarter of 2009, principally due to a decrease in the interest rates category, partially offset by a decrease in the diversification benefit across risk categories. The decrease in interest rates was primarily due to reduced exposures and lower levels of volatility.

VaR excludes the impact of changes in counterparty and our own credit spreads on derivatives as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected. The estimated sensitivity of our net revenues to a one basis point increase in credit spreads (counterparty and our own) on derivatives was a \$1 million gain as of June 2010. In addition, the estimated sensitivity of our net revenues to a one basis point increase in our own credit spreads on unsecured borrowings for which the fair value option was elected was an \$8 million gain (including hedges) as of June 2010.

Daily VaR ⁽¹⁾
(in millions)

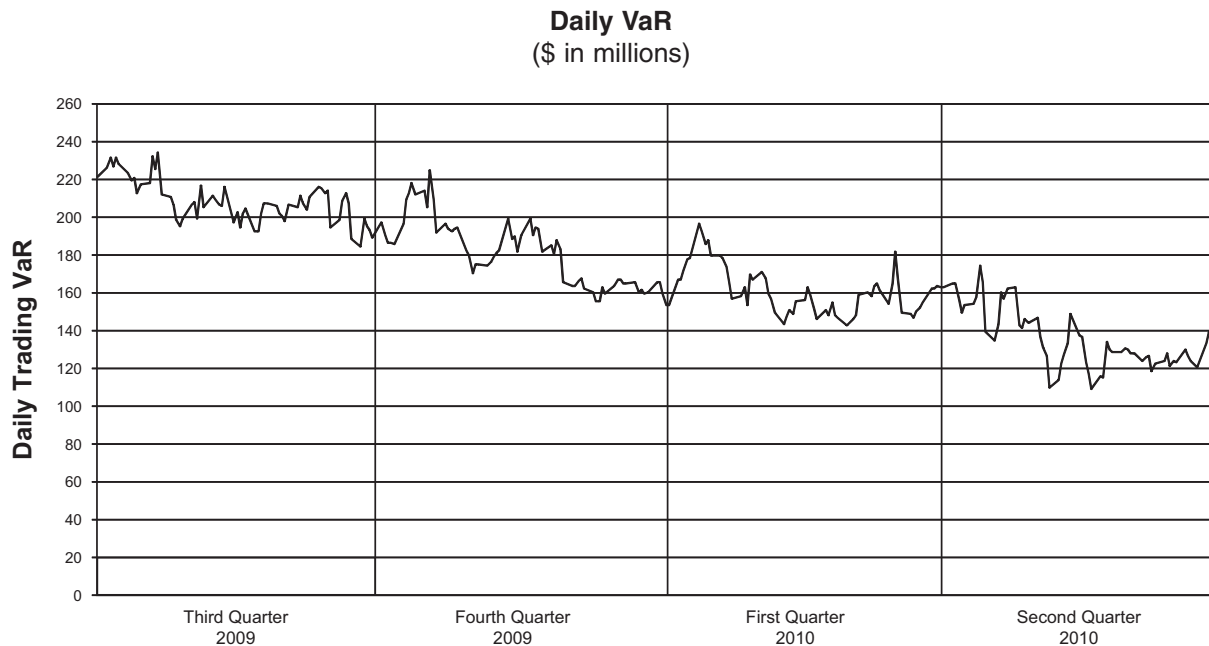
Risk Categories	As of		Three Months Ended	
	June 2010	March 2010	High	Low
Interest rates	\$ 96	\$ 90	\$ 96	\$ 76
Equity prices	50	93	108	39
Currency rates	30	57	56	22
Commodity prices	29	35	42	23
Diversification effect ⁽²⁾	(67)	(111)		
Total	<u>\$138</u>	<u>\$ 164</u>	\$174	\$109

⁽¹⁾ Certain portfolios and individual positions are not included in VaR, where VaR is not the most appropriate measure of risk (e.g., due to transfer restrictions and/or illiquidity). See “— Other Market Risk Measures” below.

⁽²⁾ Equals the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

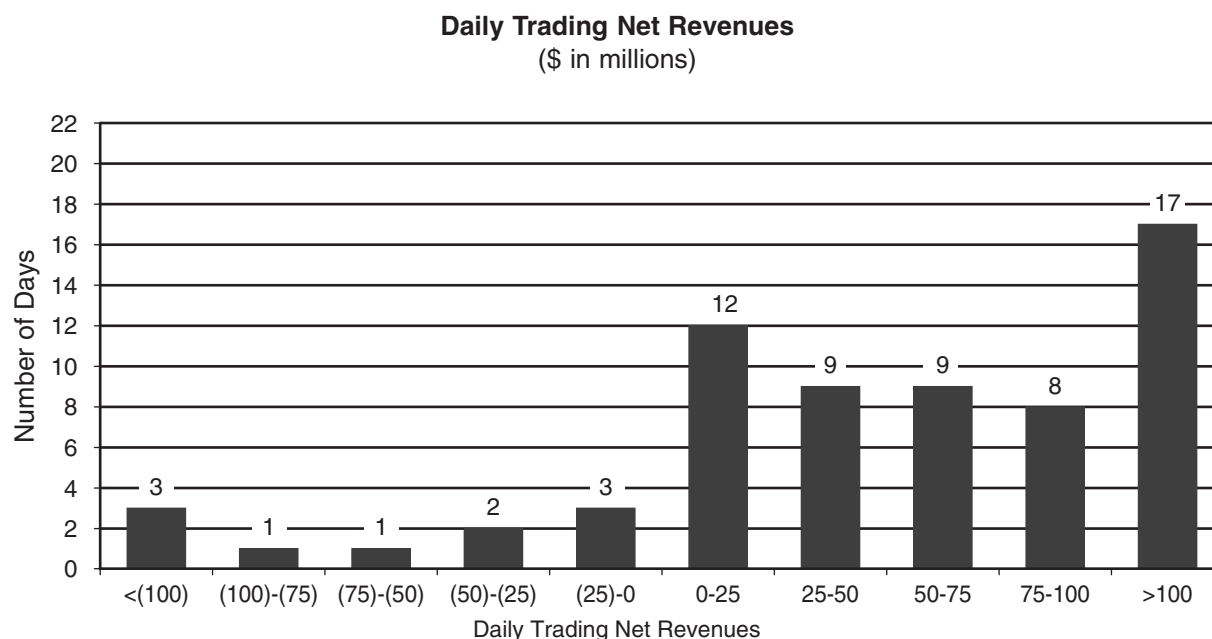
Our daily VaR decreased to \$138 million as of June 2010 from \$164 million as of March 2010, primarily due to a decrease in the equity prices and currency rates categories, partially offset by a decrease in the diversification benefit across risk categories. The decreases in equity prices and currency rates were primarily due to lower levels of exposures, partially offset by higher levels of volatility.

The following chart presents our daily VaR during the last four quarters:



Trading Net Revenues Distribution

The following chart sets forth the frequency distribution of our daily trading net revenues for substantially all inventory positions included in VaR for the quarter ended June 2010:



As part of our overall risk control process, daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day exceeded our 95% one-day VaR on two occasions during the second quarter of 2010.

Other Market Risk Measures

Certain portfolios and individual positions are not included in VaR, where VaR is not the most appropriate measure of risk (e.g., due to transfer restrictions and/or illiquidity). The market risk related to our investment in the ordinary shares of ICBC, excluding interests held by investment funds managed by Goldman Sachs, is measured by estimating the potential reduction in net revenues associated with a 10% decline in the ICBC ordinary share price. The market risk related to the remaining positions is measured by estimating the potential reduction in net revenues associated with a 10% decline in asset values.

The sensitivity analyses for these equity and debt positions in the FICC and Equities components of our Trading and Principal Investments segment and equity, debt (primarily mezzanine instruments) and real estate positions in the Principal Investments component of our Trading and Principal Investments segment are measured by the impact of a decline in the asset values (including the impact of leverage in the underlying investments for real estate positions in the Principal Investments component) of such positions. The fair value of the underlying positions may be impacted by recent third-party investments or pending transactions, third-party independent appraisals, transactions in similar instruments, valuation multiples and public comparables, and changes in financial ratios or cash flows.

The following table sets forth market risk for positions not included in VaR. These measures do not reflect diversification benefits across asset categories and, given the differing likelihood of the potential declines in asset categories, these measures have not been aggregated:

<u>Asset Categories</u>	<u>10% Sensitivity Measure</u>	<u>10% Sensitivity</u>	
		<u>Amount as of</u>	
		<u>June 2010</u>	<u>March 2010</u>
		(in millions)	
<u>FICC and Equities</u> ⁽¹⁾			
Equity ⁽²⁾	Underlying asset value	\$ 543	\$548
Debt ⁽³⁾	Underlying asset value	368	375
<u>Principal Investments</u> ⁽⁴⁾			
ICBC	ICBC ordinary share price	359	277
Other Equity ⁽⁵⁾	Underlying asset value	1,006	954
Debt ⁽⁶⁾	Underlying asset value	928	972
Real Estate ⁽⁷⁾	Underlying asset value	684	675

⁽¹⁾ In addition to the positions in these portfolios, which are accounted for at fair value, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in "Other assets" in the condensed consolidated statements of financial condition. Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 12 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information on "Other assets."

⁽²⁾ Relates to private and restricted public equity securities held within the FICC and Equities components of our Trading and Principal Investments segment.

⁽³⁾ Primarily relates to acquired portfolios of distressed loans (primarily backed by commercial and residential real estate collateral), loans backed by commercial real estate, and corporate debt held within the FICC component of our Trading and Principal Investments segment.

⁽⁴⁾ Represents investments included within the Principal Investments component of our Trading and Principal Investments segment.

⁽⁵⁾ Primarily relates to interests in our merchant banking funds that invest in corporate equities.

⁽⁶⁾ Primarily relates to interests in our merchant banking funds that invest in corporate mezzanine debt instruments.

⁽⁷⁾ Primarily relates to interests in our merchant banking funds that invest in real estate. The assets in which these funds invest are typically leveraged. This sensitivity measure is based on our percentage ownership of the underlying asset values in the funds.

During the second quarter of 2010, the increase in the 10% sensitivity measure for our investment in the ordinary shares of ICBC in the Principal Investments component of our Trading and Principal Investments segment primarily reflected the expiration of transfer restrictions related to these shares. The increase in our 10% sensitivity measure for other equity positions in our Principal Investments component was primarily due to new investment activity.

In addition to the positions included in VaR and the other risk measures described above, as of June 2010, we held approximately \$10.58 billion of financial instruments in our bank and insurance subsidiaries, primarily consisting of \$4.65 billion of money market instruments, \$1.23 billion of government and U.S. federal agency obligations, \$2.83 billion of corporate debt securities and other debt obligations, and \$1.31 billion of mortgage and other asset-backed loans and securities. As of December 2009, we held approximately \$10.70 billion of financial instruments in our bank and insurance subsidiaries, primarily consisting of \$5.12 billion of money market instruments, \$1.25 billion of government and U.S. federal agency obligations, \$2.78 billion of corporate debt securities and other debt obligations, and \$1.31 billion of mortgage and other asset-backed loans and securities. In addition, as of June 2010 and December 2009, we held commitments and loans under the William Street credit extension program. See Note 8 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our William Street credit extension program.

Credit Risk

Credit risk represents the loss that we would incur if a counterparty or an issuer of securities or other instruments we hold fails to perform under its contractual obligations to us, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including OTC derivatives, we hold. Our exposure to credit risk principally arises through our trading, investing and financing activities. To reduce our credit exposures, we seek to enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. In addition, we attempt to further reduce credit risk with certain counterparties by (i) entering into agreements that enable us to obtain collateral from a counterparty on an upfront or contingent basis, (ii) seeking third-party guarantees of the counterparty's obligations, and/or (iii) transferring our credit risk to third parties using credit derivatives and/or other structures and techniques.

To measure and manage our credit exposures, we use a variety of tools, including credit limits referenced to potential exposure. Potential exposure is an estimate of exposure, within a specified confidence level, that could be outstanding over the life of a transaction based on market movements. In addition, as part of our market risk management process, for positions measured by changes in credit spreads, we use VaR and other sensitivity measures. To supplement our primary credit exposure measures, we also use scenario analyses, such as credit spread widening scenarios, stress tests and other quantitative tools.

Our global credit management systems monitor credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries. These systems also provide management, including the Firmwide Risk and Credit Policy Committees, with information regarding credit risk by product, industry sector, country and region.

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

As of June 2010 and December 2009, we held \$95.89 billion (11% of total assets) and \$83.83 billion (10% of total assets), respectively, of U.S. government and federal agency obligations included in "Trading assets, at fair value" and "Cash and securities segregated for regulatory and other purposes" in the condensed consolidated statements of financial condition. We held \$40.59 billion (5% of total assets) and \$38.61 billion (5% of total assets) of other sovereign obligations as of June 2010 and December 2009, respectively, principally consisting of securities issued by the governments of the United Kingdom, Japan and Germany as of June 2010, and the United Kingdom and Japan as of December 2009. In addition, as of June 2010 and December 2009, \$122.43 billion and \$87.63 billion of our securities purchased under agreements to resell and securities borrowed (including those in "Cash and securities segregated for regulatory and other purposes" in the condensed consolidated statements of financial condition), respectively, were collateralized by U.S. government and federal agency obligations. Our securities purchased under agreements to resell and securities borrowed collateralized by other sovereign obligations were \$75.89 billion and \$77.99 billion as of June 2010 and December 2009, respectively, principally consisting of securities issued by the governments of Germany, Japan, France and the United Kingdom as of June 2010, and Germany, the United Kingdom and Japan as of December 2009. As of June 2010 and December 2009, we did not have credit exposure to any other counterparty that exceeded 2% of our total assets.

Derivatives

Derivative contracts are instruments such as futures, forwards, swaps or option contracts that derive their value from underlying asset prices, indices, reference rates and other inputs or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange.

Substantially all of our derivative transactions are entered into to facilitate client transactions, as a means of risk management or to take proprietary positions. In addition to derivative transactions entered into for trading purposes, we enter into derivative contracts to manage currency exposure on our net investment in non-U.S. operations and to manage the interest rate and currency exposure on our long-term borrowings and certain short-term borrowings.

Derivatives are used in many of our businesses, and we believe that the associated market risk can only be understood relative to all of the underlying assets or risks being hedged, or as part of a broader trading strategy. Accordingly, the market risk of derivative positions is managed together with our nonderivative positions.

The fair value of our derivative contracts is reflected net of cash posted or received pursuant to credit support agreements and is reported on a net-by-counterparty basis in our condensed consolidated statements of financial condition when we believe a legal right of setoff exists under an enforceable netting agreement. For an OTC derivative, our credit exposure is directly with our counterparty and continues until the maturity or termination of such contract.

The following tables set forth the fair values of our OTC derivative assets and liabilities by tenor and by product type or credit rating. Tenor is based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives. For option contracts that require settlement by delivery of an underlying derivative instrument, the tenor is generally classified based upon the maturity date of the underlying derivative instrument. In those instances where the underlying instrument does not have a maturity date or either counterparty has the right to settle in cash, the tenor is generally based upon the option expiration date.

The following tables set forth the fair values of our OTC derivative assets and liabilities by product type and by tenor:

OTC Derivatives
(in millions)

Assets	As of June 2010				
	0 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total
Product Type					
Interest rates	\$10,294	\$37,372	\$29,982	\$46,341	\$ 123,989
Credit	3,373	19,569	9,704	6,272	38,918
Currencies	13,073	10,549	5,035	7,512	36,169
Commodities	5,055	5,745	418	38	11,256
Equities	4,012	8,732	5,471	2,399	20,614
Netting across product types ⁽¹⁾	<u>(3,155)</u>	<u>(5,755)</u>	<u>(4,461)</u>	<u>(2,213)</u>	<u>(15,584)</u>
Subtotal	<u>\$32,652</u> ⁽⁴⁾	<u>\$76,212</u>	<u>\$46,149</u>	<u>\$60,349</u>	\$ 215,362
Cross maturity netting ⁽²⁾					(28,315)
Cash collateral netting ⁽³⁾					<u>(113,764)</u>
Total					<u>\$ 73,283</u>
Liabilities					
Product Type					
Interest rates	\$ 6,714	\$13,850	\$15,210	\$18,337	\$ 54,111
Credit	968	6,123	2,493	2,076	11,660
Currencies	11,608	7,417	3,508	3,615	26,148
Commodities	4,147	6,613	893	1,047	12,700
Equities	4,115	3,738	3,557	641	12,051
Netting across product types ⁽¹⁾	<u>(3,155)</u>	<u>(5,755)</u>	<u>(4,461)</u>	<u>(2,213)</u>	<u>(15,584)</u>
Subtotal	<u>\$24,397</u> ⁽⁴⁾	<u>\$31,986</u>	<u>\$21,200</u>	<u>\$23,503</u>	\$ 101,086
Cross maturity netting ⁽²⁾					(28,315)
Cash collateral netting ⁽³⁾					<u>(17,650)</u>
Total					<u>\$ 55,121</u>

⁽¹⁾ Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category, pursuant to enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category, where appropriate.

⁽²⁾ Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories, pursuant to enforceable netting agreements.

⁽³⁾ Represents the netting of cash collateral received and posted on a counterparty basis pursuant to credit support agreements.

⁽⁴⁾ Includes fair values of OTC derivative assets and liabilities, maturing within six months, of \$23.66 billion and \$18.73 billion, respectively.

OTC Derivatives
(in millions)

Assets	As of December 2009				
	0 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total
Product Type					
Interest rates	\$14,266	\$37,146	\$25,608	\$37,721	\$ 114,741
Credit	5,743	20,465	11,497	6,281	43,986
Currencies	9,870	12,789	6,408	6,955	36,022
Commodities	6,201	7,546	521	41	14,309
Equities	6,742	8,818	4,920	2,350	22,830
Netting across product types ⁽¹⁾	<u>(3,480)</u>	<u>(6,256)</u>	<u>(3,047)</u>	<u>(1,399)</u>	<u>(14,182)</u>
Subtotal	<u>\$39,342</u> ⁽⁴⁾	<u>\$80,508</u>	<u>\$45,907</u>	<u>\$51,949</u>	\$ 217,706
Cross maturity netting ⁽²⁾					(24,681)
Cash collateral netting ⁽³⁾					<u>(124,603)</u>
Total					<u>\$ 68,422</u>
Liabilities					
Product Type					
Interest rates	\$ 7,042	\$12,831	\$11,421	\$12,518	\$ 43,812
Credit	2,487	7,168	2,356	2,116	14,127
Currencies	12,202	4,003	2,789	2,132	21,126
Commodities	6,922	7,161	1,157	846	16,086
Equities	4,213	3,746	3,371	586	11,916
Netting across product types ⁽¹⁾	<u>(3,480)</u>	<u>(6,256)</u>	<u>(3,047)</u>	<u>(1,399)</u>	<u>(14,182)</u>
Subtotal	<u>\$29,386</u> ⁽⁴⁾	<u>\$28,653</u>	<u>\$18,047</u>	<u>\$16,799</u>	\$ 92,885
Cross maturity netting ⁽²⁾					(24,681)
Cash collateral netting ⁽³⁾					<u>(14,743)</u>
Total					<u>\$ 53,461</u>

⁽¹⁾ Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category, pursuant to enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category, where appropriate.

⁽²⁾ Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories, pursuant to enforceable netting agreements.

⁽³⁾ Represents the netting of cash collateral received and posted on a counterparty basis pursuant to credit support agreements.

⁽⁴⁾ Includes fair values of OTC derivative assets and liabilities, maturing within six months, of \$21.60 billion and \$18.08 billion, respectively.

The following tables set forth the distribution, by credit rating, of our exposure with respect to OTC derivatives by tenor, both before and after consideration of the effect of collateral and netting agreements. The categories shown reflect our internally determined public rating agency equivalents:

OTC Derivative Credit Exposure
(in millions)

As of June 2010								
Credit Rating Equivalent	0 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total	Netting ⁽²⁾	Exposure	Exposure Net of Collateral
AAA/Aaa	\$ 1,090	\$ 971	\$ 976	\$ 2,145	\$ 5,182	\$ (991)	\$ 4,191	\$ 3,546
AA/Aa2	5,439	11,505	9,229	12,228	38,401	(24,920)	13,481	9,521
A/A2	16,766	39,551	28,036	28,333	112,686	(83,255)	29,431	18,814
BBB/Baa2	5,300	17,418	5,451	15,333	43,502	(27,904)	15,598	7,641
BB/Ba2 or lower	3,142	5,671	2,208	2,114	13,135	(4,940)	8,195	5,312
Unrated	915	1,096	249	196	2,456	(69)	2,387	1,753
Total	<u>\$32,652</u> ⁽¹⁾	<u>\$76,212</u>	<u>\$46,149</u>	<u>\$60,349</u>	<u>\$215,362</u>	<u>\$(142,079)</u>	<u>\$73,283</u>	<u>\$46,587</u>

As of December 2009								
Credit Rating Equivalent	0 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total	Netting ⁽²⁾	Exposure	Exposure Net of Collateral
AAA/Aaa	\$ 2,020	\$ 3,157	\$ 3,507	\$ 2,567	\$ 11,251	\$ (5,603)	\$ 5,648	\$ 5,109
AA/Aa2	5,285	10,745	7,090	8,954	32,074	(19,653)	12,421	8,735
A/A2	22,707	47,891	30,267	31,203	132,068	(107,942)	24,126	20,111
BBB/Baa2	4,402	8,300	3,024	7,830	23,556	(11,064)	12,492	6,202
BB/Ba2 or lower	4,444	9,438	1,735	1,354	16,971	(4,914)	12,057	7,381
Unrated	484	977	284	41	1,786	(108)	1,678	1,161
Total	<u>\$39,342</u> ⁽¹⁾	<u>\$80,508</u>	<u>\$45,907</u>	<u>\$51,949</u>	<u>\$217,706</u>	<u>\$(149,284)</u>	<u>\$68,422</u>	<u>\$48,699</u>

⁽¹⁾ Includes fair values of OTC derivative assets, maturing within six months, of \$23.66 billion and \$21.60 billion as of June 2010 and December 2009, respectively.

⁽²⁾ Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories, pursuant to enforceable netting agreements, and the netting of cash collateral received, pursuant to credit support agreements. Receivable and payable balances with the same counterparty in the same tenor category are netted within such tenor category, where appropriate.

Derivative transactions may also involve legal risks including the risk that they are not authorized or appropriate for a counterparty, that documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty. We attempt to minimize these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction. In addition, certain derivative transactions (e.g., credit derivative contracts) involve the risk that we may have difficulty obtaining, or be unable to obtain, the underlying security or obligation in order to satisfy any physical settlement requirement.

Liquidity and Funding Risk

Liquidity is of critical importance to companies in the financial services sector. Most failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, Goldman Sachs has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both Goldman Sachs-specific and broader industry or market liquidity events. Our principal objective is to be able to fund Goldman Sachs and to enable our core businesses to continue to generate revenues, even under adverse circumstances.

We manage liquidity risk according to the following framework:

- **Excess Liquidity.** We maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment, including financing obligations. The amount of our excess liquidity is based on an internal liquidity model together with a qualitative assessment of the condition of the financial markets and of Goldman Sachs.
- **Asset-Liability Management.** Our funding strategy includes an assessment of the overall characteristics of our assets with respect to their anticipated holding periods and potential illiquidity in a stressed environment. In addition, we manage the maturities and diversity of our secured and unsecured funding liabilities across markets, products and counterparties, and we seek to maintain liabilities of appropriate term relative to our asset base.
- **Contingency Funding Plan (CFP).** We maintain a CFP to help identify, measure, monitor and mitigate liquidity and funding risk. The CFP considers various risk factors that could occur during a crisis and provides a framework for analyzing and responding to a liquidity crisis.

During 2009, the Basel Committee on Banking Supervision introduced for public comment a new framework for liquidity risk management for financial institutions. While the principles behind the proposed measures are broadly consistent with our liquidity management framework and policies, it is possible that the final standards could impact the firm's liquidity and funding requirements and practices.

Excess Liquidity

Our most important liquidity policy is to pre-fund what we estimate will be our potential cash needs during a liquidity crisis and hold such excess liquidity in the form of unencumbered, highly liquid securities that may be pledged or sold to provide same-day liquidity. This "Global Core Excess" is intended to allow us to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets. We believe that this pool of excess liquidity provides us with a resilient source of funds and gives us significant flexibility in managing through a difficult funding environment. Our Global Core Excess reflects the following principles:

- The first days or weeks of a liquidity crisis are the most critical to a company's survival.
- Focus must be maintained on all potential cash and collateral outflows, not just disruptions to financing flows. Our businesses are diverse, and our cash needs are driven by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment.
- During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms or availability of other types of secured financing may change.
- As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and have larger debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater balances of highly liquid unencumbered securities, even though it increases our total assets, and our funding costs.

The size of our Global Core Excess is based on an internal liquidity model together with a qualitative assessment of the condition of the financial markets and of Goldman Sachs. Our liquidity model, through which we analyze the consolidated firm as well as our major broker-dealer and bank depository institution subsidiaries, identifies and estimates potential contractual and contingent cash and collateral outflows over a short-term horizon in a liquidity crisis, including, but not limited to:

- upcoming maturities of unsecured long-term debt, promissory notes, commercial paper, term deposits and other unsecured funding products;
- potential buybacks of a portion of our outstanding unsecured funding;
- potential withdrawals of client deposits in our banking entities;
- adverse changes in the terms of, or the inability to refinance, secured funding trades with upcoming maturities, reflecting, among other factors, the quality of the underlying collateral and counterparty concentration;
- outflows of cash or collateral associated with the impact of market moves on our OTC derivatives, listed derivatives and securities and loans pledged as collateral for financing transactions;
- other outflows of cash or collateral related to derivatives, including the impact of trade terminations, collateral substitutions, collateral disputes, collateral calls or termination payments (in the event of a two-notch downgrade in our credit ratings), collateral that has not been called by counterparties but is available to them, or additional margin that could be requested by exchanges or clearing houses in a stressed environment;
- potential liquidity outflows associated with our prime brokerage business, including those related to customer credit balances;
- draws on our unfunded commitments not supported by William Street Funding Corporation ⁽¹⁾, with draw assumptions varying in magnitude reflecting, among other things, the type of commitment and counterparty; and
- other upcoming cash outflows, such as tax and other large payments.

The following table sets forth the average loan value of the securities (the estimated amount of cash that would be advanced by counterparties against these securities), as well as certain overnight cash deposits that are included in our Global Core Excess:

	<u>Three Months Ended June</u>	<u>Year Ended December</u>
	<u>2010</u>	<u>2009</u>
	(in millions)	
U.S. dollar-denominated	\$123,147	\$120,970
Non-U.S. dollar-denominated	<u>39,374</u>	<u>45,404</u>
Total Global Core Excess	<u>\$162,521</u>	<u>\$166,374</u>

As of June 2010 and December 2009, the loan value of the securities and certain overnight cash deposits included in our Global Core Excess totaled \$168.10 billion and \$168.99 billion, respectively.

The U.S. dollar-denominated excess is comprised of only unencumbered U.S. government securities, U.S. agency securities and highly liquid U.S. agency mortgage-backed securities, all of which are eligible as collateral in Federal Reserve open market operations, as well as certain overnight cash deposits. Our non-U.S. dollar-denominated excess is comprised of only unencumbered

⁽¹⁾ The Global Core Excess excludes liquid assets of \$4.08 billion held separately by William Street Funding Corporation. See Note 8 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding the William Street credit extension program.

French, German, United Kingdom and Japanese government bonds and certain overnight cash deposits in highly liquid currencies. We strictly limit our Global Core Excess to this narrowly defined list of securities and cash because we believe they are highly liquid, even in a difficult funding environment. We do not believe that other potential sources of excess liquidity, such as lower-quality unencumbered securities or committed credit facilities, are as reliable in a liquidity crisis.

The following table sets forth the average loan value of our Global Core Excess by asset class:

	<u>Three Months Ended June</u>	<u>Year Ended December</u>
	<u>2010</u>	<u>2009</u>
	(in millions)	
Overnight cash deposits	\$ 20,728	\$ 21,341
Federal funds sold	193	374
U.S. government obligations	101,498	85,702
U.S. agency obligations and highly liquid U.S. agency mortgage-backed obligations	1,757	15,108
French, German, United Kingdom and Japanese government obligations	<u>38,345</u>	<u>43,849</u>
Total	<u>\$162,521</u>	<u>\$166,374</u>

We maintain our Global Core Excess to enable us to meet current and potential liquidity requirements of our parent company, Group Inc., and all of its subsidiaries. The Global Core Excess is held at Group Inc. and our major broker-dealer and bank depository institution subsidiaries. Each of these entities has its own liquidity model and funding risk management framework with separate excess liquidity pools intended to meet potential outflows in each entity in a stressed environment. Liquidity held in each of these subsidiaries is assumed to be usable only by that entity for the purpose of meeting its liquidity requirements. Subsidiary liquidity is not available to Group Inc. unless legally provided for and there are no additional regulatory, tax or other restrictions.

The Global Core Excess is held at Group Inc. and our major broker-dealer and bank subsidiaries, as set forth in the table below:

	<u>Average for the</u>	
	<u>Three Months Ended June</u>	<u>Year Ended December</u>
	<u>2010</u>	<u>2009</u>
	(in millions)	
Group Inc.	\$ 54,547	\$ 54,660
Major broker-dealer subsidiaries	65,425	70,526
Bank subsidiaries	<u>42,549</u>	<u>41,188</u>
Total	<u>\$162,521</u>	<u>\$166,374</u>

In addition to our Global Core Excess, we have a significant amount of other unencumbered securities as a result of our business activities. These assets include other government bonds, high-grade money market securities, corporate bonds and marginable equities. We do not include these securities in our Global Core Excess.

In reporting our Global Core Excess and other unencumbered assets, we use loan values that are based on stress-scenario borrowing capacity and we regularly review these assumptions asset class by asset class. The estimated aggregate loan value of our Global Core Excess, cash deposits not included in the Global Core Excess and our other unencumbered assets averaged \$206.37 billion and \$210.48 billion for the three months ended June 2010 and year ended December 2009, respectively.

Asset-Liability Management

Assets. We seek to maintain a liquid balance sheet and substantially all of our inventory is marked-to-market daily. We impose balance sheet limits for each business and utilize aged inventory limits for certain financial instruments as a disincentive to our businesses to hold inventory over longer periods of time. Although our balance sheet fluctuates due to client activity, market conventions and periodic market opportunities in certain of our businesses, our total assets and adjusted assets at financial statement dates are typically not materially different from those occurring within our reporting periods.

Liabilities. We seek to structure our liabilities to meet the following objectives:

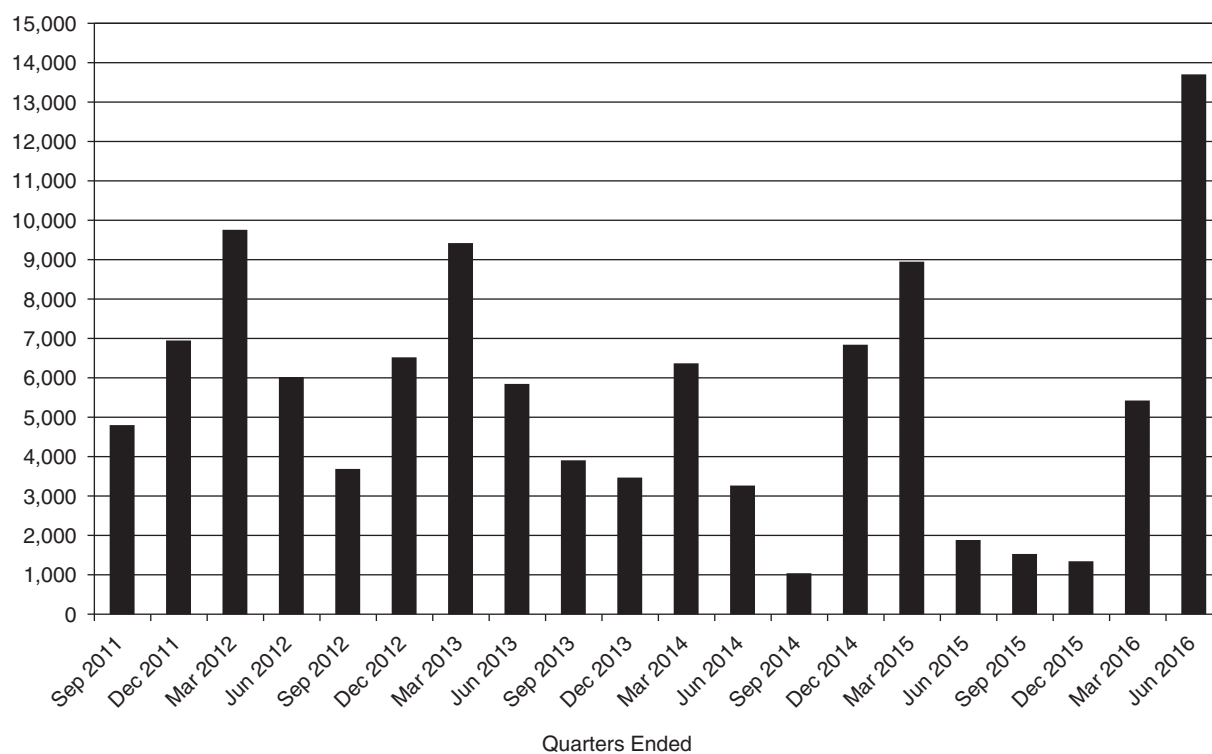
- **Term Structure.** We seek to structure our liabilities to have long-dated maturities in order to reduce refinancing risk. We manage maturity concentrations for both secured and unsecured funding to ensure we are able to mitigate any concentrated funding outflows.
- **Diversity of Funding Sources.** We seek to maintain broad and diversified funding sources globally for both secured and unsecured funding. We make use of the repurchase agreement and securities lending markets, as well as other secured funding markets. We issue long-term debt through syndicated U.S. registered offerings, U.S. registered and 144A medium-term note programs, offshore medium-term note offerings and other debt offerings. We issue short-term debt through U.S. and non-U.S. commercial paper and promissory note issuances and other methods. We raise demand and savings deposits through cash sweep programs and time deposits through internal and third-party broker networks. We generally distribute our funding products through our own sales force to a large, diverse global creditor base. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies, mutual funds and individuals. We access funding in a variety of markets in the Americas, Europe and Asia. We have imposed various internal guidelines on creditor concentration, including the amount of our commercial paper and promissory notes that can be owned by any single creditor or group of creditors.
- **Structural Protection.** We structure our liabilities to reduce the risk that we may be required to redeem or repurchase certain of our borrowings prior to their contractual maturity. We issue substantially all of our unsecured debt without put provisions or other provisions that would, based solely upon an adverse change in our credit ratings, financial ratios, earnings, cash flows or stock price, trigger a requirement for an early payment, collateral support, change in terms, acceleration of maturity or the creation of an additional financial obligation.

Secured Funding. We fund a substantial portion of our inventory on a secured basis, which we believe provides us with a more stable source of liquidity than unsecured financing, as it is less sensitive to changes in our credit quality due to the underlying collateral. However, we recognize that the terms or availability of secured funding, particularly overnight funding, can deteriorate rapidly in a difficult environment. To help mitigate this risk, we generally do not rely on overnight secured funding, unless collateralized with highly liquid securities such as securities eligible for inclusion in our Global Core Excess. Substantially all of our other secured funding is executed for tenors of one month or greater. Additionally, we monitor counterparty concentration and hold a portion of our Global Core Excess for refinancing risk associated with all secured funding transactions. We seek longer terms for secured funding collateralized by lower-quality assets, as we believe these funding transactions may pose greater refinancing risk. The weighted average maturity of our secured funding, excluding funding collateralized by highly liquid securities eligible for inclusion in our Global Core Excess, exceeded 100 days as of June 2010.

Unsecured Short-Term Borrowings. Our liquidity also depends on the stability of our unsecured short-term financing base. Accordingly, we prefer issuing promissory notes, in which we do not make a market, over commercial paper, which we may repurchase prior to maturity through the ordinary course of business as a market maker. As of June 2010, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were \$39.12 billion. See Note 6 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our unsecured short-term borrowings.

Unsecured Long-Term Borrowings. We issue unsecured long-term borrowings as a source of total capital in order to meet our long-term financing requirements. The following table sets forth our quarterly unsecured long-term borrowings maturity profile through the second quarter of 2016 as of June 2010:

Unsecured Long-Term Borrowings Maturity Profile
(\$ in millions)



The weighted average maturity of our unsecured long-term borrowings as of June 2010 was approximately seven years. To mitigate refinancing risk, we seek to limit the principal amount of debt maturing on any one day or during any week or year. We swap a substantial portion of our long-term borrowings into short-term floating rate obligations in order to minimize our exposure to interest rates.

Deposits. As of June 2010, our bank depository institution subsidiaries had \$37.02 billion in customer deposits, including \$9.92 billion of certificates of deposit and other time deposits with a weighted average maturity of three years, and \$27.10 billion of other deposits, substantially all of which were from cash sweep programs. GS Bank USA has access to funding through the Federal Reserve Bank discount window. While we do not rely on funding through the Federal Reserve Bank discount window in our liquidity modeling and stress testing, we maintain policies and procedures necessary to access this funding.

Temporary Liquidity Guarantee Program (TLGP). As of June 2010, we had outstanding \$20.57 billion of senior unsecured debt (comprised of \$3.73 billion of short-term and \$16.84 billion of long-term) guaranteed by the FDIC under the TLGP, all of which will mature on or prior to June 15, 2012. We have not issued long-term debt under the TLGP since March 2009 and the program has expired for new issuances.

See “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for a discussion of factors that could impair our ability to access the capital markets.

Funding Policies. We seek to manage our assets and the maturity profile of our secured and unsecured funding base such that we should be able to liquidate our assets prior to our liabilities coming due, even in times of prolonged or severe liquidity stress.

In order to avoid reliance on asset sales (other than our Global Core Excess), our goal is to ensure that we have sufficient total capital (unsecured long-term borrowings plus total shareholders’ equity) to fund our balance sheet for at least one year. However, we recognize that orderly asset sales may be prudent or necessary in a severe or persistent liquidity crisis. The target amount of our total capital is based on an internal funding model which incorporates, among other things, the following long-term financing requirements:

- the portion of trading assets that we believe could not be funded on a secured basis in periods of market stress, assuming stressed loan values;
- goodwill and identifiable intangible assets, property, leasehold improvements and equipment, and other illiquid assets;
- derivative and other margin and collateral requirements;
- anticipated draws on our unfunded loan commitments; and
- capital or other forms of financing in our regulated subsidiaries that are in excess of their long-term financing requirements.

Certain financial instruments may be more difficult to fund on a secured basis during times of market stress. Accordingly, we focus on funding these assets with longer contractual maturities to reduce refinancing risk in periods of market stress and generally hold higher levels of total capital for these assets than more liquid types of financial instruments. The following table sets forth our aggregate holdings in these categories of financial instruments:

	As of	
	June 2010	December 2009
	(in millions)	
Mortgage and other asset-backed loans and securities	\$13,336	\$14,277
Bank loans and bridge loans ⁽¹⁾	17,776	19,345
Emerging market debt securities	3,065	2,957
High-yield and other debt obligations	12,074	12,028
Private equity investments and real estate fund investments ⁽²⁾	13,086	14,633
Emerging market equity securities	3,589	5,193
ICBC ordinary shares ⁽³⁾	9,683	8,111
SMFG convertible preferred stock ⁽⁴⁾	—	933
Other restricted public equity securities	92	203
Other investments in funds ⁽⁵⁾	2,991	2,911

- ⁽¹⁾ Includes funded commitments and inventory held in connection with our origination and secondary trading activities.
- ⁽²⁾ Includes interests in our merchant banking funds. Such amounts exclude assets related to consolidated investment funds of \$911 million and \$919 million as of June 2010 and December 2009, respectively, for which Goldman Sachs does not bear economic exposure. Excludes \$1.11 billion as of June 2010, related to VIEs consolidated upon adoption of ASU No. 2009-17, for which Goldman Sachs does not bear economic exposure.
- ⁽³⁾ Includes interests of \$6.10 billion and \$5.13 billion as of June 2010 and December 2009, respectively, held by investment funds managed by Goldman Sachs.
- ⁽⁴⁾ During the first quarter of 2010, we converted our remaining SMFG preferred stock investment into common stock and delivered the common stock to close out our remaining hedge position.
- ⁽⁵⁾ Includes interests in other investment funds that we manage.

See Note 3 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding the financial instruments we hold.

Subsidiary Funding Policies. The majority of our unsecured funding is raised by Group Inc. Group Inc. then lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing, liquidity and capital requirements. In addition, Group Inc. provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding include enhanced control and greater flexibility to meet the funding requirements of our subsidiaries. Funding is also raised at the subsidiary level through a variety of products, including secured funding, unsecured borrowings and deposits.

Our intercompany funding policies are predicated on an assumption that, unless legally provided for, funds or securities are not freely available from a subsidiary to its parent company or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Group Inc. Regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on obligations, including debt obligations. As such, we assume that capital or other financing provided to our regulated subsidiaries is not available to Group Inc. or other subsidiaries until the maturity of such financing.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries. For example, as of June 2010, Group Inc. had \$25.87 billion of such equity and subordinated indebtedness invested in GS&Co., its principal U.S. registered broker-dealer; \$22.84 billion invested in GSI, a regulated U.K. broker-dealer; \$2.70 billion invested in Goldman Sachs Execution & Clearing, L.P., a U.S. registered broker-dealer; \$3.87 billion invested in Goldman Sachs Japan Co., Ltd., a regulated Japanese broker-dealer; and \$23.29 billion invested in GS Bank USA, a regulated New York State-chartered bank. Group Inc. also had \$79.82 billion of unsubordinated loans and \$14.45 billion of collateral provided to these entities as of June 2010, as well as significant amounts of capital invested in and loans to its other regulated subsidiaries.

Contingency Funding Plan

The Goldman Sachs CFP sets out the plan of action to fund business activity in crisis situations and/or periods of market stress. The CFP outlines the appropriate communication channels to be followed throughout a crisis period and also provides a framework for analyzing and responding to a liquidity crisis including, but not limited to, the potential risk factors, identification of liquidity outflows, mitigants and potential actions.

Credit Ratings

The following table sets forth our unsecured credit ratings (excluding debt guaranteed by the FDIC under the TLGP) and outlook as of June 2010:

	<u>Short-Term Debt</u>	<u>Long-Term Debt</u>	<u>Subordinated Debt</u>	<u>Trust Preferred ⁽¹⁾</u>	<u>Preferred Stock ⁽²⁾</u>	<u>Rating Outlook</u>
DBRS, Inc.	R-1 (middle)	A (high)	A	A	BBB	Stable ⁽⁵⁾
Fitch, Inc. ⁽³⁾	F1+	A+	A	A-	A-	Negative ⁽⁶⁾
Moody's Investors Service ⁽⁴⁾	P-1	A1	A2	A3	Baa2	Negative ⁽⁷⁾
Standard & Poor's Ratings Services	A-1	A	A-	BBB	BBB	Negative ⁽⁷⁾
Rating and Investment Information, Inc.	a-1+	AA-	A+	Not Applicable	Not Applicable	Negative ⁽⁸⁾

⁽¹⁾ Trust preferred securities issued by Goldman Sachs Capital I.

⁽²⁾ Includes Group Inc.'s non-cumulative preferred stock and the Normal Automatic Preferred Enhanced Capital Securities (APEX) issued by Goldman Sachs Capital II and Goldman Sachs Capital III.

⁽³⁾ GS Bank USA has been assigned a rating of AA- for long-term bank deposits, F1+ for short-term bank deposits and A+ for long-term issuer.

⁽⁴⁾ GS Bank USA has been assigned a rating of Aa3 for long-term bank deposits, P-1 for short-term bank deposits and Aa3 for long-term issuer.

⁽⁵⁾ Applies to long-term and short-term ratings.

⁽⁶⁾ Applies to long-term issuer default ratings.

⁽⁷⁾ Applies to long-term ratings.

⁽⁸⁾ Applies to issuer rating.

We rely upon the short-term and long-term debt capital markets to fund a significant portion of our day-to-day operations. The cost and availability of debt financing is influenced by our credit ratings. Credit ratings are important when we are competing in certain markets and when we seek to engage in longer-term transactions, including OTC derivatives. See "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for a discussion of the risks associated with a reduction in our credit ratings.

We believe our credit ratings are primarily based on the credit rating agencies' assessment of our liquidity, market, credit and operational risk management practices, the level and variability of our earnings, our capital base, our franchise, reputation and management, our corporate governance and the external operating environment, including the assumed level of government support. Recently, certain rating agencies have indicated that the Dodd-Frank Act could result in the rating agencies reducing their assumed level of government support and therefore result in ratings downgrades for certain large financial institutions. However, many uncertainties remain around interpretation and implementation of the Dodd-Frank Act, and any actions to be taken by the rating agencies have not been announced.

In evaluating our liquidity requirements, we consider and reserve in our Global Core Excess, additional collateral or termination payments that may be required in the event of a two-notch reduction in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. Based on our credit ratings as of June 2010, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately \$1.33 billion and \$2.68 billion could have been called by counterparties in the event of a one-notch and two-notch reduction, respectively, in our long-term credit ratings.

Cash Flows

As a global financial institution, our cash flows are complex and interrelated and bear little relation to our net earnings and net assets and, consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the excess liquidity and asset-liability management policies described above. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our businesses.

Six Months Ended June 2010. Our cash and cash equivalents decreased by \$5.69 billion to \$32.60 billion at the end of the second quarter of 2010. We generated net cash of \$2.45 billion in our operating activities. We used net cash in investing and financing activities of \$8.14 billion, primarily due to net repayments in unsecured long-term borrowings, a decrease in bank deposits and repurchases of common stock.

Six Months Ended June 2009. Our cash and cash equivalents increased by \$8.37 billion to \$22.18 billion at the end of the second quarter of 2009. We generated \$16.02 billion in net cash from operating activities. We used net cash of \$7.65 billion from investing and financing activities, primarily for net repayments in secured and unsecured short-term borrowings and the repurchase of Series H Preferred Stock, partially offset by an increase in bank deposits and the issuance of common stock.

Balance Sheet

As of June 2010, total assets on our condensed consolidated statement of financial condition were \$883.19 billion, an increase of \$34.25 billion from December 2009. This increase is primarily attributable to (i) an increase in securities purchased under agreements to resell and federal funds sold of \$25.00 billion, primarily due to client-driven activity in our matched book business, (ii) an increase in cash and securities segregated for regulatory and other purposes of \$19.75 billion, primarily due to an increase in reserve balances held by broker-dealer subsidiaries related to client-driven activity and (iii) a decrease in trading assets, at fair value of \$7.53 billion, primarily due to decreases in equities and convertible debentures, partially offset by increases in U.S. government and federal agency obligations and derivative contracts.

As of June 2010, total liabilities on our condensed consolidated statement of financial condition were \$809.37 billion, an increase of \$31.14 billion from December 2009. This increase is primarily attributable to (i) an increase in securities sold under agreements to repurchase of \$21.55 billion, primarily due to an increase in secured funding of our trading assets, as well as an increase in our matched book business related to an increase in client-driven activity, (ii) an increase in trading liabilities, at fair value of \$18.15 billion, primarily due to increases in equities and convertible debentures, and non-U.S. government obligations and (iii) a decrease in unsecured long-term borrowings of \$6.50 billion, primarily due to foreign currency remeasurement.

As of June 2010 and December 2009, our securities sold under agreements to repurchase, accounted for as collateralized financings, were \$149.91 billion and \$128.36 billion, respectively, which were 3% higher and 2% lower than the daily average amount of repurchase agreements over the respective quarters. The level of our repurchase agreements fluctuates between and within periods, primarily driven by our franchise activity of providing clients with access to highly liquid collateral, such as U.S. government, federal agency and investment-grade sovereign obligations, through collateralized financing activities. As of June 2010, the 3% increase in our repurchase agreements relative to the daily average during the quarter was due to an increase in our matched book business related to client-driven activity at the end of the quarter.

Recent Accounting Developments

See Note 2 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding Recent Accounting Developments.

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

We have included or incorporated by reference in this Quarterly Report on Form 10-Q, 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. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. For a discussion of some of the risks and important factors that could affect our future results and financial condition, see “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Statements about our investment banking transaction backlog also may constitute forward-looking statements. 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 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk” in Part I, Item 2 above.

Item 4: Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by Goldman Sachs’ management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1: 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Use of Estimates” in Part I, Item 2 of this Quarterly Report on Form 10-Q.

The following supplements and amends our discussion set forth under Item 3 “Legal Proceedings” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as updated by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

Research Independence Matters. In the lawsuit alleging that Group Inc. and GS&Co. violated the federal securities laws in connection with the firm’s research activities, the parties entered into a definitive settlement agreement on July 12, 2010 pursuant to which the settlement will be funded by the firm’s insurers. In the class action relating to research coverage of RSL Communications, Inc., on June 29, 2010, the parties agreed to a settlement in principle. Both settlements are subject to court approval.

The purported shareholder derivative action alleging that Group Inc.’s directors breached their fiduciary duties in connection with the firm’s research as well as the firm’s IPO allocations practices was voluntarily dismissed on March 3, 2010.

Montana Power Litigation. Final judgment was entered approving the settlement of the putative class action on August 4, 2010.

Refco Securities Litigation. By an order dated July 30, 2010, the federal district court preliminarily approved the settlement and set a final hearing for October 27, 2010.

Compensation-Related Matters. In the action relating to Group Inc.’s 2008 proxy statement, defendants moved to dismiss plaintiff’s further amended complaint on May 14, 2010.

Mortgage-Related Matters. On July 14, 2010, GS&Co. entered into a consent agreement with the SEC, settling all claims made against GS&Co. in the action brought by the SEC on April 16, 2010 (the “SEC Action”) against GS&Co. and one of its employees in connection with a collateralized debt offering made in early 2007 (ABACUS 2007-AC1). Pursuant to the agreement, GS&Co. consented, without admitting or denying the allegations in the SEC Action, to the imposition of a judgment: (i) ordering GS&Co. to disgorge \$15 million; (ii) ordering GS&Co. to pay a civil penalty in the amount of \$535 million; (iii) enjoining GS&Co. from violating Section 17(a) of the Securities Act of 1933; and (iv) ordering GS&Co. to implement certain remedial measures focused on offerings of mortgage-related securities. On July 20, 2010, the U.S. District Court for the Southern District of New York approved the settlement. As part of the settlement, GS&Co. acknowledged “that the marketing materials for the ABACUS 2007-AC1 transaction contained incomplete information. In particular, it was a mistake for the Goldman marketing materials to state that the reference portfolio was ‘selected by’ ACA Management LLC without disclosing the role of Paulson & Co. Inc. in the portfolio selection process and that Paulson’s economic interests were adverse to CDO investors. Goldman regrets that the marketing materials did not contain that disclosure.” Investigations of GS&Co. by FINRA and of GSI by the U.K. Financial Services Authority (FSA) concerning the ABACUS 2007-AC1 transaction and related matters (including the timing of notice to FINRA and the FSA relating to the SEC investigation) continue.

In the purported class action relating to various mortgage pass-through and asset-backed certificates issued by various securitization trusts in 2007, defendants served their motion to dismiss plaintiffs' further amended complaint on June 22, 2010. On June 3, 2010, another investor (who had unsuccessfully sought to intervene in the action) filed a separate action asserting substantively similar allegations relating to one offering pursuant to the 2007 Registration Statement.

In the public nuisance lawsuit brought by the City of Cleveland, the appellate court affirmed the complaint's dismissal by a decision dated July 27, 2010.

On June 9, 2010, an Australian-based hedge fund Basis Yield Alpha Fund (Masters), filed an action in the U.S. District Court for the Southern District of New York against GS&Co., Group Inc., GSI, and GS JBWere asserting federal securities law and common law claims arising from two swap transactions executed with GSI. The complaint seeks \$56 million in actual damages plus punitive damages and other relief. Defendants moved to dismiss on August 2, 2010 pursuant to an order dated July 9, 2010 directing phased briefing of potential grounds for dismissal.

Private Equity-Sponsored Acquisitions Litigation. On April 26, 2010, plaintiffs moved for leave to proceed with a second phase of discovery encompassing additional transactions.

IndyMac Pass-Through Certificates Litigation. By a decision dated June 21, 2010, the district court formally dismissed all claims relating to offerings in which no named plaintiff purchased certificates (including all offerings underwritten by GS&Co.), and both granted and denied defendants' motions to dismiss in various other respects. On May 17, 2010, four additional investors filed a motion seeking to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). On July 6, 2010, another additional investor filed a motion to intervene in order to assert claims based on additional offerings (none of which were underwritten by GS&Co.).

IT Overtime Class Action. On May 27, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York by several contingent technology workers who were employees of third-party vendors. The plaintiffs are seeking overtime pay for alleged hours worked in excess of 40 per work week. The complaint alleges that the plaintiffs were *de facto* employees of GS&Co. and that GS&Co. is responsible for the overtime pay under federal and state overtime laws. The complaint seeks class action status and unspecified damages.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

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 three months ended June 30, 2010.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾</u>	<u>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾</u>
Month #1 (April 1, 2010 to April 30, 2010)	—	—	—	47,657,156
Month #2 (May 1, 2010 to May 31, 2010)	680	\$140.30	680	47,656,476
Month #3 (June 1, 2010 to June 30, 2010)	—	—	—	47,656,476
Total	<u>680</u>		<u>680</u>	

⁽¹⁾ On March 21, 2000, we announced that our Board had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 280 million shares by resolutions of our Board adopted on June 18, 2001, March 18, 2002, November 20, 2002, January 30, 2004, January 25, 2005, September 16, 2005, September 11, 2006 and December 17, 2007. We seek to use our share repurchase program to substantially offset increases in share count over time resulting from employee share-based compensation and to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our issuance of shares resulting from employee share-based compensation as well as our current and projected capital position (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. The total remaining authorization under the repurchase program was 47,656,476 shares as of July 23, 2010; the repurchase program has no set expiration or termination date.

Item 6: Exhibits

Exhibits:

- 3.1 Amended and Restated Certificate of Incorporation of The Goldman Sachs Group, Inc., amended as of May 7, 2010 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed May 11, 2010).
- 3.2 Amended and Restated By-Laws of The Goldman Sachs Group, Inc., amended as of May 7, 2010 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed May 11, 2010).
- 10.1 Form of Deed of Gift.
- 12.1 Statement re: Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
- 15.1 Letter re: Unaudited Interim Financial Information.
- 31.1 Rule 13a-14(a) Certifications.*
- 32.1 Section 1350 Certifications.*
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Earnings for the three and six months ended June 30, 2010 and June 26, 2009, (ii) the Condensed Consolidated Statements of Financial Condition as of June 30, 2010 and December 31, 2009, (iii) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2010 and year ended December 31, 2009, (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and June 26, 2009, (v) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2010 and June 26, 2009, and (vi) the notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.*

* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ DAVID A. VINIAR

Name: David A. Viniar

Title: Chief Financial Officer

By: /s/ SARAH E. SMITH

Name: Sarah E. Smith

Title: Principal Accounting Officer

Date: August 6, 2010

[DEED OF GIFT] *[Gift Agreement]*

Dated: []

Parties:

(1) [The Goldman Sachs Group, Inc. or any of its affiliates] (the “Donor”); and

(2) [Name of charitable entity], a [charity (registered charity number []) and a company limited by guarantee (company registration number: [], with its registered office at [Address]] *[public charity exempt under Internal Revenue Code Section 501(c)(3), with its principal office at [Address]]* (the “Charitable Entity”)

Background:

The Charitable Entity is [a charity established for general charitable purposes in England and Wales and operating donor advised funds] *[a public charity that maintains donor advised funds.]*

The Donor wishes to support the activities of the Charitable Entity.

In order to support the charitable activities of the Charitable Entity, the Donor wishes to make a donation to the Charitable Entity [into the account of [Employee Name] pursuant to this deed of donation (this “Deed”)] *[for contribution into the donor advised fund established by [Employee Name]]* (the “Account”)

1. Covenant To Pay

The Donor shall contribute to the Charitable Entity [Amount] (the “Donation”) in accordance with the provisions of this [Deed] *[Agreement]*.

2. Manner of Payment

The Donation will be made in the form of a [Form of Payment] as soon as reasonably practicable but in any event shall be paid no later than [Date].

3. Application of Donation

The Donation shall be applied by the Charitable Entity to the Account [for the Charitable Entity’s exclusively charitable purposes].

The Charitable Entity retains absolute and unfettered legal control of and discretion over the Donation. [Employee Name] can recommend charitable grants. However, the Charitable Entity has no legal obligation to honor these recommendations.

4. Irrevocable Gift

This [Deed] *[Agreement]* represents an irrevocable and unconditional obligation that is legally binding on the Donor.

5. Terms and Conditions

The standard terms and conditions of the Charitable Entity in respect of the operation of the Account shall apply to the Donation except to the extent that they conflict with the terms of this [Deed] [Agreement].

6. Governing Law

[This Deed shall be governed by the law of England and Wales and the parties submit to the exclusive jurisdiction of the courts of England and Wales.] [This Agreement will be governed in accordance with the laws of the State of New York applicable to agreements made and performed there, without regard to its conflicts of law principles. The parties irrevocably consent to the exclusive jurisdiction and venue of the federal and state courts in the State and county of New York and the parties waive the defense of an inconvenient forum in any such court.]

[7. Counterparts

This Agreement may be signed in one or more facsimile counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument.]

[In witness whereof this agreement has been executed as a deed by the parties and delivered on the date shown above.

Executed as a deed by)
Acting by: , a director) _____
Signature of a director

in the presence of:

Witness signature:

Name:
Address:
Occupation:

Executed as a deed by)
[Name of Charitable Entity])
Acting by: , a director) _____
Signature of a director

In the presence of:

Witness signature:

Name:
Address:
Occupation:]

[If the Charitable Entity agrees to the terms and conditions described above, please sign, or have an authorized representative sign, the enclosed copy and return it to Donor.

Very truly yours,

[The Goldman Sachs Group, Inc. or its Affiliate]

By:
Title:]

[ACCEPTED AND AGREED TO:

[Name of Charitable Entity]

By:
Title:

Date: _____]

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Six Months Ended June	Year Ended December	Year Ended November		
	2010	2009	2008	2007	2006
	(\$ in millions)				
Net earnings	\$4,069	\$13,385	\$ 2,322	\$11,599	\$ 9,537
Add:					
Provision for taxes	2,538	6,444	14	6,005	5,023
Portion of rents representative of an interest factor	82	145	146	137	135
Interest expense on all indebtedness	<u>3,266</u>	<u>6,500</u>	<u>31,357</u>	<u>41,981</u>	<u>31,688</u>
Pre-tax earnings, as adjusted	<u>\$9,955</u>	<u>\$26,474</u>	<u>\$33,839</u>	<u>\$59,722</u>	<u>\$46,383</u>
Fixed charges ⁽¹⁾ :					
Portion of rents representative of an interest factor	\$ 82	\$ 145	\$ 146	\$ 137	\$ 135
Interest expense on all indebtedness	<u>3,270</u>	<u>6,570</u>	<u>31,444</u>	<u>42,051</u>	<u>31,755</u>
Total fixed charges	<u>\$3,352</u>	<u>\$ 6,715</u>	<u>\$31,590</u>	<u>\$42,188</u>	<u>\$31,890</u>
Preferred stock dividend requirements	520	1,767	283	291	212
Total combined fixed charges and preferred stock dividends	<u>\$3,872</u>	<u>\$ 8,482</u>	<u>\$31,873</u>	<u>\$42,479</u>	<u>\$32,102</u>
Ratio of earnings to fixed charges	<u>2.97x</u>	<u>3.94x</u>	<u>1.07x</u>	<u>1.42x</u>	<u>1.45x</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>2.57x</u>	<u>3.12x</u>	<u>1.06x</u>	<u>1.41x</u>	<u>1.44x</u>

⁽¹⁾ Fixed charges include capitalized interest of \$4 million, \$70 million, \$87 million, \$70 million and \$67 million for the six months ended June 2010 and years ended December 2009, November 2008, November 2007 and November 2006, respectively.

August 6, 2010

Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

Re: The Goldman Sachs Group, Inc.
Registration Statements on Form S-8
(No. 333-80839)
(No. 333-42068)
(No. 333-106430)
(No. 333-120802)

Registration Statements on Form S-3
(No. 333-154173)
(No. 333-159143)

Commissioners:

We are aware that our report dated August 6, 2010 on our review of the condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and subsidiaries (the Company) as of June 30, 2010, the related condensed consolidated statements of earnings for the three and six months ended June 30, 2010 and June 26, 2009, the condensed consolidated statement of changes in shareholders' equity for the six months ended June 30, 2010, the condensed consolidated statements of cash flows for the six months ended June 30, 2010 and June 26, 2009, and the condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2010 and June 26, 2009 included in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2010 is incorporated by reference in the registration statements referred to above. Pursuant to Rule 436(c) under the Securities Act of 1933, such report should not be considered a part of such registration statements, and is not a report within the meaning of Sections 7 and 11 of that Act.

Very truly yours,

/s/ PRICEWATERHOUSECOOPERS LLP

CERTIFICATIONS

I, Lloyd C. Blankfein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 of The Goldman Sachs Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Lloyd C. Blankfein

Name: Lloyd C. Blankfein

Title: Chief Executive Officer

Date: August 6, 2010

CERTIFICATIONS

I, David A. Viniar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 of The Goldman Sachs Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David A. Viniar

Name: David A. Viniar

Title: Chief Financial Officer

Date: August 6, 2010

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2010

/s/ Lloyd C. Blankfein

Name: Lloyd C. Blankfein

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2010

/s/ David A. Viniar

Name: David A. Viniar

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.