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 May 25, 2007

or

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

For the transition period to

Commission File Number: 001-14965

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

Delaware	**13-4019460**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
85 Broad Street, New York, NY	**10004**
(Address of principal executive offices)	**(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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 June 22, 2007 there were 405,655,105 shares of the registrant's common stock outstanding.

THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE FISCAL QUARTER ENDED MAY 25, 2007

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions, except per share amounts)			
Revenues				
Investment banking	$ 1,720	$ 1,521	$ 3,436	$ 2,991
Trading and principal investments	6,242	6,921	15,315	13,608
Asset management and securities services	1,107	1,016	2,240	2,570
Interest income	11,282	8,544	21,640	16,079
Total revenues	20,351	18,002	42,631	35,248
Interest expense	10,169	7,761	19,719	14,574
Revenues, net of interest expense	10,182	10,241	22,912	20,674
Operating expenses				
Compensation and benefits	4,887	5,108	10,998	10,422
Brokerage, clearing, exchange and distribution fees	638	473	1,189	891
Market development	144	121	276	221
Communications and technology	161	131	312	255
Depreciation and amortization	140	127	272	252
Amortization of identifiable intangible assets	50	44	101	78
Occupancy	210	199	414	392
Professional fees	161	123	322	232
Cost of power generation	81	122	165	207
Other expenses	279	269	573	511
Total non-compensation expenses	1,864	1,609	3,624	3,039
Total operating expenses	6,751	6,717	14,622	13,461
Pre-tax earnings	3,431	3,524	8,290	7,213
Provision for taxes	1,098	1,212	2,760	2,422
Net earnings	2,333	2,312	5,530	4,791
Preferred stock dividends	46	26	95	52
Net earnings applicable to common shareholders	$ 2,287	$ 2,286	$ 5,435	$ 4,739
Earnings per common share				
Basic	$ 5.25	$ 5.08	$ 12.35	$ 10.45
Diluted	4.93	4.78	11.61	9.86
Dividends declared and paid per common share	$ 0.35	$ 0.35	$ 0.70	$ 0.60
Average common shares outstanding				
Basic	435.8	449.7	440.2	453.5
Diluted	464.1	478.3	468.0	480.8

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	
	May 2007	November 2006
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	$ 8,009	$ 6,293
Cash and securities segregated for regulatory and other purposes	78,266	80,990
Receivables from brokers, dealers and clearing organizations	15,427	13,223
Receivables from customers and counterparties	119,814	79,790
Collateralized agreements:		
Securities borrowed	243,835	219,342
Financial instruments purchased under agreements to resell, at fair value	69,213	82,126
Financial instruments owned, at fair value	341,788	298,563
Financial instruments owned and pledged as collateral, at fair value	42,229	35,998
Total financial instruments owned, at fair value	384,017	334,561
Other assets	24,615	21,876
Total assets	$943,196	$838,201
Liabilities and shareholders' equity		
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	$ 60,737	$ 47,904
Bank deposits	12,930	10,697
Payables to brokers, dealers and clearing organizations	7,330	6,293
Payables to customers and counterparties	218,027	206,884
Collateralized financings:		
Securities loaned	38,065	22,208
Financial instruments sold under agreements to repurchase, at fair value	144,440	147,492
Other secured financings	64,213	50,424
Financial instruments sold, but not yet purchased, at fair value	177,202	155,805
Other liabilities and accrued expenses	40,309	31,866
Unsecured long-term borrowings	141,484	122,842
Total liabilities	904,737	802,415
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value $0.01 per share; 150,000,000 shares authorized, 124,000 shares issued and outstanding as of both May 2007 and November 2006, with liquidation preference of $25,000 per share	3,100	3,100
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 613,087,519 and 599,697,200 shares issued as of May 2007 and November 2006, respectively, and 407,681,933 and 412,666,084 shares outstanding as of May 2007 and November 2006, respectively	6	6
Restricted stock units and employee stock options	6,166	6,290
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	21,229	19,731
Retained earnings	32,985	27,868
Accumulated other comprehensive income	23	21
Common stock held in treasury, at cost, par value $0.01 per share; 205,405,586 and 187,031,116 shares as of May 2007 and November 2006, respectively	(25,050)	(21,230)
Total shareholders' equity	38,459	35,786
Total liabilities and shareholders' equity	$943,196	$838,201

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)

	Period Ended	
	May 2007	November 2006
	(in millions, except per share amounts)	
Preferred stock		
Balance, beginning of year	$ 3,100	$ 1,750
Issued	—	1,350
Balance, end of period	3,100	3,100
Common stock, par value $0.01 per share		
Balance, beginning of year	6	6
Issued	—	—
Balance, end of period	6	6
Restricted stock units and employee stock options		
Balance, beginning of year	6,290	3,415
Issuance and amortization of restricted stock units and employee stock options	1,223	3,787
Delivery of common stock underlying restricted stock units	(1,286)	(781)
Forfeiture of restricted stock units and employee stock options	(54)	(129)
Exercise of employee stock options	(7)	(2)
Balance, end of period	6,166	6,290
Additional paid-in capital		
Balance, beginning of year	19,731	17,159
Issuance of common stock, including proceeds from exercise of employee stock options	1,760	2,432
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(928)	(375)
Stock purchase contract fee related to automatic preferred enhanced capital securities	(20)	—
Preferred stock issuance costs	—	(1)
Excess net tax benefit related to share-based compensation	686	653
Cash settlement of share-based compensation	—	(137)
Balance, end of period	21,229	19,731
Retained earnings		
Balance, beginning of year, as previously reported	27,868	19,085
Cumulative effect of adjustment from adoption of SFAS No. 157, net of tax	51	—
Cumulative effect of adjustment from adoption of SFAS No. 159, net of tax	(45)	—
Balance, beginning of year, after cumulative effect of adjustments	27,874	19,085
Net earnings	5,530	9,537
Dividends and dividend equivalents declared on common stock and restricted stock units	(324)	(615)
Dividends declared on preferred stock	(95)	(139)
Balance, end of period	32,985	27,868
Accumulated other comprehensive income/(loss)		
Balance, beginning of year	21	—
Currency translation adjustment, net of tax	20	45
Minimum pension liability adjustment, net of tax	—	(27)
Net gains/(losses) on cash flow hedges, net of tax	(2)	(7)
Net unrealized gains/(losses) on available-for-sale securities, net of tax	(8)	10
Reclassification to retained earnings from adoption of SFAS No. 159, net of tax	(8)	—
Balance, end of period	23	21
Common stock held in treasury, at cost		
Balance, beginning of year	(21,230)	(13,413)
Repurchased	(3,823)	(7,817)
Reissued	3	—
Balance, end of period	(25,050)	(21,230)
Total shareholders' equity	$ 38,459	$ 35,786

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 May 2007	Six Months Ended May 2006
	(in millions)	
Cash flows from operating activities		
Net earnings	$ 5,530	$ 4,791
Non-cash items included in net earnings		
Depreciation and amortization	416	365
Amortization of identifiable intangible assets	137	113
Share-based compensation	713	624
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	2,643	(10,786)
Net receivables from brokers, dealers and clearing organizations	(1,165)	(7,634)
Net payables to customers and counterparties	(28,905)	6,768
Securities borrowed, net of securities loaned	(8,636)	(2,980)
Financial instruments sold under agreements to repurchase, net of financial instruments purchased under agreements to resell	9,861	(5,442)
Financial instruments owned, at fair value	(48,750)	(36,270)
Financial instruments sold, but not yet purchased, at fair value	20,829	10,380
Other, net	2,094	5,796
Net cash used for operating activities	(45,233)	(34,275)
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(1,029)	(1,183)
Proceeds from sales of property, leasehold improvements and equipment	15	149
Business acquisitions, net of cash acquired	(631)	(563)
Proceeds from sales of investments	321	1,191
Net cash used for investing activities	(1,324)	(406)
Cash flows from financing activities		
Unsecured short-term borrowings, net	8,736	4,096
Other secured financings (short-term), net	12,731	1,959
Proceeds from issuance of other secured financings (long-term)	5,135	6,228
Repayment of other secured financings (long-term), including the current portion	(2,104)	(4,327)
Proceeds from issuance of unsecured long-term borrowings	30,744	30,210
Repayment of unsecured long-term borrowings, including the current portion	(8,193)	(6,622)
Derivative contracts with a financing element, net	2,145	2,267
Bank deposits	2,233	—
Common stock repurchased	(3,820)	(3,592)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(419)	(340)
Proceeds from issuance of common stock	453	1,125
Proceeds from issuance of preferred stock, net of issuance costs	—	849
Excess tax benefit related to share-based compensation	632	306
Cash settlement of share-based compensation	—	(17)
Net cash provided by financing activities	48,273	32,142
Net increase/(decrease) in cash and cash equivalents	1,716	(2,539)
Cash and cash equivalents, beginning of year	6,293	10,261
Cash and cash equivalents, end of period	$ 8,009	$ 7,722

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were $18.88 billion and $14.03 billion during the six months ended May 2007 and May 2006, respectively.

Cash payments for income taxes, net of refunds, were $3.63 billion and $1.63 billion during the six months ended May 2007 and May 2006, respectively.

Non-cash activities:
The firm assumed $135 million and $190 million of debt in connection with business acquisitions during the six months ended May 2007 and May 2006, respectively. The firm issued $17 million of common stock in connection with business acquisitions for the six months ended May 2007.

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)

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions)			
Net earnings	$2,333	$2,312	$5,530	$4,791
Currency translation adjustment, net of tax	15	10	20	27
Net gains/(losses) on cash flow hedges, net of tax	(4)	(3)	(2)	(2)
Net unrealized gains/(losses) on available-for-sale securities, net of tax	(6)	(11)	(8)	(14)
Comprehensive income	$2,338	$2,308	$5,540	$4,802

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

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 services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

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 and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, the firm engages in specialist and market-making activities on equities and options exchanges and 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 advisory and financial planning services and offers investment products (primarily through separate accounts and 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, a variable interest entity (VIE) or a qualifying special-purpose entity (QSPE) under generally accepted accounting principles.

- **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 obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. Voting interest entities are consolidated in accordance with Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," as amended. ARB No. 51 states that the usual condition for a controlling financial interest in an 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 will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46-R, "Consolidation of Variable Interest Entities," the firm consolidates VIEs for which it is the primary beneficiary.

  The firm determines whether it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, the firm performs a quantitative analysis. For purposes of allocating a VIE's expected losses and expected residual returns to its variable interest holders, the firm utilizes the "top down" method. Under that method, the firm calculates its share of the VIE's expected losses and expected residual returns using the specific cash flows that would be allocated to it, based on contractual arrangements and/or the firm's position in the capital structure of the VIE, under various probability-weighted scenarios.

- **QSPEs.** QSPEs are passive entities that are commonly used in mortgage and other securitization transactions. Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," sets forth the criteria an entity must satisfy to be a QSPE. These criteria include the types of assets a QSPE may hold, limits on asset sales, the use of derivatives and financial guarantees, and the level of discretion a servicer may exercise in attempting to collect receivables. These criteria may require management to make judgments about complex matters, including whether a derivative is considered passive and the degree of discretion a servicer may exercise. In accordance with SFAS No. 140 and FIN No. 46-R, the firm does not consolidate QSPEs.

- **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 in accordance with the equity method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." For investments acquired subsequent to the adoption of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," the firm generally has elected to apply the fair value option in accounting for such investments. See "— Recent Accounting Developments" for a discussion of the firm's adoption of SFAS No. 159.

- **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 does not hold a majority of the economic interests in any fund. The firm has generally provided the third-party investors with rights to terminate the funds or to remove the firm as the general partner. These fund investments are included in "Financial instruments owned, at fair value" in the condensed consolidated statements of financial condition.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements incorporated by reference in the firm's Annual Report on Form 10-K for the fiscal year ended November 24, 2006. The condensed consolidated financial information as of November 24, 2006 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.

Unless specifically stated otherwise, all references to May 2007 and May 2006 refer to the firm's fiscal periods ended, or the dates, as the context requires, May 25, 2007 and May 26, 2006, respectively. All references to November 2006, unless specifically stated otherwise, refer to the firm's fiscal year ended, or the date, as the context requires, November 24, 2006. All references to 2007, unless specifically stated otherwise, refer to the firm's fiscal year ending, or the date, as the context requires, November 30, 2007. 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 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.

Financial Instruments. "Total financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" are reflected in the condensed consolidated statements of financial condition on a trade-date basis. Related unrealized gains or losses are generally recognized in "Trading and principal investments" in the condensed consolidated statements of earnings. 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 (the exit price). Instruments that the firm owns (long positions) are marked to bid prices, and instruments that the firm has sold, but not yet purchased (short positions) are marked to offer prices. Fair value measurements are not adjusted for transaction costs.

The firm adopted SFAS No. 157, "Fair Value Measurements," as of the beginning of 2007. SFAS No. 157 establishes a fair value hierarchy that 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 under SFAS No. 157 are described below:

	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;
Level 2	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. See "— Recent Accounting Developments" for a discussion of the impact of adopting SFAS No. 157.

In determining fair value, the firm separates its "Financial instruments owned, at fair value" and its "Financial instruments sold, but not yet purchased, at fair value" into two categories: cash instruments and derivative contracts.

- **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 market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy. As required by SFAS No. 157, the firm does not adjust the quoted price for such instruments, even in situations where the firm holds a large position and a sale could reasonably impact the quoted price. The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, certain corporate bank loans, less liquid listed equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within level 2 of the fair value hierarchy.

  Certain cash instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include certain corporate bank loans and mortgage whole loans, highly distressed debt, and private equity and real estate investments. Where the firm is unable to substantiate the significant valuation inputs and assumptions to corroborative market data, the transaction price is used as management's best estimate of fair value at inception. 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 inception, management only changes level 3 inputs and assumptions when 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, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

- **Derivative Contracts.** Derivative contracts can be exchange-traded or over-the-counter (OTC). Exchange-traded derivatives typically fall within level 1 or level 2 of the fair value hierarchy depending on whether they are deemed to be active or not. The firm generally values exchange-traded derivatives within portfolios using models which calibrate to market clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying cash instruments. In such cases, exchange-traded derivatives are classified within level 2 of the fair value hierarchy.

OTC derivatives are valued using models. 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. Where possible, the firm verifies the values produced by its pricing models to market transactions. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment 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. Such instruments are typically classified within level 2 of the fair value hierarchy.

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. Further, complex structures often involve multiple product types requiring additional complex inputs such as correlations and volatilities. Such instruments are classified within level 3 of the fair value hierarchy. Where the firm does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, management believes that transaction price is the best estimate of fair value at inception. 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. The valuations of these less liquid OTC derivatives are typically impacted by level 1 and/or level 2 inputs that can be observed in the market, as well as unobservable level 3 inputs. Subsequent to initial recognition, the firm updates the level 1 and level 2 inputs to reflect observable market changes. 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. As markets continue to develop and more pricing information becomes available, the firm continues to review and refine the models used.

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

Collateralized Agreements and Financings. Collateralized agreements consist of resale agreements and securities borrowed. Collateralized financings consist of repurchase agreements, securities loaned and other secured financings. Interest on collateralized agreements and collateralized financings is recognized in "Interest income" or "Interest expense," respectively, over the life of the transaction.

- **Resale and Repurchase Agreements.** Financial instruments purchased under agreements to resell and financial instruments sold under agreements to repurchase, principally U.S. government, federal agency and investment-grade sovereign obligations, represent collateralized financing transactions. The firm receives financial instruments purchased under agreements to resell, makes delivery of financial instruments sold under agreements to repurchase, monitors the market value of these financial instruments on a daily basis and delivers or obtains additional collateral as appropriate. Resale and repurchase agreements are carried in the condensed consolidated statements of financial condition at fair value as allowed by SFAS No. 159. Prior to the adoption of SFAS No. 159, these transactions were recorded at contractual amounts plus accrued interest. Resale and repurchase agreements are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy. Resale and repurchase agreements are presented on a net-by-counterparty basis when the requirements of FIN No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements," or FIN No. 39, "Offsetting of Amounts Related to Certain Contracts," are satisfied.

- **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 are generally transacted on-demand, they exhibit little, if any, sensitivity to changes in interest rates. 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 as allowed by SFAS No. 159. Prior to the adoption of SFAS No. 159, these transactions were recorded based on the amount of cash collateral advanced or received plus accrued interest. These securities borrowed and loaned transactions are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy.

- **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. SFAS No. 159 has been adopted for those financings for which the use of fair value would eliminate volatility in earnings from using different measurement attributes, primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through the firm's William Street program. These other secured financing transactions are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy. 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.

Hybrid Financial Instruments. Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," 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, it 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 SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140." The primary reasons for electing the fair value option for hybrid financial instruments are mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations. See Notes 3, 4 and 5 for additional information about hybrid financial instruments.

Transfers of Financial Assets. In general, transfers of financial assets are accounted for as sales under SFAS No. 140 when the firm has relinquished control over the transferred assets. For transfers accounted for as sales, any related gains or losses are recognized in net revenues. Transfers that are not accounted for as sales are accounted for as collateralized financings, with the related interest expense recognized in net revenues over the life of the transaction.

Power Generation. Power generation revenues associated with the firm's consolidated power generation facilities are included in "Trading and principal investments" in the condensed consolidated statements of earnings when power is delivered. These revenues were $103 million and $178 million for the three months ended May 2007 and May 2006, respectively, and $221 million and $290 million for the six months ended May 2007 and May 2006, respectively. Direct employee costs associated with the firm's consolidated power generation facilities of $20 million and $22 million for the three months ended May 2007 and May 2006, respectively, and $41 million and $35 million for the six months ended May 2007 and May 2006, respectively, are included in "Compensation and benefits." The other direct costs associated with these power generation facilities and related contractual assets are included in "Cost of power generation."

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

Insurance Activities. Revenues from variable annuity and variable life insurance contracts, and from providing reinsurance of such contracts, generally consist of fees assessed on contract holder account balances for mortality charges, policy administration and surrender charges. These fees are recognized within "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 account balances and changes in reserves are recognized in "Other expenses" in the condensed consolidated statements of earnings.

Premiums earned for providing property catastrophe reinsurance are recognized within "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 claims that have been incurred but not reported, are recognized within "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

In the first quarter of 2006, the firm adopted SFAS No. 123-R, "Share-Based Payment," which is a revision to SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123-R focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. Under SFAS No. 123-R, the cost of employee services received in exchange for an award of equity instruments is generally measured based on the grant-date fair value of the award. Under SFAS No. 123-R, 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. The firm adopted SFAS No. 123-R under the modified prospective adoption method. Under that method of adoption, the provisions of SFAS No. 123-R are generally applied only to share-based awards granted subsequent to adoption. Share-based awards held by employees that were retirement-eligible on the date of adoption of SFAS No. 123-R must continue to be amortized over the stated service period of the award (and accelerated if the employee actually retires). SFAS No. 123-R requires expected forfeitures to be included in determining share-based employee compensation expense.

The firm pays cash dividend equivalents on outstanding restricted stock units. Dividend equivalents paid on restricted stock units accounted for under SFAS No. 123 and SFAS No. 123-R are charged to retained earnings. SFAS No. 123-R requires dividend equivalents paid on restricted stock units expected to be forfeited to be included in compensation expense. Prior to the adoption of SFAS No. 123-R, dividend equivalents paid on restricted stock units that were later forfeited by employees were reclassified to compensation expense from retained earnings. The tax benefit related to dividend equivalents paid on restricted stock units is accounted for as a reduction of income tax expense (see "— Recent Accounting Developments" for a discussion of Emerging Issues Task Force (EITF) Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards").

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. "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.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of an operating segment 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, above-market power contracts, specialist rights and the value of business acquired (VOBA) and deferred acquisition costs (DAC) in the firm's insurance subsidiaries, are amortized over their estimated useful lives. Identifiable intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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 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 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 potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144. 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 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. In accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," the firm records a liability, based on 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.

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 statement of financial condition, and revenues and expenses are translated at average rates of exchange for the year. 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. The firm seeks to reduce its net investment exposure to fluctuations in foreign exchange rates through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts, hedge effectiveness is assessed based on changes in forward exchange rates; accordingly, forward points are reflected as a component of the currency translation adjustment in the condensed consolidated statements of comprehensive income. For foreign currency-denominated debt, hedge effectiveness is assessed based on changes in spot rates. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are included in the condensed consolidated statements of earnings.

Income Taxes

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. Tax provisions are computed in accordance with SFAS No. 109, "Accounting for Income Taxes." Contingent liabilities related to income taxes are recorded when the criteria for loss recognition under SFAS No. 5, "Accounting for Contingencies," as amended, have been met (see "— Recent Accounting Developments" below for a discussion of the impact of FIN No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109," on SFAS No. 109).

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 restricted stock units 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 options and to restricted stock units for which future service is required as a condition to the delivery of the underlying common stock.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business.

Recent Accounting Developments

FIN No. 48. In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109." FIN No. 48 requires that the firm determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. The firm expects to adopt the provisions of FIN No. 48 beginning in the first quarter of 2008. The firm does not expect that the adoption of FIN No. 48 will have a material effect on its financial condition, results of operations or cash flows.

SFAS No. 157. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs.

SFAS No. 157 nullifies the guidance included in EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," that prohibited the recognition of a day one gain or loss on derivative contracts (and hybrid financial instruments measured at fair value under SFAS No. 155) where the firm was unable to verify all of the significant model inputs to observable market data and/or verify the model to market transactions. However, SFAS No. 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model.

In addition, SFAS No. 157 prohibits the recognition of "block discounts" for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available for an identical asset or liability in an active market.

The provisions of SFAS No. 157 are to be applied prospectively, except changes in fair value measurements that result from the initial application of SFAS No. 157 to existing derivative financial instruments measured under EITF Issue No. 02-3, existing hybrid financial instruments measured at fair value and block discounts, all of which are to be recorded as an adjustment to beginning retained earnings in the year of adoption.

The firm adopted SFAS No. 157 as of the beginning of 2007. The transition adjustment to beginning retained earnings was a gain of $51 million, net of tax. For the first quarter of 2007, the effect of the nullification of EITF Issue No. 02-3 and the removal of liquidity discounts for actively traded positions was not material. In addition, under SFAS No. 157, gains on principal investments are recorded in the absence of substantial third-party transactions if market evidence is sufficient. In the first quarter of 2007, the firm recorded approximately $500 million of such gains as a result of adopting SFAS No. 157.

SFAS No. 158. In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132-R." SFAS No. 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS No. 158 also requires an entity to recognize changes in the funded status of a defined benefit pension and postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006. The firm will adopt SFAS No. 158 as of the end of 2007. The firm does not expect that the adoption of SFAS No. 158 will have a material effect on its financial condition, results of operations or cash flows.

SFAS No. 159. On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not accounted for at fair value under other accounting standards. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

The firm adopted SFAS No. 159 as of the beginning of 2007 and elected to apply the fair value option to the following financial assets and liabilities existing at the time of adoption:

- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper;
- certain other secured financings, primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through the firm's William Street program;
- certain unsecured long-term borrowings, including prepaid physical commodity transactions;
- resale and repurchase agreements;
- securities borrowed and loaned within Trading and Principal Investments;
- securities held by the firm's bank subsidiary (previously accounted for as available-for-sale); and
- receivables from customers and counterparties arising from transfers accounted for as secured loans rather than purchases under SFAS No. 140.

The primary reasons for electing the fair value option are mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations. The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of $45 million, net of tax, substantially all of which related to applying the fair value option to prepaid physical commodity transactions.

Subsequent to the adoption of SFAS No. 159, the firm has elected to apply the fair value option to new positions within the above categories and generally to investments where the firm would otherwise apply the equity method of accounting. In certain cases, the firm may continue to apply the equity method of accounting to those investments which 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, and/or where cost-benefit considerations are less significant.

SOP No. 07-1 and FIN No. 46-R-7. In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 07-1, "Clarification of the Scope of the Audit and Accounting Guide 'Audits of Investment Companies' and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies." SOP No. 07-1 clarifies when an entity may apply the provisions of the Audit and Accounting Guide for Investment Companies (the Guide). Investment companies that are within the scope of the Guide report investments at fair value; consolidation or use of the equity method for investments is generally not appropriate. SOP No. 07-1 also addresses the retention of specialized investment company accounting by a parent company in consolidation or by an equity method investor. SOP No. 07-1 is effective for fiscal years beginning on or after December 15, 2007 with early adoption encouraged. In May 2007, the FASB issued FSP FIN No. 46-R-7, "Application of FIN 46-R to Investment Companies," which amends FIN No. 46-R to make permanent the temporary deferral of the application of FIN No. 46-R to entities within the scope of the revised Guide under SOP No. 07-1. FSP FIN No. 46-R-7 is effective upon adoption of SOP No. 07-1. The firm is evaluating the impact of adopting SOP No. 07-1 and FSP FIN No. 46-R-7 on its financial condition, results of operations and cash flows.

EITF Issue No. 06-11. In June 2007, the EITF reached consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF Issue No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. The firm currently accounts for this tax benefit as a reduction to income tax expense. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007, and the firm expects to adopt the provisions of EITF Issue No. 06-11 beginning in the first quarter of 2009. The firm is currently evaluating the impact of adopting EITF Issue No. 06-11 on its financial condition, results of operations and cash flows.

Note 3. Financial Instruments

Fair Value of Financial Instruments

The following table sets forth the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value:

	As of			
	May 2007		November 2006	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 8,504 [1]	$ —	$ 14,723 [1]	$ —
U.S. government, federal agency and sovereign obligations	71,315	57,098	64,383	51,200
Corporate and other debt obligations				
Mortgage whole loans and asset-backed securities	39,865	219	41,017	253
Investment-grade corporate bonds	18,866	4,844	17,485	4,745
Bank loans	34,228	1,045	28,196	1,154
High-yield securities	13,261	2,255	11,054	2,064
Preferred stock	7,632	136	7,927	118
Other	1,330	189	1,267	241
	115,182	8,688	106,946	8,575
Equities and convertible debentures	108,952	41,011	75,355	30,323
State, municipal and provincial obligations	4,413	85	3,688	—
Derivative contracts	73,715 [2]	70,304 [3]	67,543 [2]	65,496 [3]
Physical commodities	1,936	16	1,923	211
Total	$384,017	$177,202	$334,561	$155,805

[1] Includes $6.53 billion and $6.93 billion as of May 2007 and November 2006, respectively, of money market instruments held by William Street Funding Corporation to support the William Street credit extension program (see Note 6 for further information regarding the William Street program).

[2] Net of cash received pursuant to credit support agreements of $24.54 billion and $24.06 billion as of May 2007 and November 2006, respectively.

[3] Net of cash paid pursuant to credit support agreements of $17.19 billion and $16.00 billion as of May 2007 and November 2006, respectively.

The following tables set forth the firm's financial assets and liabilities that were accounted for at fair value as of May 2007 by level within the fair value hierarchy (see Note 2 for further information on the fair value hierarchy). As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Assets at Fair Value As of May 2007				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
Cash instruments	$121,157	$144,004	$45,141 [4]	$ —	$310,302
Derivative contracts	99	92,776	8,960	(28,120) [5]	73,715
Financial instruments owned, at fair value	121,256	236,780	54,101	(28,120)	384,017
Securities segregated for regulatory and other purposes [1]	4,999	36,050	—	—	41,049
Receivables from customers and counterparties [2]	—	1,912	—	—	1,912
Securities borrowed [3]	—	60,552	—	—	60,552
Financial instruments purchased under agreements to resell, at fair value	—	69,213	—	—	69,213
Collateralized agreements	—	129,765	—	—	129,765
Total assets at fair value	$126,255	$404,507	$54,101	$(28,120)	$556,743

(1) Primarily includes securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

(2) Includes transfers accounted for as secured loans rather than purchases under SFAS No. 140 and prepaid variable share forwards.

(3) Reflects securities borrowed within Trading and Principal Investments. Excludes securities borrowed within Securities Services, which are accounted for based on the amount of cash collateral advanced plus accrued interest.

(4) Does not reflect the firm's economic exposure to level 3 assets because the amount in the above table includes amounts that are attributable to minority investors or financed by nonrecourse debt. The firm's economic exposure to level 3 cash instruments is $24.58 billion, which is comprised of cash trading instruments with little or no price transparency and principal investments with no recent third-party transaction.

(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.

	Liabilities at Fair Value As of May 2007				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
Cash instruments	$96,881	$ 9,168	$ 849	$ —	$106,898
Derivative contracts	98	82,033	8,561	(20,388) [5]	70,304
Financial instruments sold, but not yet purchased, at fair value	96,979	91,201	9,410	(20,388)	177,202
Securities loaned [1]	—	1,233	—	—	1,233
Financial instruments sold under agreements to repurchase, at fair value	—	144,440	—	—	144,440
Other secured financings [2]	—	29,448	—	—	29,448
Collateralized financings	—	175,121	—	—	175,121
Unsecured short-term borrowings [3]	—	37,694	5,507	—	43,201
Unsecured long-term borrowings [4]	—	12,983	503	—	13,486
Total liabilities at fair value	$96,979	$316,999	$15,420	$(20,388)	$409,010

(1) Reflects securities loaned within Trading and Principal Investments. Excludes securities loaned within Securities Services, which are accounted for based on the amount of cash collateral received plus accrued interest.

(2) Primarily includes transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through the firm's William Street program.

(3) Primarily includes promissory notes, commercial paper and hybrid financial instruments.

(4) Primarily includes hybrid financial instruments and prepaid physical commodity transactions.

(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.

See Note 2 for a discussion of the types of financial assets and liabilities that are classified within level 3 of the fair value hierarchy as well as the firm's valuation policies for such instruments.

The following tables set forth a summary of changes in the fair value of the firm's level 3 financial assets and liabilities for the three and six months ended May 2007. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. For example, a hypothetical derivative contract with level 1, level 2 and significant level 3 inputs would be classified as a level 3 financial instrument in its entirety. Subsequently, even if only level 1 and level 2 inputs are adjusted, the resulting gain or loss is classified as level 3. Further, level 3 instruments are frequently hedged with instruments that are classified as level 1 or level 2 and, accordingly, gains or losses reported as level 3 in the table below may be offset by gains or losses attributable to instruments classified in level 1 or level 2 of the fair value hierarchy. See Note 2 for further discussion of level 3 instruments.

	Level 3 Financial Assets and Liabilities Three Months Ended May 2007				
	Cash Instruments - Assets	Cash Instruments - Liabilities	Derivative Contracts - Net	Unsecured Short-Term Borrowings	Unsecured Long-Term Borrowings
			(in millions)		
Balance, beginning of period	$37,848	$(224)	$ 341	$(4,836)	$(777)
Total gains/(losses) (realized and unrealized)	685 (2)	18 (1)	279 (1)	(118) (1)	(2) (1)
Purchases, issuances and settlements	5,499	(452)	(920)	(946)	(123)
Transfers in and/or out of level 3	1,109	(191)	699	393	399
Balance, end of period	$45,141	$(849)	$ 399	$(5,507)	$(503)
Change in unrealized gains/(losses) relating to instruments still held at the reporting date (1)	$ 98	$ 9	$(204)	$ (189)	$ 2

	Level 3 Financial Assets and Liabilities Six Months Ended May 2007				
	Cash Instruments - Assets	Cash Instruments - Liabilities	Derivative Contracts - Net	Unsecured Short-Term Borrowings	Unsecured Long-Term Borrowings
			(in millions)		
Balance, beginning of year	$29,905	$(223)	$ 580	$(3,253)	$(135)
Total gains/(losses) (realized and unrealized)	1,983 (3)	1 (1)	(180) (1)	(179) (1)	32 (1)
Purchases, issuances and settlements	10,535	(351)	(372)	(2,589)	(595)
Transfers in and/or out of level 3	2,718	(276)	371	514	195
Balance, end of period	$45,141	$(849)	$ 399	$(5,507)	$(503)
Change in unrealized gains/(losses) relating to instruments still held at the reporting date (1)	$ 1,179	$ (15)	$(168)	$ (251)	$ 36

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

(2) Includes approximately $355 million and $330 million reported in "Trading and principal investments" and "Interest income," respectively, in the condensed consolidated statements of earnings.

(3) Includes approximately $1.03 billion and $953 million reported in "Trading and principal investments" and "Interest income," respectively, in the condensed consolidated statements of earnings.

The following table sets forth the gains and losses included in earnings during the three and six months ended May 2007 related to financial assets and liabilities for which the firm has elected to apply the fair value option under SFAS No. 155 and SFAS No. 159. Substantially all of these gains and losses would have otherwise been recognized because they primarily relate to borrowings that contain bifurcatable embedded derivatives accounted for at fair value under SFAS No. 133 and were largely offset by gains and losses on related instruments that were accounted for at fair value under other generally accepted accounting principles.

	Three Months Ended May 2007	Six Months Ended May 2007
	(in millions)	
Financial instruments owned, at fair value [1]	$ 65	$ 72
Unsecured short-term borrowings	(108)	(352)
Other secured financings	5	(125)
Unsecured long-term borrowings	61	(731)
Other [2]	—	(1)
Total [3]	$ 23	$(1,137)

(1) Includes investments where the firm would otherwise have applied the equity method of accounting as well as securities held in the firm's bank subsidiary (previously accounted for as available-for-sale).

(2) Includes resale and repurchase agreements and securities borrowed and loaned within Trading and Principal Investments.

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

As of May 2007, the changes in the fair value of both receivables (including securities borrowed and resale agreements) and liabilities for which the fair value option was elected that were attributable to changes in instrument-specific credit spreads were not material. As of May 2007, the difference between the fair value and the aggregate contractual principal amount of both long-term receivables and long-term debt instruments (principal and non-principal protected) for which the fair value option was elected was not material.

Derivative Activities

Derivative contracts are instruments, such as futures, forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates 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, securities, 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, to take proprietary positions and as a means of risk management. 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.

The firm applies hedge accounting under SFAS No. 133 to certain derivative contracts. The firm uses these derivatives to manage certain interest rate and currency exposures, including the firm's net investment in non-U.S. operations. 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 and certain unsecured short-term borrowings into floating rate obligations. See Note 2 for information regarding the firm's policy on foreign currency forward contracts used to hedge its net investment in non-U.S. operations.

The firm applies a long-haul method to substantially all of its hedge accounting relationships to perform an ongoing assessment of the effectiveness of these relationships in achieving offsetting changes in fair value or offsetting cash flows attributable to the risk being hedged. The firm utilizes a dollar-offset method, which compares 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, to prospectively and retrospectively assess hedge effectiveness. The firm's prospective dollar-offset assessment utilizes scenario analyses to test hedge effectiveness via simulations of numerous parallel and slope shifts of the relevant yield curve. Parallel shifts change the interest rate of all maturities by identical amounts. Slope shifts change 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 is deemed to be effective if the fair value of the hedging instrument and the hedged item change inversely within a range of 80% to 125%.

For 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 related to hedge ineffectiveness for all hedges are generally included in "Interest expense." These gains or losses and the component of gains or losses on derivative transactions excluded from the assessment of hedge effectiveness (e.g., the effect of the passage of time on fair value hedges of the firm's borrowings) were not material to the firm's results of operations for the three and six months ended May 2007 or May 2006. Gains and losses on derivatives used for trading purposes are included in "Trading and principal investments" in the condensed consolidated statements of earnings.

The fair value of the firm's derivative contracts is reflected net of cash paid 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 fair value of derivative financial instruments, computed in accordance with the firm's netting policy, is set forth below:

	As of			
	May 2007		November 2006	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Forward settlement contracts	$12,356	$15,859	$11,751	$14,335
Swap agreements	31,027	22,228	28,012	22,471
Option contracts	30,332	32,217	27,780	28,690
Total	$73,715	$70,304	$67,543	$65,496

The fair value of derivatives accounted for as qualifying hedges under SFAS No. 133 consisted of $1.65 billion and $2.66 billion in assets as of May 2007 and November 2006, respectively, and $1.26 billion and $551 million in liabilities as of May 2007 and November 2006, respectively.

The firm also has embedded derivatives that have been bifurcated from related borrowings under SFAS No. 133. Such derivatives, which are classified in unsecured short-term and unsecured long-term borrowings, had a carrying value of $852 million and $1.13 billion (excluding the debt host contract) as of May 2007 and November 2006, respectively. See Notes 4 and 5 for further information regarding the firm's unsecured borrowings.

Securitization Activities

The firm securitizes commercial and residential mortgages, home equity and auto loans, government and 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. Net revenues related to these underwriting activities are recognized in connection with the sales of the underlying beneficial interests to investors.

The firm may retain interests in securitized financial assets, primarily in the form of senior or subordinated securities, including residual interests. Retained interests are accounted for at fair value and are included in "Total financial instruments owned, at fair value" in the condensed consolidated statements of financial condition.

During the six months ended May 2007, the firm securitized $54.15 billion of financial assets, consisting of $28.34 billion in residential mortgage securitizations and $25.81 billion in other securitizations, primarily collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs). During the six months ended May 2006, the firm securitized $49.65 billion of financial assets, consisting of $36.57 billion in residential mortgage securitizations and $13.08 billion in CDOs and other securitizations. Cash flows received on retained interests were approximately $418 million and $422 million for the six months ended May 2007 and May 2006, respectively.

As of May 2007 and November 2006, the firm held $7.70 billion and $7.08 billion of retained interests, respectively, including $3.92 billion and $5.18 billion, respectively, held in QSPEs.

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 May 2007			As of November 2006		
	Type of Retained Interests			Type of Retained Interests		
	Mortgage-Backed	CDOs and CLOs	Corporate Debt [3]	Mortgage-Backed	CDOs and CLOs	Corporate Debt [3]
	($ in millions)					
Fair value of retained interests	$3,499	$3,788	$414	$4,013	$1,973	$1,097
Weighted average life (years)	5.9	5.0	1.5	6.0	7.0	2.2
Constant prepayment rate	20.5%	20.1%	N/A	21.2%	24.5%	N/A
Impact of 10% adverse change	$ (117)	$ (35)	$ —	$ (121)	$ (2)	$ —
Impact of 20% adverse change	(212)	(71)	—	(221)	(6)	—
Anticipated credit losses [1]	3.8%	N/A	N/A	2.0%	N/A	N/A
Impact of 10% adverse change [2]	$ (111)	$ —	$ —	$ (81)	$ —	$ —
Impact of 20% adverse change [2]	(202)	—	—	(155)	—	—
Discount rate	10.9%	8.3%	0.3%	9.4%	6.9%	3.9%
Impact of 10% adverse change	$ (128)	$ (138)	$ —	$ (136)	$ (38)	$ (9)
Impact of 20% adverse change	(246)	(277)	—	(266)	(74)	(17)

(1) Anticipated credit losses are computed only on positions for which expected credit loss is a key assumption in the determination of fair value or positions for which expected credit loss is not reflected within the discount rate.

(2) The impacts of adverse change take into account credit mitigants incorporated in the retained interests, including over-collateralization and subordination provisions.

(3) Includes retained interests in bonds and other types of financial assets that are not subject to prepayment risk.

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.

In addition to the retained interests described above, the firm also held interests in residential mortgage QSPEs purchased in connection with secondary market-making activities. These purchased interests approximated $5 billion and $8 billion as of May 2007 and November 2006, respectively.

Variable Interest Entities (VIEs)

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 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 purchase assets by issuing debt and equity instruments. In certain instances, the firm provides guarantees to VIEs or holders of variable interests in VIEs. In such cases, the maximum exposure to loss included in the tables set forth below is the notional amount of such guarantees. Such amounts do not represent anticipated losses in connection with these guarantees.

The firm's variable interests in VIEs include senior and subordinated debt; loan commitments; limited and general partnership interests; preferred and common stock; interest rate, foreign currency, equity, commodity and credit derivatives; guarantees; and residual interests in mortgage-backed and asset-backed securitization vehicles, CDOs and CLOs. The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities.

The following tables set forth total assets in nonconsolidated VIEs in which the firm holds significant variable interests and the firm's maximum exposure to loss associated with these interests. The firm has aggregated nonconsolidated VIEs based on principal business activity, as reflected in the first column. The nature of the firm's variable interests can take different forms, as described in the columns under maximum exposure to loss.

	As of May 2007					
		Maximum Exposure to Loss in Nonconsolidated VIEs [1]				
	VIE Assets	Purchased and Retained Interests	Commitments and Guarantees	Derivatives	Loans and Investments	Total
				(in millions)		
CDOs and CLOs [2]	$56,997	$3,741	$ —	$12,041	$ —	$15,782
Real estate, credit-related and other investing [3]	16,543	—	111	7	2,034	2,152
Municipal bond securitizations	1,188	—	1,188	—	—	1,188
Mortgage-backed and other asset-backed	98	—	—	70	—	70
Power-related	3,327	2	246	—	623	871
Principal-protected notes [4]	5,747	—	—	4,137	—	4,137
Asset repackagings and credit-linked notes	2,008	—	—	638	—	638
Total	$85,908	$3,743	$1,545	$16,893	$2,657	$24,838

	As of November 2006					
		Maximum Exposure to Loss in Nonconsolidated VIEs [1]				
	VIE Assets	Purchased and Retained Interests	Commitments and Guarantees	Derivatives	Loans and Investments	Total
				(in millions)		
CDOs and CLOs [2]	$37,610	$2,406	$ —	$ 9,782	$ —	$12,188
Real estate, credit-related and other investing [3]	16,300	—	113	8	2,088	2,209
Municipal bond securitizations	1,182	—	1,182	—	—	1,182
Mortgage-backed and other asset-backed	8,239	477	—	66	—	543
Power-related	3,422	10	73	—	597	680
Principal-protected notes [4]	4,363	—	—	3,437	—	3,437
Asset repackagings and credit-linked notes	1,360	—	—	355	—	355
Total	$72,476	$2,893	$1,368	$13,648	$2,685	$20,594

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

(2) The firm's purchased and retained interests in CDOs and CLOs primarily consist of securities that are ranked senior in the CDO and CLO capital structures. Derivatives related to CDOs and CLOs consist of total return swaps on securities that are ranked senior in the CDO and CLO capital structures and out-of-the-money written put options on investment-grade collateral held by VIEs.

(3) The firm obtains interests in these VIEs in connection with making proprietary investments in real estate, distressed loans and other types of debt, mezzanine instruments and equities.

(4) Derivatives related to principal-protected notes consist 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.

The following table sets forth the firm's total assets and maximum exposure to loss associated with its significant variable interests in consolidated VIEs where the firm does not hold a majority voting interest. The firm has aggregated consolidated VIEs based on principal business activity, as reflected in the first column.

	As of May 2007		As of November 2006	
	VIE Assets [1]	Maximum Exposure to Loss [2]	VIE Assets [1]	Maximum Exposure to Loss [2]
		(in millions)		
Real estate, credit-related and other investing	$2,476	$ 907	$3,077	$1,368
Municipal bond securitizations	3,604	3,604	2,715	2,715
CDOs, mortgage-backed and other asset-backed	659	428	1,537	20
Foreign exchange and commodities	443	401	433	340
Principal-protected notes	1,084	1,004	894	774
Asset repackagings and credit-linked notes	225	15	388	36
Total	$8,491	$6,359	$9,044	$5,253

(1) Consolidated VIE assets include assets financed on a nonrecourse basis.

(2) Such amounts do not represent the anticipated losses in connection with these transactions.

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 convertibles.

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 May 2007 and November 2006, the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or repledge was $819.71 billion and $746.08 billion, respectively, of which the firm delivered or repledged $714.97 billion and $639.87 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. Financial instruments owned and pledged to counterparties that have the right to deliver or repledge are reported as “Financial instruments owned and pledged as collateral, at fair value” in the condensed consolidated statements of financial condition and were $42.23 billion and $36.00 billion as of May 2007 and November 2006, respectively. Financial instruments owned and 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 “Financial instruments owned, at fair value” in the condensed consolidated statements of financial condition and were $151.98 billion and $134.31 billion as of May 2007 and November 2006, respectively. Other assets (primarily real estate, power generation facilities and related assets, and cash) owned and pledged in connection with other secured financings to counterparties that did not have the right to sell or repledge were $5.08 billion and $5.34 billion as of May 2007 and November 2006, 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 program, consolidated variable interest entities, collateralized central bank financings, transfers of financial assets that are accounted for as financings rather than sales under SFAS No. 140 (primarily pledged bank loans and mortgage whole loans), consolidated power generation facilities and other structured financing arrangements.

Other secured financings are set forth in the table below:

	As of	
	May 2007	November 2006
	(in millions)	
Other secured financings (short-term) [1][2][3]	$38,444	$24,290
Other secured financings (long-term):		
2008	2,038	5,535
2009	795	877
2010	2,705	1,894
2011	6,603	5,105
2012	2,136	1,928
2013-thereafter	11,492	10,795
Total other secured financings (long-term) [4][5][6]	25,769	26,134
Total other secured financings [7]	$64,213	$50,424

(1) As of May 2007, consists of U.S. dollar-denominated financings of $25.50 billion with a weighted average interest rate of 5.09% and non-U.S. dollar-denominated financings of $12.94 billion with a weighted average interest rate of 1.49%. As of November 2006, consists of U.S. dollar-denominated financings of $14.28 billion with a weighted average interest rate of 5.22% and non-U.S. dollar-denominated financings of $10.01 billion with a weighted average interest rate of 2.00%. The weighted average interest rates as of May 2007 and November 2006 excluded hybrid financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

(2) Includes $21.96 billion and $3.30 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of May 2007 and November 2006, respectively.

(3) 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.

(4) As of May 2007, consists of U.S. dollar-denominated financings of $13.90 billion with a weighted average interest rate of 5.63% and non-U.S. dollar-denominated financings of $11.87 billion with a weighted average interest rate of 4.42%. As of November 2006, consists of U.S. dollar-denominated financings of $16.97 billion with a weighted average interest rate of 5.61% and non-U.S. dollar-denominated financings of $9.16 billion with a weighted average interest rate of 3.81%.

(5) 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.

(6) Includes $7.49 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of May 2007.

(7) As of May 2007, $60.82 billion of these financings were collateralized by financial instruments and $3.39 billion by other assets (primarily real estate, power generation facilities and related assets, and cash). As of November 2006, $47.22 billion of these financings were collateralized by financial instruments and $3.20 billion by other assets. Other secured financings include $22.56 billion and $19.79 billion of nonrecourse obligations as of May 2007 and November 2006, respectively.

Note 4. Unsecured Short-Term Borrowings

The firm obtains unsecured short-term borrowings primarily through the issuance of promissory notes, commercial paper and hybrid financial instruments. As of May 2007 and November 2006, these borrowings were $60.74 billion and $47.90 billion, respectively. Such amounts 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 SFAS No. 155 or SFAS No. 159. 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	
	May 2007	November 2006
	(in millions)	
Promissory notes	$12,337	$13,811
Commercial paper	4,095	1,489
Current portion of unsecured long-term borrowings	18,091	14,115
Hybrid financial instruments	19,524	14,060
Other short-term borrowings	6,690	4,429
Total (1)(2)	$60,737	$47,904

(1) Includes $43.20 billion and $10.22 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of May 2007 and November 2006, respectively.

(2) The weighted average interest rates for these borrowings were 5.20% and 5.13% as of May 2007 and November 2006, respectively. The weighted average interest rates, after giving effect to hedging activities, were 5.30% and 5.16% as of May 2007 and November 2006, respectively. The weighted average interest rates as of May 2007 and November 2006 excluded hybrid financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

Note 5. Unsecured Long-Term Borrowings

The firm obtains unsecured long-term borrowings that consist principally of senior borrowings with maturities extending to 2045. As of May 2007 and November 2006, these borrowings were $141.48 billion and $122.84 billion, respectively.

Unsecured long-term borrowings are set forth below:

	As of	
	May 2007	November 2006
	(in millions)	
Fixed rate obligations (1)		
U.S. dollar	$ 44,542	$ 41,719
Non-U.S. dollar	24,262	22,854
Floating rate obligations (2)		
U.S. dollar	46,222	38,342
Non-U.S. dollar	26,458	19,927
Total (3)	$141,484	$122,842

(1) As of both May 2007 and November 2006, interest rates on U.S. dollar fixed rate obligations ranged from 3.88% to 12.00%. As of May 2007 and November 2006, interest rates on non-U.S. dollar fixed rate obligations ranged from 0.52% to 8.88% and from 0.31% to 8.88%, respectively.

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

(3) Includes $13.49 billion and $7.25 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of May 2007 and November 2006, respectively, primarily consisting of hybrid financial instruments.

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

	As of					
	May 2007 [1][2]			November 2006 [1][2]		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
	(in millions)					
2008	$ 7,096	$ 1,904	$ 9,000	$14,848	$ 3,038	$ 17,886
2009	19,247	2,602	21,849	12,398	2,978	15,376
2010	6,047	5,025	11,072	5,034	4,945	9,979
2011	5,862	4,438	10,300	5,675	4,389	10,064
2012	9,608	3,001	12,609	4,500	2,098	6,598
2013-thereafter	42,904	33,750	76,654	37,606	25,333	62,939
Total	$90,764	$50,720	$141,484	$80,061	$42,781	$122,842

(1) Unsecured long-term borrowings maturing within one year of the financial statement date and certain 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.

The firm enters into derivative contracts, such as interest rate futures contracts, interest rate swap agreements, currency swap agreements, commodity contracts and equity-linked and indexed contracts, to effectively convert a substantial portion of its unsecured long-term borrowings into U.S. dollar-based floating rate obligations. Accordingly, the carrying value of unsecured long-term borrowings approximated fair value as of May 2007 and November 2006.

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

	As of			
	May 2007		November 2006	
	Amount	Rate	Amount	Rate
	($ in millions)			
Fixed rate obligations	$ 3,735	5.91%	$ 1,997	6.13%
Floating rate obligations [1][2]	137,749	5.78	120,845	5.75
Total	$141,484	5.78	$122,842	5.75

(1) Includes fixed rate obligations that have been converted into floating rate obligations through derivative contracts.

(2) The weighted average interest rates as of May 2007 and November 2006 excluded hybrid financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

Subordinated Borrowings

Unsecured long-term borrowings include $13.35 billion and $7.51 billion of subordinated borrowings as of May 2007 and November 2006, respectively, as set forth below.

Subordinated Notes. As of May 2007, the firm had $8.26 billion of subordinated notes outstanding with maturities ranging from 2008 to 2036. The effective weighted average interest rate on these subordinated notes was 5.98%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. As of November 2006, the firm had $4.67 billion of subordinated notes outstanding with maturities ranging from 2007 to 2036 and with an effective weighted average interest rate of 6.24%. These notes are junior in right of payment to all of the firm's senior indebtedness.

Junior Subordinated Debt Issued to a Trust in Connection with Trust Preferred Securities. The firm issued $2.84 billion of junior subordinated debentures in its first quarter of 2004 to Goldman Sachs Capital I (the 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 the firm and invested the proceeds from the sale in junior subordinated debentures issued by the firm. The Trust is a wholly owned finance subsidiary of the firm for regulatory and legal purposes but is not consolidated for accounting purposes.

The firm pays interest semiannually 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 semiannual 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 the firm 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 the firm's senior indebtedness and all of the firm's subordinated borrowings, other than the junior subordinated debt issued in connection with the Normal Automatic Preferred Enhanced Capital Securities (see discussion below).

Junior Subordinated Debt Issued to Trusts in Connection with Fixed-to-Floating and Floating Rate Normal Automatic Preferred Enhanced Capital Securities. In the second quarter of 2007, the firm issued a total of $2.25 billion of remarketable junior subordinated notes to Goldman Sachs Capital II and Goldman Sachs Capital III (the Trusts), Delaware statutory trusts that, in turn, issued $2.25 billion of guaranteed perpetual Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to the firm. The firm also entered into contracts with the Trusts to sell $2.25 billion of perpetual non-cumulative preferred stock to be issued by the firm (the stock purchase contracts). The 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 semiannually on $1.75 billion of junior subordinated notes issued to Goldman Sachs Capital II at a fixed annual rate of 5.59% and the notes mature on June 1, 2043. The firm pays interest quarterly on $500 million of junior subordinated notes issued to Goldman Sachs Capital III at a rate per annum equal to three-month LIBOR plus .57% and the notes mature on September 1, 2043. In addition, the firm makes contract payments at a rate of .20% per annum on the stock purchase contracts held by the Trusts. The firm has the right to defer payments on the junior subordinated notes 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 notes are junior in right of payment to all of the firm's senior indebtedness and all of the firm's other subordinated borrowings.

The firm has accounted for the stock purchase contracts as equity instruments under EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," and, accordingly, recorded the cost of the stock purchase contracts as a reduction to additional paid-in capital. See Note 7 for information on the preferred stock that the firm will issue in connection with the stock purchase contracts.

Note 6. Commitments, Contingencies and Guarantees

Commitments

Forward Starting Collateralized Agreements and Financings. The firm had forward starting resale agreements and securities borrowing agreements of $20.38 billion and $18.29 billion as of May 2007 and November 2006, respectively. The firm had forward starting repurchase agreements and securities lending agreements of $20.62 billion and $17.15 billion as of May 2007 and November 2006, respectively.

Commitments to Extend Credit. In connection with its lending activities, the firm had outstanding commitments to extend credit of $128.33 billion and $100.48 billion as of May 2007 and November 2006, respectively. 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.

The following table summarizes the firm's commitments to extend credit as of May 2007 and November 2006:

	As of	
	May 2007	November 2006
	(in millions)	
William Street program	$ 20,873	$ 18,831
Other commercial lending commitments		
Investment-grade	26,733	7,604
Non-investment-grade	71,491	57,017
Warehouse financing	9,235	17,026
Total commitments to extend credit	$128,332	$100,478

- **William Street 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 primarily extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of the firm, and, to a lesser extent, by William Street Credit Corporation, another consolidated wholly owned subsidiary of Group Inc. A majority of the commitments extended by Commitment Corp. are supported by funding raised by William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are also 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 substantially all 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 $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of the second loss on such commitments, up to a maximum of $1.13 billion. The firm also uses other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.

- **Other commercial lending commitments.** In addition to the commitments issued under the William Street credit extension program, the firm extends other credit commitments, primarily in connection with contingent acquisition financing and other types of corporate lending. The total commitment amount does not necessarily reflect the actual future cash flow requirements, as the firm often syndicates all or substantial portions of these commitments, 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 short-term in nature, as borrowers often replace them with other funding sources.
- **Warehouse financing.** The firm provides financing for the warehousing of financial assets to be securitized, primarily in connection with collateralized loan obligations, mortgage securitizations and collateralized debt obligations. These financings are expected to be repaid from the proceeds of the related securitizations for which the firm may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of corporate bank loans, commercial and residential mortgages, other loans and mortgage-backed and other asset-backed securities.

Letters of Credit. The firm provides letters of credit issued by various banks to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements. Letters of credit outstanding were $5.71 billion and $5.73 billion as of May 2007 and November 2006, respectively.

Merchant Banking Commitments. The firm acts as an investor in merchant banking transactions, which includes making long-term investments in equity and debt instruments in privately negotiated transactions, corporate acquisitions and real estate transactions. In connection with these activities, the firm had commitments to invest up to $14.59 billion and $6.36 billion in corporate and real estate investment funds as of May 2007 and November 2006, respectively.

Construction-Related Commitments. As of May 2007 and November 2006, the firm had construction-related commitments of $1.71 billion and $1.63 billion, respectively, including commitments of $846 million and $1.07 billion, respectively, related to the development of wind energy projects by Horizon Wind Energy LLC (see discussion below). Construction-related commitments also include outstanding commitments of $797 million and $500 million as of May 2007 and November 2006, respectively, related to the firm's new world headquarters in New York City, which is expected to cost between $2.3 billion and $2.5 billion.

Underwriting Commitments. As of May 2007 and November 2006, the firm had commitments to purchase $626 million and $2.62 billion, respectively, of securities in connection with its underwriting activities.

Other. The firm had other purchase commitments of $367 million and $393 million as of May 2007 and November 2006, respectively. In addition, the firm had other investment commitments of $887 million and $1.88 billion as of May 2007 and November 2006, respectively.

In March 2007, the firm entered into an agreement to sell its interest in Horizon Wind Energy LLC to Energias de Portugal, S.A., subject to the receipt of regulatory approvals and other closing conditions. The transaction closed during the firm's third quarter of 2007, and depending on the level of the firm's net revenues in such period, the resulting gain may be material to the firm's results of operations.

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, and rent charged to operating expense are set forth below:

	(in millions)
Minimum rental payments	
Remainder of 2007	$ 373
2008	421
2009	432
2010	343
2011	287
2012-thereafter	2,261
Total	$4,117

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 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 $11.08 billion and $8.04 billion of contract holder account balances as of May 2007 and November 2006, respectively, for such benefits. The weighted average attained age of these contract holders was 67 years and 70 years as of May 2007 and November 2006, respectively. The net amount at risk, representing guaranteed minimum death benefits in excess of contract holder account balances, was $1.04 billion and $1.27 billion as of May 2007 and November 2006, respectively. See Note 10 for more information on the firm's insurance liabilities.

Guarantees

The firm enters into various derivative contracts that meet the definition of a guarantee under FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Such derivative contracts include credit default and total return swaps, written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. FIN No. 45 does not require disclosures about derivative contracts 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 end users and certain other users. 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., performance bonds, 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 tables set forth certain information about the firm's derivative contracts that meet the definition of a guarantee and certain other guarantees as of May 2007 and November 2006:

	As of May 2007				
	Maximum Payout/Notional Amount by Period of Expiration [5]				
	Remainder of 2007	2008-2009	2010-2011	2012-Thereafter	Total
	(in millions)				
Derivatives [1]	$365,846	$596,693	$442,325	$601,463	$2,006,327
Securities lending indemnifications [2]	37,624	—	—	—	37,624
Performance bonds [3]	1,878	—	—	—	1,878
Other financial guarantees [4]	248	1,465	271	90	2,074

	As of November 2006				
	Maximum Payout/Notional Amount by Period of Expiration [5]				
	2007	2008-2009	2010-2011	2012-Thereafter	Total
	(in millions)				
Derivatives [1]	$379,256	$428,258	$460,088	$399,449	$1,667,051
Securities lending indemnifications [2]	19,023	—	—	—	19,023
Performance bonds	—	—	—	—	—
Other financial guarantees [4]	592	99	76	86	853

(1) The aggregate carrying value of these derivatives as of May 2007 was an asset of $2.16 billion, consisting of contracts with an asset value of $11.70 billion and contracts with a liability value of $9.54 billion. The aggregate carrying value of these derivatives as of November 2006 was an asset of $1.12 billion, consisting of contracts with an asset value of $11.06 billion and contracts with a liability value of $9.94 billion. The carrying value excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement.

(2) Collateral held by the lenders in connection with securities lending indemnifications was $39.20 billion and $19.70 billion as of May 2007 and November 2006, respectively.

(3) Excludes collateral of $1.88 billion related to these obligations.

(4) The carrying value of these guarantees was a liability of $11 million and $15 million as of May 2007 and November 2006, respectively.

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

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 5 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 feels 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.

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 May 2007 and November 2006.

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 May 2007 and November 2006.

Note 7. Shareholders' Equity

On June 13, 2007, the Board of Directors of Group Inc. (the Board) declared a dividend of $0.35 per common share with respect to the firm's second quarter of 2007 to be paid on August 30, 2007, to common shareholders of record on July 31, 2007.

During the three and six months ended May 2007, the firm repurchased 5.4 million and 18.4 million shares of its common stock at a total cost of $1.13 billion and $3.82 billion. The average price paid per share for repurchased shares was $208.41 and $207.60 for the three and six months ended May 2007. In addition, to satisfy minimum statutory employee tax withholding requirements related to the delivery of common stock underlying restricted stock units, the firm cancelled 4.7 million restricted stock units with a total value of $928 million in the first half of 2007.

The firm's share repurchase program is intended to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases and is influenced by the firm's overall capital position (i.e., the comparison of the firm's capital requirements to its available capital), general market conditions and the prevailing price and trading volumes of the firm's common stock.

As of May 2007, the firm had 124,000 shares of perpetual non-cumulative preferred stock outstanding in four series as set forth in the following table:

Series	Shares Issued	Shares Authorized	Dividend Rate	Earliest Redemption Date	Redemption Value (in millions)
A	30,000	50,000	3 month LIBOR + 0.75%, with floor of 3.75% per annum	April 25, 2010	$ 750
B	32,000	50,000	6.20% per annum	October 31, 2010	800
C	8,000	25,000	3 month LIBOR + 0.75%, with floor of 4% per annum	October 31, 2010	200
D	54,000	60,000	3 month LIBOR + 0.67%, with floor of 4% per annum	May 24, 2011	1,350
	124,000	185,000			$3,100

Each share of preferred stock 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 at a redemption price equal to $25,000 plus declared and unpaid dividends. 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. All series of preferred stock are pari passu and have a preference over the firm's common stock upon liquidation.

In the second quarter of 2007, the Board authorized 17,500.1 shares of perpetual Non-Cumulative Preferred Stock, Series E and 5,000.1 shares of perpetual Non-Cumulative Preferred Stock, Series F in connection with the APEX issuance (see Note 5 for further information on the APEX issuance). Under the stock purchase contracts, the firm 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 notes 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 semiannually 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 .77% and (ii) 4%. Dividends on Series F preferred stock, if declared, will be payable quarterly at a rate per annum equal to three-month LIBOR plus .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 .77% and (ii) 4%. The preferred stock may be redeemed at the option of the firm on the stock purchase dates or any day thereafter, subject to the approval of the Securities and Exchange Commission (SEC) 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 June 13, 2007, the Board declared a dividend per preferred share of $390.16, $387.50, $390.16 and $385.05 for Series A, Series B, Series C and Series D preferred stock, respectively, to be paid on August 10, 2007 to preferred shareholders of record on July 26, 2007.

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

	As of	
	May 2007	November 2006
	(in millions)	
Currency translation adjustment, net of tax	$ 49	$ 29
Minimum pension liability adjustment, net of tax	(38)	(38)
Net gains on cash flow hedges, net of tax	—	2
Net unrealized gains on available-for-sale securities, net of tax	12 [1]	28
Total accumulated other comprehensive income, net of tax	$ 23	$ 21

(1) Consists of net unrealized losses of $4 million on available-for-sale securities held by the firm's insurance subsidiaries and net unrealized gains of $16 million on available-for-sale securities held by investees accounted for under the equity method.

Note 8. Earnings Per Common Share

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

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions, except per share amounts)			
Numerator for basic and diluted EPS — net earnings applicable to common shareholders	$2,287	$2,286	$5,435	$4,739
Denominator for basic EPS — weighted average number of common shares	435.8	449.7	440.2	453.5
Effect of dilutive securities [1]				
Restricted stock units	13.3	13.3	12.5	12.1
Stock options	15.0	15.3	15.3	15.2
Dilutive potential common shares	28.3	28.6	27.8	27.3
Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares	464.1	478.3	468.0	480.8
Basic EPS	$ 5.25	$ 5.08	$12.35	$10.45
Diluted EPS	4.93	4.78	11.61	9.86

(1) There were no anti-dilutive securities during the three and six months ended May 2007 or May 2006.

Note 9. 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	
	May 2007	November 2006
	(in millions)	
Investment Banking		
Financial Advisory	$ —	$ —
Underwriting	125	125
Trading and Principal Investments		
FICC	99	136
Equities [1]	2,381	2,381
Principal Investments	2	4
Asset Management and Securities Services		
Asset Management [2]	421	421
Securities Services	117	117
Total	$3,145	$3,184

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

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

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:

		As of	
		May 2007	November 2006
		(in millions)	
Customer lists [1]	Gross carrying amount	$1,034	$1,034
	Accumulated amortization	(324)	(297)
	Net carrying amount	$ 710	$ 737
Power contracts [2]	Gross carrying amount	$ 687	$ 750
	Accumulated amortization	(108)	(83)
	Net carrying amount	$ 579	$ 667
New York Stock Exchange (NYSE) specialist rights	Gross carrying amount	$ 714	$ 714
	Accumulated amortization	(192)	(172)
	Net carrying amount	$ 522	$ 542
Insurance-related assets [3]	Gross carrying amount	$ 444	$ 396
	Accumulated amortization	(61)	(34)
	Net carrying amount	$ 383	$ 362
Exchange-traded fund (ETF) specialist rights	Gross carrying amount	$ 138	$ 138
	Accumulated amortization	(36)	(33)
	Net carrying amount	$ 102	$ 105
Other [4]	Gross carrying amount	$ 325	$ 335
	Accumulated amortization	(268)	(246)
	Net carrying amount	$ 57	$ 89
Total	Gross carrying amount	$3,342	$3,367
	Accumulated amortization	(989)	(865)
	Net carrying amount	$2,353	$2,502

(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) Primarily relates to above-market power contracts of consolidated power generation facilities related to Cogentrix Energy, Inc. and National Energy & Gas Transmission, Inc. (NEGT). Substantially all of these power contracts have been pledged to counterparties in connection with the firm's secured financings. The weighted average remaining life of these power contracts is approximately 11 years.

(3) Consists of VOBA and DAC. VOBA represents the present value of estimated future gross profits of the variable annuity and variable life insurance business acquired in 2006. DAC results from commissions paid by the firm to the primary insurer (ceding company) on life and annuity reinsurance agreements as compensation to place the business with the firm and to cover the ceding company's acquisition expenses. VOBA and DAC are amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The weighted average remaining amortization period for VOBA and DAC is seven years as of May 2007.

(4) Primarily includes marketing and technology-related assets.

Substantially all of the firm's identifiable intangible assets are considered to have finite lives and are amortized over their estimated useful lives. The weighted average remaining life of the firm's identifiable intangibles is approximately 12 years.

Amortization expense associated with identifiable intangible assets was $69 million for both the three months ended May 2007 and May 2006 and $137 million and $113 million for the six months ended May 2007 and May 2006, respectively. Amortization expense associated with the firm's consolidated power generation facilities is reported within "Cost of power generation" in the condensed consolidated statements of earnings.

The estimated future amortization for existing identifiable intangible assets through 2012 is set forth below:

	(in millions)
Remainder of 2007	$131
2008	223
2009	210
2010	199
2011	191
2012	178

Note 10. Other Assets and Other Liabilities

Other Assets

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

	As of	
	May 2007	November 2006
	(in millions)	
Property, leasehold improvements and equipment [1]	$ 7,193	$ 6,990
Goodwill and identifiable intangible assets [2]	5,498	5,686
Income tax-related assets	3,988	3,427
Equity-method investments [3]	2,480	2,764
Miscellaneous receivables and other [4]	5,456	3,009
Total	$24,615	$21,876

(1) Net of accumulated depreciation and amortization of $5.43 billion and $5.06 billion as of May 2007 and November 2006, respectively.

(2) See Note 9 for further information regarding the firm's goodwill and identifiable intangible assets.

(3) Excludes investments accounted for at fair value under SFAS No. 159 as of May 2007, which are included in "Financial instruments owned, at fair value" in the condensed consolidated statements of financial condition.

(4) Includes $1.75 billion of assets held for sale as of May 2007, primarily consisting of capitalized costs of wind energy projects.

Other Liabilities

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

	As of	
	May 2007	November 2006
	(in millions)	
Insurance-related liabilities [1]	$11,240	$11,471
Compensation and benefits	9,287	9,165
Minority interest [2]	8,717	2,069
Employee interests in consolidated funds	4,892	2,690
Income tax-related liabilities	1,669	2,639
Accrued expenses and other payables [3]	4,504	3,832
Total	$40,309	$31,866

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

	As of	
	May 2007	November 2006
	(in millions)	
Separate account liabilities	$ 7,762	$ 7,957
Liabilities for future benefits and unpaid claims	2,210	2,123
Contract holder account balances	1,037	1,134
Reserves for guaranteed minimum death and income benefits	231	257
Total insurance-related liabilities	$11,240	$11,471

Separate account liabilities are offset by separate account assets, representing segregated contract holder funds under variable annuity and variable 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 for $1.36 billion and $1.33 billion as of May 2007 and November 2006, 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 $785 million and $786 million as of May 2007 and November 2006, 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.

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 computed in accordance with AICPA SOP 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts," and are based on total payments expected to be made less total fees expected to be assessed over the life of the contract.

(2) Includes $7.12 billion and $619 million related to consolidated investment funds as of May 2007 and November 2006, respectively.

(3) Includes $343 million of liabilities held for sale as of May 2007, primarily consisting of secured long-term financings.

Note 11. Employee Benefit Plans

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

Defined Benefit Pension Plans and Postretirement Plans

Employees of certain non-U.S. subsidiaries participate in various defined benefit pension plans. These plans generally provide benefits based on years of credited service and a percentage of the employee's eligible compensation. The firm also maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan has been closed to new participants and no further benefits will be accrued to existing participants. In addition, the firm has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs.

The components of pension expense/(income) and postretirement expense are set forth below:

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions)			
U.S. pension				
Service cost	$—	$—	$ —	$ —
Interest cost	5	5	11	10
Expected return on plan assets	(8)	(6)	(16)	(13)
Net amortization	1	1	1	3
Total	$ (2)	$—	$ (4)	$ —
Non-U.S. pension				
Service cost	$19	$14	$ 37	$ 28
Interest cost	8	6	16	12
Expected return on plan assets	(9)	(7)	(17)	(14)
Net amortization	3	2	5	5
Total	$21	$15	$ 41	$ 31
Postretirement				
Service cost	$ 4	$ 4	$ 9	$ 8
Interest cost	5	4	10	9
Net amortization	4	5	8	10
Total	$13	$13	$ 27	$ 27

The firm expects to contribute a minimum of $33 million to its pension plans and $8 million to its postretirement plans in 2007.

Note 12. 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 $1.76 billion and $1.94 billion for the six months ended May 2007 and May 2006, respectively. As of May 2007 and November 2006, the fees receivable from these funds were $468 million and $362 million, 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 $5.91 billion and $3.94 billion as of May 2007 and November 2006, respectively. 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 and custody. See Note 6 for the firm's commitments related to these funds.

Note 13. Regulation

The firm is regulated by the U.S. Securities and Exchange Commission as a Consolidated Supervised Entity (CSE). As such, it is subject to group-wide supervision and examination by the SEC and to minimum capital standards on a consolidated basis. As of May 2007 and November 2006, the firm was in compliance with the CSE capital standards.

The firm's principal U.S. regulated subsidiaries include Goldman, Sachs & Co. (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 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 May 2007 and November 2006, GS&Co. and GSEC had net capital in excess of their minimum capital requirements. 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 May 2007 and November 2006, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

Goldman Sachs Bank USA (GS Bank), a wholly owned industrial bank, is regulated by the Federal Deposit Insurance Corporation and the State of Utah Department of Financial Institutions and is subject to minimum capital requirements. As of May 2007, GS Bank was in compliance with all regulatory capital requirements. Substantially all of the firm's bank deposits consist of U.S. dollar-denominated savings accounts at GS Bank. Savings accounts at GS Bank have no stated maturity and can be withdrawn upon short notice. The weighted average interest rates for bank deposits were 5.13% and 5.17% as of May 2007 and November 2006, respectively. The carrying value of bank deposits approximated fair value as of May 2007 and November 2006.

The firm has U.S. insurance subsidiaries that are subject to state insurance regulation 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 are regulated by the Bermuda Registrar of Companies. The firm's insurance subsidiaries were in compliance with all regulatory capital requirements as of May 2007 and November 2006.

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 U.K.'s Financial Services Authority. GSJCL, the firm's regulated Japanese broker-dealer, is subject to the capital requirements of Japan's Financial Services Agency. As of May 2007 and November 2006, 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 May 2007 and November 2006, these subsidiaries were in compliance with their local capital adequacy requirements.

Note 14. Business Segments

In reporting to management, the firm's operating results are categorized into the following three segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services.

Basis of Presentation

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

The cost drivers of the firm taken as a whole — compensation, headcount and levels of business activity — are broadly similar in each of the firm's business segments. Compensation and benefits expenses within the firm's segments reflect, among other factors, the overall performance of the firm as well as the performance of individual business units. Consequently, pre-tax margins in one segment of the firm's business may be significantly affected by the performance of the firm's other business segments. The timing and magnitude of changes in the firm's bonus accruals can have a significant effect on segment results in a given period.

The firm allocates revenues and expenses among the three segments. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments are based on specific criteria or approximate third-party rates. Total operating expenses include corporate items that have not been allocated to individual business segments. The allocation process is based on the manner in which management views the business of the firm.

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

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

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 May		As of or for the Six Months Ended May	
		2007	2006	2007	2006
		(in millions)			
Investment Banking	Net revenues	$ 1,721	$ 1,526	$ 3,437	$ 2,997
	Operating expenses	1,246	1,094	2,540	2,283
	Pre-tax earnings	$ 475	$ 432	$ 897	$ 714
	Segment assets	$ 5,504	$ 2,744	$ 5,504	$ 2,744
Trading and Principal Investments	Net revenues	$ 6,649	$ 7,105	$ 16,066	$ 14,087
	Operating expenses	4,196	4,516	9,590	8,943
	Pre-tax earnings	$ 2,453	$ 2,589	$ 6,476	$ 5,144
	Segment assets	$615,519	$551,940	$615,519	$551,940
Asset Management and Securities Services	Net revenues	$ 1,812	$ 1,610	$ 3,409	$ 3,590
	Operating expenses	1,307	1,088	2,490	2,187
	Pre-tax earnings	$ 505	$ 522	$ 919	$ 1,403
	Segment assets	$322,173	$244,200	$322,173	$244,200
Total	Net revenues [1]	$ 10,182	$ 10,241	$ 22,912	$ 20,674
	Operating expenses [2]	6,751	6,717	14,622	13,461
	Pre-tax earnings [3]	$ 3,431	$ 3,524	$ 8,290	$ 7,213
	Total assets	$943,196	$798,884	$943,196	$798,884

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

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions)			
Investment Banking	$ 1	$ 5	$ 1	$ 6
Trading and Principal Investments	407	184	751	479
Asset Management and Securities Services	705	594	1,169	1,020
Total net interest	$1,113	$783	$1,921	$1,505

(2) Includes net provisions for a number of litigation and regulatory proceedings of $2 million and $19 million for the three months ended May 2007 and May 2006, respectively, and $2 million and $48 million for the six months ended May 2007 and May 2006, respectively, that have not been allocated to the firm's segments.

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

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions)			
Investment Banking	$ 34	$ 33	$ 67	$ 64
Trading and Principal Investments	203	185	400	334
Asset Management and Securities Services	44	41	86	80
Total depreciation and amortization	$281	$259	$553	$478

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. Accordingly, management believes that profitability by geographic region is not necessarily meaningful. In addition, as 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 the judgment of management.

Geographic results are generally allocated as follows:

- Investment Banking: location of the client and investment banking team.
- Fixed Income, Currency and Commodities, and Equities: location of the trading desk.
- Principal Investments: location of the investment.
- Asset Management: location of the sales team.
- Securities Services: location of the primary market for the underlying security.

The following table sets forth the total net revenues of the firm and its consolidated subsidiaries by geographic region allocated on the methodology described above:

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions)			
Net revenues				
Americas [1]	$ 4,896	$ 5,894	$11,159	$11,332
EMEA [2]	3,465	2,521	7,632	5,538
Asia	1,821	1,826	4,121	3,804
Total net revenues	$10,182	$10,241	$22,912	$20,674

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

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

Report of Independent Registered Public Accounting Firm

To the Directors and 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 May 25, 2007, the related condensed consolidated statements of earnings for the three and six months ended May 25, 2007 and May 26, 2006, the condensed consolidated statement of changes in shareholders' equity for the six months ended May 25, 2007, the condensed consolidated statements of cash flows for the six months ended May 25, 2007 and May 26, 2006, and the condensed consolidated statements of comprehensive income for the three and six months ended May 25, 2007 and May 26, 2006. 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 have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of November 24, 2006 and the related consolidated statements of earnings, changes in shareholders' equity, cash flows and comprehensive income for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of November 24, 2006 and the effectiveness of the Company's internal control over financial reporting as of November 24, 2006; and in our report dated January 31, 2007, we expressed unqualified opinions thereon. The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of November 24, 2006, and the condensed consolidated statement of changes in shareholders' equity for the year ended November 24, 2006, 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
June 28, 2007

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

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Introduction

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

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 and take proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, we engage in specialist and 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 advisory and financial planning services and offer investment products (primarily through separate accounts and 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 November 24, 2006. References herein to the Annual Report on Form 10-K are to our Annual Report on Form 10-K for the fiscal year ended November 24, 2006.

Unless specifically stated otherwise, all references to May 2007 and May 2006 refer to our fiscal periods ended, or the dates, as the context requires, May 25, 2007 and May 26, 2006, respectively. All references to November 2006, unless specifically stated otherwise, refer to our fiscal year ended, or the date, as the context requires, November 24, 2006. All references to 2007, unless specifically stated otherwise, refer to our fiscal year ending, or the date, as the context requires, November 30, 2007.

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

Executive Overview

Our diluted earnings per common share were $4.93 for the second quarter of 2007 compared with $4.78 for the second quarter of 2006. Annualized return on average tangible common shareholders' equity [(1)] was 31.2% and annualized return on average common shareholders' equity was 26.7% for the second quarter of 2007.

Our results for the second quarter of 2007 reflected strong performance in each of our three segments. Investment Banking produced record quarterly net revenues, reflecting strong client activity. Net revenues in debt underwriting were particularly strong, primarily due to strength in leveraged finance as the financing environment remained favorable. Our investment banking transaction backlog ended the quarter at a record level. [(2)] Net revenues in Trading and Principal Investments were lower than the second quarter of 2006, reflecting lower net revenues in Fixed Income, Currency and Commodities (FICC), partially offset by higher results in Principal Investments and Equities. The decrease in FICC primarily reflected lower net revenues in commodities and weak results in mortgages, principally attributable to continued weakness in the subprime sector. The decrease in commodities was primarily attributable to a $700 million gain in the second quarter of 2006 related to the sale of East Coast Power, L.L.C. Net revenues in interest rate products, credit products and currencies were strong, although net revenues in interest rate products were lower than the same period last year. During the quarter, FICC operated in an environment characterized by solid customer-driven activity, generally low volatility levels and strength in the broader credit markets. The increase in Principal Investments primarily reflected significantly higher gains from corporate principal investments. Equities generated its second highest quarterly net revenues, reflecting strength across all major businesses, with principal strategies and shares driving the increase compared with the same period last year. Following challenging market conditions early in the quarter, Equities operated in a favorable environment characterized by generally rising equity prices and strong customer-driven activity. Net revenues in Asset Management and Securities Services were higher than the second quarter of 2006. Asset Management net revenues were higher reflecting record management and other fees. During the quarter, assets under management increased $39 billion or 5% to a record $758 billion, with net asset inflows of $18 billion. Securities Services achieved record net revenues, as our prime brokerage business continued to generate strong results, reflecting significantly higher customer balances in securities lending and margin lending and higher activity levels in Europe.

Our diluted earnings per common share were $11.61 for the six months ended May 2007 compared with $9.86 for the same period last year. Annualized return on average tangible common shareholders' equity [(1)] was 37.8% and annualized return on average common shareholders' equity was 32.3% for the six months ended May 2007.

During the first half of 2007, we generated record diluted earnings per common share, 18% higher than the previous record. In Investment Banking, net revenues increased as mergers and acquisitions and financing activity levels were strong. Net revenues in Trading and Principal Investments were higher, reflecting increases in Principal Investments and Equities, partially offset by a decrease in FICC. The increase in Principal Investments primarily reflected significantly higher gains from corporate principal investments, and the increase in Equities reflected higher net revenues in principal strategies and shares. During the first half of 2007, Equities operated in a favorable environment generally characterized by rising equity prices, strong customer-driven activity and favorable market opportunities. The decrease in FICC reflected lower net revenues in commodities, mortgages and interest rate products, partially offset by higher net revenues in credit products. During the first half of 2007, FICC operated in an environment characterized by solid customer-driven activity, generally low volatility levels and strength in the broader credit markets, although the subprime sector of the mortgage market experienced weakness. Net revenues in Asset Management and Securities Services decreased due to significantly lower incentive fees, partially offset by higher asset management and other fees, and continued growth in securities lending and margin lending.

Though we generated record diluted earnings per common share in the first half of 2007, 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 and economic conditions generally. 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.

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(1) Return on average tangible common shareholders' equity (ROTE) is computed by dividing net earnings (or annualized net earnings for annualized ROTE) applicable to common shareholders by average monthly tangible common shareholders' equity. See "— Results of Operations — Financial Overview" below for further information regarding our calculation of annualized ROTE.

(2) 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.

Business Environment

Global economic conditions remained generally favorable during our second quarter of fiscal 2007, with continued solid growth in the global economy. Business and consumer confidence levels remained generally high and, in some cases, accelerated moderately across the world's major economies. Despite sharp declines early in our second quarter, global equity markets broadly moved higher, with particularly strong gains in China. In the fixed income markets, yield curves in both the U.S. and Europe remained generally flat. In addition, the broader credit environment remained strong, although the subprime sector within the mortgage market continued to be weak. Corporate and financial sponsor activity accelerated during the quarter, as evidenced by significant increases in announced mergers and acquisitions volumes and leveraged loan activity, as well as improved equity underwriting volumes.

In the U.S., economic growth showed signs of strengthening towards the end of our quarter, driven by what appeared to be a reacceleration in the industrial sector. Unemployment levels remained low and were essentially unchanged from our prior fiscal quarter. Despite an increase in crude oil prices, inflationary pressures appeared to be largely contained, as reflected in measures of core inflation. During our second quarter, the U.S. Federal Reserve left its federal funds target rate unchanged at 5.25% for the seventh consecutive meeting. Long-term bond yields were slightly higher, with the 10-year U.S. Treasury note yield ending our quarter up 18 basis points at 4.86%. In the equity markets, the Dow Jones Industrial Average, S&P 500 Index and NASDAQ Composite Index increased by 7%, 4% and 2%, respectively, during our fiscal quarter.

In Europe, economic growth appears to have accelerated slightly during our second fiscal quarter, with an increase in employment driving stronger domestic demand. The modest acceleration in economic growth was evident by a slight increase in surveys of business activity from already high levels. The European Central Bank increased its main refinancing operations rate by 25 basis points during our fiscal quarter to 3.75%. This higher rate, combined with an appreciation of the euro relative to its major trading partners, led to a tightening in European financial conditions during our fiscal quarter. In the U.K., while financial conditions were slightly less accommodative, economic growth appeared to accelerate modestly during our fiscal quarter. However, inflationary pressures also remained elevated. The Bank of England also raised its official bank rate by 25 basis points to 5.50%. Equity markets in both the U.K. and continental Europe rose during our fiscal quarter and long-term bond yields increased.

In Japan, real gross domestic product appears to have decelerated slightly from the prior quarter. However, the overall growth environment remained relatively strong, driven by firm exports to other Asian countries and a recovery in personal consumption that was stronger than expected. The moderate slowdown during our second fiscal quarter was mainly driven by a temporary decline in capital expenditures. The Bank of Japan left its target overnight call rate unchanged at 0.50% during the quarter, while the yield on 10-year Japanese government bonds ended our fiscal quarter slightly higher, although it was lower during most of the quarter. The Nikkei 225 Index ended our fiscal quarter 4% lower.

In China, solid economic growth continued to be driven primarily by strength in net exports. The People's Bank of China raised its one-year benchmark lending rate by 45 basis points during our second fiscal quarter to 6.57% and also raised its reserve requirement ratio by 150 basis points. The Shanghai Composite Index posted another sharp increase, ending our fiscal quarter 39% higher. Elsewhere in Asia, equity markets generally ended our fiscal quarter higher.

Critical Accounting Policies

Fair Value

The use of fair value to measure financial instruments, with related unrealized gains or losses generally recognized in "Trading and principal investments" in our condensed consolidated statements of earnings, is fundamental to our financial statements 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 (the exit price). Instruments that we own (long positions) are marked to bid prices, and instruments that we have sold, but not yet purchased (short positions) are marked to offer prices.

We adopted SFAS No. 157, "Fair Value Measurements," as of the beginning of 2007. 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 on SFAS No. 157.

In determining fair value, we separate our "Financial instruments, owned at fair value" and "Financial instruments sold, but not yet purchased, at fair value" into two categories: cash instruments and derivative contracts, as set forth in the following table:

Financial Instruments by Category
(in millions)

	As of May 2007		As of November 2006	
	Financial Instruments Owned, at Fair Value	Financial Instruments Sold, but not Yet Purchased, at Fair Value	Financial Instruments Owned, at Fair Value	Financial Instruments Sold, but not Yet Purchased, at Fair Value
Cash trading instruments	$276,694	$103,726	$247,031	$ 87,244
SMFG [1]	4,528	3,172 [6]	4,505	3,065 [6]
ICBC	5,643 [2]	—	5,194 [2]	—
Other principal investments	7,148 [3]	—	4,263 [3]	—
Principal investments	17,319	3,172	13,962	3,065
Cash instruments	294,013	106,898	260,993	90,309
Exchange-traded	15,676	14,530	14,407	13,851
Over-the-counter	58,039	55,774	53,136	51,645
Derivative contracts	73,715 [4]	70,304 [7]	67,543 [4]	65,496 [7]
Total	$367,728 [5]	$177,202	$328,536 [5]	$155,805

(1) The fair value of our Japanese yen-denominated investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc (SMFG) includes the effect of foreign exchange revaluation. We mitigate our economic exposure to exchange rate movements on our investment in SMFG by borrowing Japanese yen. Foreign exchange revaluation on the investment and the related borrowing are generally equal and offsetting.

(2) Includes interests of $3.57 billion and $3.28 billion as of May 2007 and November 2006, respectively, held by investment funds managed by Goldman Sachs. The fair value of our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC), which trade on The Stock Exchange of Hong Kong, includes the effect of foreign exchange revaluation.

(3) The following table sets forth the principal investments (in addition to our investments in SMFG and ICBC) included within the Principal Investments component of our Trading and Principal Investments segment:

	As of May 2007			As of November 2006		
	Corporate	Real Estate	Total	Corporate	Real Estate	Total
		(in millions)			(in millions)	
Private	$4,172	$1,248	$5,420	$2,741	$555	$3,296
Public	1,687	41	1,728	934	33	967
Total	$5,859	$1,289	$7,148	$3,675	$588	$4,263

(4) Net of cash received pursuant to credit support agreements of $24.54 billion and $24.06 billion as of May 2007 and November 2006, respectively.

(5) Excludes assets related to consolidated investment funds of $16.29 billion and $6.03 billion as of May 2007 and November 2006, respectively, for which Goldman Sachs is not at risk.

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

(7) Net of cash paid pursuant to credit support agreements of $17.19 billion and $16.00 billion as of May 2007 and November 2006, respectively.

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

- **Cash Trading Instruments.** Our cash trading instruments are generally valued using quoted market prices in active markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, certain corporate bank loans, less liquid listed equities, state, municipal and provincial obligations, and certain physical commodities.

  Certain cash trading instruments trade infrequently and therefore have little or no price transparency. Such instruments include certain corporate bank loans and mortgage whole loans, highly distressed debt, and private equity and real estate investments. Where we are unable to substantiate the significant valuation inputs and assumptions to corroborative market data, the transaction price is used as management's best estimate of fair value at inception. 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 inception, we change inputs and assumptions when 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, and such adjustments are generally based on available market evidence. 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, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

  Our two most significant public principal investments are our investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG) and our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC).

  Our investment in SMFG is valued using a model that is principally based on SMFG's common stock price. As of May 2007, the conversion price of our SMFG convertible preferred stock into shares of SMFG common stock was ¥318,800. This price is subject to downward adjustment if the price of SMFG common stock at the time of conversion is less than the conversion price (subject to a floor of ¥105,100). As a result of downside protection on the conversion stock price, the relationship between changes in the fair value of our investment and changes in SMFG's common stock price would be nonlinear for a significant decline in the SMFG common stock price. As of May 2007, we had hedged approximately 70% of the common stock underlying our investment in SMFG and there were no restrictions on our ability to hedge the remaining 30%.

  Our investment in ICBC is valued using the quoted market prices adjusted for transfer restrictions. The ordinary shares acquired from ICBC are subject to transfer restrictions that, among other things, prohibit any sale, disposition or other transfer until April 28, 2009. From April 28, 2009 to October 20, 2009, we may transfer up to 50% of the aggregate ordinary shares of ICBC that we owned as of October 20, 2006. We may transfer our remaining shares after October 20, 2009. A portion of our interest is held by investment funds managed by Goldman Sachs.

- **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. By their nature, these investments have little or no price transparency. We value such instruments initially at transaction price and adjust the valuation when evidence is available to support such adjustments. Such evidence includes 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.

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

OTC derivatives are valued using models. 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. Where possible, we verify the values produced by our pricing models to market transactions. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment 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. Further, complex structures often involve multiple product types requiring additional complex inputs such as correlations and volatilities. Where we do not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, management believes that transaction price is the best estimate of fair value at inception. 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 evidence such as 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. As markets continue to develop and more pricing information becomes available, we continue to review and refine the models used. 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 available market evidence. In the absence of such evidence, management's best estimate is used.

Other Financial Assets and Financial Liabilities. In addition to "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value," we have elected to account for certain of our other financial assets and financial liabilities at fair value under SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140," or SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." Such financial assets and financial liabilities include (i) certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments; (ii) certain other secured financings (primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through our William Street program); (iii) certain unsecured long-term borrowings, including prepaid physical commodity transactions; (iv) resale and repurchase agreements; (v) securities borrowed and securities loaned within Trading and Principal Investments, consisting of our matched book activities and certain firm financing activities; (vi) securities held by our bank subsidiary (previously accounted for as available-for-sale); (vii) certain receivables from customers and counterparties (transfers accounted for as secured loans rather than purchases under SFAS No. 140); and (viii) in general, investments acquired after the adoption of SFAS No. 159 where we have significant influence over the investee and would otherwise apply the equity method of accounting. See "— Recent Accounting Developments" below for a discussion of the impact of adopting SFAS No. 159.

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 and that fair value measurements are reliable. This is particularly important in valuing instruments with lower levels of price transparency.

We employ an oversight structure that includes appropriate segregation of duties. Senior management, independent of the trading functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies to our Audit Committee. We seek to maintain the necessary resources to ensure that control functions are performed to the highest standards. 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 revenue-producing units. For trading and principal investments with little or no price transparency, we employ, where possible, procedures that include comparisons with similar observable positions, analysis of actual to projected cash flows, comparisons with subsequent sales and discussions with senior business leaders. See "— Market Risk" below for a further discussion of how we manage the risks inherent in our trading and principal investing businesses.

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, Cogentrix Energy, Inc. (Cogentrix) in 2004, National Energy & Gas Transmission, Inc. (NEGT) in 2005 and our variable annuity and variable 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 for impairment at least annually in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," 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 primarily based on price-earnings 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 2006 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	
	May 2007	November 2006
Investment Banking		
Financial Advisory	$ —	$ —
Underwriting	125	125
Trading and Principal Investments		
FICC	99	136
Equities [(1)]	2,381	2,381
Principal Investments	2	4
Asset Management and Securities Services		
Asset Management [(2)]	421	421
Securities Services	117	117
Total	$3,145	$3,184

(1) Primarily related to SLK.

(2) Primarily related to Ayco.

Identifiable Intangible Assets. We amortize our identifiable intangible assets over their estimated useful lives in accordance with SFAS No. 142, and test for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." 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 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 remaining useful lives of our identifiable intangible assets by major asset class:

Identifiable Intangible Assets by Asset Class
($ in millions)

	As of May 2007		As of November 2006
	Carrying Value	Range of Estimated Remaining Useful Lives (in years)	Carrying Value
Customer lists [1]	$ 710	4 - 18	$ 737
Power contracts [2]	579	1 - 21	667
New York Stock Exchange (NYSE) specialist rights	522	15	542
Insurance-related assets [3]	383	7	362
Exchange-traded fund (ETF) specialist rights	102	20	105
Other [4]	57	1 - 5	89
Total	$2,353		$2,502

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

(2) Primarily relates to above-market power contracts of consolidated power generation facilities related to Cogentrix and NEGT. Substantially all of these power contracts have been pledged to counterparties in connection with our secured financings.

(3) Consists of the value of business acquired (VOBA) and deferred acquisition costs (DAC). VOBA represents the present value of estimated future gross profits of the variable annuity and variable life insurance business acquired in 2006. DAC results from commissions paid by Goldman Sachs to the primary insurer (ceding company) on life and annuity reinsurance agreements as compensation to place the business with us and to cover the ceding company's acquisition expenses. VOBA and DAC are amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The seven-year useful life represents the weighted average remaining amortization period of the underlying contracts (certain of which extend for approximately 30 years).

(4) Primarily includes marketing and technology-related assets.

A prolonged period of weakness in global equity markets and the trading of securities in multiple markets and on multiple exchanges could adversely impact our businesses and impair the value of our goodwill and/or identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including (i) changes in market structure that could adversely affect our specialist businesses, (ii) an adverse action or assessment by a regulator, (iii) a default event under a power contract or physical damage or other adverse events impacting the underlying power generation facilities, or (iv) adverse actual experience on the contracts in our variable annuity and variable life insurance business.

During the second quarter, we experienced continued weakening of our operating results in our NYSE specialist business and therefore tested our NYSE specialist rights for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144, an impairment loss is recognized if the carrying amount of the NYSE specialist rights exceeds the sum of the projected undiscounted cash flows of the business over the estimated remaining useful life of the NYSE specialist rights. The projected undiscounted cash flows of the business exceeded the carrying amount of the NYSE specialist rights, and accordingly, we did not record an impairment loss.

Two assumptions were critical to our conclusion that there was no impairment of our NYSE specialist rights under SFAS No. 144. First, we believe the NYSE is committed to specialists having an important role in the NYSE Hybrid Market Model and therefore expect that the NYSE will promptly enact various rule changes and implement technological improvements to support the floor-based market model by which it differentiates itself from its purely electronic exchange competitors. Second, we have assumed that stock price volatility, which has been low by historical standards over the past year, will revert towards historic average levels over the remaining useful life of our NYSE specialist rights.

There can be no assurance that either of these two assumptions will materialize and, even if they do, that our projected undiscounted cash flows will be sufficient to avoid future impairment of our NYSE specialist rights. As of May 25, 2007, the carrying value of our NYSE specialist rights was $522 million. To the extent that there were to be an impairment in the future, it could lead to a significant reduction in the carrying value of our NYSE specialist rights.

Use of Estimates

The use of generally accepted accounting principles requires management to make certain estimates. In addition to the estimates we make in connection with fair value measurements and the accounting for goodwill and identifiable intangible assets, the use of estimates 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 bonuses, which are determined at year end. We believe the most appropriate way to allocate estimated annual discretionary bonuses 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 and the structure of our share-based compensation programs. Our ratio of compensation and benefits to net revenues was 48.0% for the first half of 2007 compared with 50.4% for the same period last year.

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings and tax audits to the extent that such losses are probable and can be estimated, in accordance with SFAS No. 5, "Accounting for Contingencies." Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total 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 the Annual Report on Form 10-K, in Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarter ended February 23, 2007 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 the Annual Report on Form 10-K for a further discussion of the impact of economic and market conditions on our results of operations.

Financial Overview

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

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

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
Net revenues	$10,182	$10,241	$22,912	$20,674
Pre-tax earnings	3,431	3,524	8,290	7,213
Net earnings	2,333	2,312	5,530	4,791
Net earnings applicable to common shareholders	2,287	2,286	5,435	4,739
Diluted earnings per common share	4.93	4.78	11.61	9.86
Annualized return on average common shareholders' equity (1)	26.7%	32.5%	32.3%	34.3%
Annualized return on average tangible common shareholders' equity (2)	31.2%	39.5%	37.8%	41.8%

(1) Return on average common shareholders' equity (ROE) is computed by dividing net earnings (or annualized net earnings for annualized ROE) applicable to common shareholders by average monthly common shareholders' equity.

(2) Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and identifiable intangible assets, excluding power contracts. Identifiable intangible assets associated with power contracts are not deducted from total shareholders' equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders' equity.

Management believes that return on average tangible common shareholders' equity (ROTE) is meaningful because it measures the performance of businesses consistently, whether they were acquired or developed internally. ROTE is computed by dividing net earnings (or annualized net earnings for annualized ROTE) applicable to common shareholders by average monthly tangible common shareholders' equity.

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

	Average for the			
	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions)			
Total shareholders' equity	$37,374	$30,082	$36,804	$29,473
Preferred stock	(3,100)	(1,963)	(3,100)	(1,871)
Common shareholders' equity	34,274	28,119	33,704	27,602
Goodwill and identifiable intangible assets, excluding power contracts	(4,938)	(4,999)	(4,967)	(4,948)
Tangible common shareholders' equity	$29,336	$23,120	$28,737	$22,654

Net Revenues

Three Months Ended May 2007 versus May 2006. Our net revenues were $10.18 billion for the second quarter of 2007, essentially unchanged compared with the second quarter of 2006, as each of our three segments generated strong results. Net revenues in Investment Banking increased compared with the second quarter of 2006, reflecting strong client activity. Net revenues in debt underwriting were particularly strong, primarily due to strength in leveraged finance as the financing environment remained favorable. Net revenues in Trading and Principal Investments were lower than the second quarter of 2006, reflecting lower net revenues in FICC, partially offset by higher results in Principal Investments and Equities. The decrease in FICC primarily reflected lower net revenues in commodities and weak results in mortgages, principally attributable to continued weakness in the subprime sector. The decrease in commodities was primarily attributable to a $700 million gain in the second quarter of 2006 related to the sale of East Coast Power, L.L.C. Net revenues in interest rate products, credit products and currencies were strong, although net revenues in interest rate products were lower than the same period last year. During the quarter, FICC operated in an environment characterized by solid customer-driven activity, generally low volatility levels and strength in the broader credit markets. The increase in Principal Investments primarily reflected significantly higher gains from corporate principal investments. Equities generated its second highest quarterly net revenues, reflecting strength across all major businesses, with principal strategies and shares driving the increase compared with the same period last year. Following challenging market conditions early in the quarter, Equities operated in a favorable environment characterized by generally rising equity prices and strong customer-driven activity. Net revenues in Asset Management and Securities Services were higher than the second quarter of 2006. Asset Management net revenues were higher reflecting record management and other fees. During the quarter, assets under management increased $39 billion or 5% to a record $758 billion, with net asset inflows of $18 billion. Securities Services achieved record net revenues, as our prime brokerage business continued to generate strong results, reflecting significantly higher customer balances in securities lending and margin lending and higher activity levels in Europe.

Six Months Ended May 2007 versus May 2006. Our net revenues were $22.91 billion for the first half of 2007, an increase of 11% compared with the same period last year. In Investment Banking, net revenues increased as mergers and acquisitions and financing activity levels were strong. Net revenues in Trading and Principal Investments were higher, reflecting increases in Principal Investments and Equities, partially offset by a decrease in FICC. The increase in Principal Investments primarily reflected significantly higher gains from corporate principal investments, and the increase in Equities reflected higher net revenues in principal strategies and shares. During the first half of 2007, Equities operated in a favorable environment generally characterized by rising equity prices, strong customer-driven activity and favorable market opportunities. The decrease in FICC reflected lower net revenues in commodities, mortgages and interest rate products, partially offset by higher net revenues in credit products. During the first half of 2007, FICC operated in an environment characterized by solid customer-driven activity, generally low volatility levels and strength in the broader credit markets, although the subprime sector of the mortgage market experienced weakness. Net revenues in Asset Management and Securities Services decreased due to significantly lower incentive fees, partially offset by higher asset management and other fees, and continued growth in securities lending and margin lending.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. A substantial portion of our compensation expense represents discretionary bonuses which are significantly impacted by, among other factors, the level of net revenues, prevailing labor markets, business mix and the structure of our share-based compensation programs. During the first half of 2007, our ratio of compensation and benefits to net revenues was 48.0% compared with 50.4% for the same period last year. See "— Use of Estimates" above for more information on our ratio of compensation and benefits to net revenues.

The following table sets forth our operating expenses and number of employees:

Operating Expenses and Employees
($ in millions)

	Three Months Ended May		Six Months Ended May	
	2007	**2006**	**2007**	**2006**
Compensation and benefits [1]	$4,887	$5,108	$10,998	$10,422
Brokerage, clearing, exchange and distribution fees	638	473	1,189	891
Market development	144	121	276	221
Communications and technology	161	131	312	255
Depreciation and amortization	140	127	272	252
Amortization of identifiable intangible assets	50	44	101	78
Occupancy	210	199	414	392
Professional fees	161	123	322	232
Cost of power generation	81	122	165	207
Other expenses	279	269	573	511
Total non-compensation expenses	1,864	1,609	3,624	3,039
Total operating expenses	$6,751	$6,717	$14,622	$13,461
Employees at period end [2]	28,012	24,013		

(1) Compensation and benefits includes $50 million and $61 million for the three months ended May 2007 and May 2006, respectively, and $85 million and $112 million for the six months ended May 2007 and May 2006, respectively, attributable to consolidated entities held for investment purposes. 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.

(2) Excludes 4,841 and 9,369 employees as of May 2007 and May 2006, respectively, of consolidated entities held for investment purposes (see footnote 1 above).

The following table sets forth non-compensation expenses of consolidated entities held for investment purposes and our remaining non-compensation expenses by line item:

Non-Compensation Expenses
(in millions)

	Three Months Ended May		Six Months Ended May	
	2007	**2006**	**2007**	**2006**
Non-compensation expenses of consolidated investments [1]	$ 101	$ 119	$ 188	$ 218
Non-compensation expenses excluding consolidated investments				
Brokerage, clearing, exchange and distribution fees	638	473	1,189	891
Market development	142	113	272	205
Communications and technology	161	129	311	252
Depreciation and amortization	121	110	239	222
Amortization of identifiable intangible assets	48	44	98	78
Occupancy	192	171	381	340
Professional fees	160	121	320	226
Cost of power generation	81	122	165	207
Other expenses	220	207	461	400
Subtotal	1,763	1,490	3,436	2,821
Total non-compensation expenses, as reported	$1,864	$1,609	$3,624	$3,039

(1) 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. For example, these investments include consolidated entities that hold real estate assets, such as hotels, but exclude investments in entities that primarily hold financial assets. We believe that it is meaningful to review non-compensation expenses excluding expenses related to these consolidated entities in order to evaluate trends in non-compensation expenses related to our principal business activities. Revenues related to such entities are included in "Trading and principal investments" in the condensed consolidated statements of earnings.

Three Months Ended May 2007 versus May 2006. Operating expenses of $6.75 billion were essentially unchanged from the second quarter of 2006. Compensation and benefits expenses of $4.89 billion decreased 4% compared with the second quarter of 2006, primarily reflecting the impact of a lower ratio of compensation and benefits to net revenues. The ratio of compensation and benefits to net revenues was 48.0% for the second quarter of 2007 compared with 49.9% for the second quarter of 2006. Employment levels increased 4% during the second quarter of 2007.

Non-compensation expenses were $1.86 billion, 16% higher than the second quarter of 2006. The increase was primarily attributable to the impact of higher levels of business activity and continued geographic expansion. The majority of this increase was in brokerage, clearing, exchange and distribution fees, which principally reflected higher transaction volumes in Equities.

Six Months Ended May 2007 versus May 2006. Operating expenses of $14.62 billion for the first half of 2007 increased 9% compared with the same period last year. Compensation and benefits expenses of $11.00 billion increased 6% compared with the same period last year, reflecting higher net revenues, partially offset by a lower ratio of compensation and benefits to net revenues. The ratio of compensation and benefits to net revenues was 48.0% for the first half of 2007 compared with 50.4% for the same period last year. Employment levels increased 6% during the first half of 2007.

Non-compensation expenses were $3.62 billion, 19% higher than the same period last year. The increase was primarily attributable to the impact of higher levels of business activity and continued geographic expansion. This increase was primarily attributable to higher brokerage, clearing, exchange and distribution fees, which principally reflected higher transaction volumes in Equities, and higher professional fees, reflecting increased business activity.

Provision for Taxes

The provision for taxes for the three and six months ended May 2007 was $1.10 billion and $2.76 billion, respectively. The effective income tax rate for the first half of 2007 was 33.3%, down from 34.2% for the first quarter of 2007 and 34.5% for fiscal year 2006. The decreases in the effective tax rate were primarily due to changes in the geographic earnings mix and, to a lesser extent, an increase in tax credits.

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 May		Six Months Ended May	
		2007	2006	2007	2006
Investment Banking	Net revenues	$ 1,721	$ 1,526	$ 3,437	$ 2,997
	Operating expenses	1,246	1,094	2,540	2,283
	Pre-tax earnings	$ 475	$ 432	$ 897	$ 714
Trading and Principal Investments	Net revenues	$ 6,649	$ 7,105	$16,066	$14,087
	Operating expenses	4,196	4,516	9,590	8,943
	Pre-tax earnings	$ 2,453	$ 2,589	$ 6,476	$ 5,144
Asset Management and Securities Services	Net revenues	$ 1,812	$ 1,610	$ 3,409	$ 3,590
	Operating expenses	1,307	1,088	2,490	2,187
	Pre-tax earnings	$ 505	$ 522	$ 919	$ 1,403
Total	Net revenues	$10,182	$10,241	$22,912	$20,674
	Operating expenses [(1)]	6,751	6,717	14,622	13,461
	Pre-tax earnings	$ 3,431	$ 3,524	$ 8,290	$ 7,213

(1) Includes net provisions for a number of litigation and regulatory proceedings of $2 million and $19 million for the three months ended May 2007 and May 2006, respectively, and $2 million and $48 million for the six months ended May 2007 and May 2006, 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 14 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our 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. The timing and magnitude of changes in our bonus accruals can have a significant effect on segment results in a given period. 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 May		Six Months Ended May	
	2007	2006	2007	2006
Financial Advisory	$ 709	$ 608	$1,570	$1,344
Equity underwriting	358	482	624	765
Debt underwriting	654	436	1,243	888
Total Underwriting	1,012	918	1,867	1,653
Total net revenues	1,721	1,526	3,437	2,997
Operating expenses	1,246	1,094	2,540	2,283
Pre-tax earnings	$ 475	$ 432	$ 897	$ 714

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

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

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
Announced mergers and acquisitions	$569	$331	$892	$612
Completed mergers and acquisitions	224	217	560	490
Equity and equity-related offerings [(2)]	21	32	34	48
Debt offerings [(3)]	86	81	174	164

(1) Source: Thomson Financial. 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.

(2) Includes public common stock offerings, convertible offerings, rights offerings and Rule 144A issues.

(3) Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues.

Three Months Ended May 2007 versus May 2006. Net revenues in Investment Banking of $1.72 billion for the second quarter of 2007 increased 13% compared with the second quarter of 2006, as mergers and acquisitions and financing activity levels were strong. Net revenues in Financial Advisory of $709 million increased 17% compared with the second quarter of 2006, reflecting increased client activity. Net revenues in our Underwriting business of $1.01 billion increased 10% compared with the second quarter of 2006, reflecting significantly higher net revenues in debt underwriting, primarily due to an increase in leveraged finance activity, partially offset by lower net revenues in equity underwriting. Our investment banking transaction backlog ended the quarter at a record level.[(1)]

Operating expenses of $1.25 billion for the second quarter of 2007 increased 14% compared with the second quarter of 2006, primarily due to increased compensation and benefits expenses resulting from a higher accrual of discretionary compensation. Pre-tax earnings of $475 million in the second quarter of 2007 increased 10% compared with the second quarter of 2006.

Six Months Ended May 2007 versus May 2006. Net revenues in Investment Banking of $3.44 billion for the first half of 2007 increased 15% compared with the same period last year. Net revenues in Financial Advisory of $1.57 billion increased 17% compared with the same period last year, primarily reflecting growth in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $1.87 billion increased 13% compared with the same period last year, reflecting significantly higher net revenues in debt underwriting, primarily due to a significant increase in leveraged finance activity, as the financing environment remained favorable, partially offset by lower net revenues in equity underwriting.

Operating expenses of $2.54 billion for the first half of 2007 increased 11% compared with the same period last year, primarily due to increased compensation and benefits expenses resulting from a higher accrual of discretionary compensation. Pre-tax earnings of $897 million for the first half of 2007 increased 26% compared with the same period last year.

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, 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, trade and act as a specialist for equities and equity-related products, structure and enter into equity derivative transactions and engage in proprietary trading and insurance activities. We also execute and clear client transactions on major stock, options and futures exchanges worldwide.
- **Principal Investments.** We make real estate and corporate principal investments, including our investments in the convertible preferred stock of SMFG and 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 (overrides).

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 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.

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(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.

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 May		Six Months Ended May	
	2007	2006	2007	2006
FICC	$3,368	$4,460	$ 7,972	$ 8,298
Equities trading	1,415	1,416	3,578	3,023
Equities commissions	1,082	936	2,006	1,778
Total Equities	2,497	2,352	5,584	4,801
SMFG	(64)	(61)	97	344
ICBC	(125)	(4)	102	(4)
Gross gains	1,144	433	2,391	734
Gross losses	(235)	(149)	(359)	(250)
Net other corporate and real estate investments	909	284	2,032	484
Overrides	64	74	279	164
Total Principal Investments	784	293	2,510	988
Total net revenues	6,649	7,105	16,066	14,087
Operating expenses	4,196	4,516	9,590	8,943
Pre-tax earnings	$2,453	$2,589	$ 6,476	$ 5,144

Three Months Ended May 2007 versus May 2006. Net revenues in Trading and Principal Investments of $6.65 billion for the second quarter of 2007 decreased 6% compared with the second quarter of 2006.

Net revenues in FICC of $3.37 billion decreased 24% compared with the second quarter of 2006, primarily reflecting lower net revenues in commodities and weak results in mortgages, principally attributable to continued weakness in the subprime sector. The decrease in commodities was primarily attributable to a $700 million gain in the second quarter of 2006 related to the sale of East Coast Power, L.L.C. Net revenues in interest rate products were strong but lower compared with the same period last year. Net revenues in credit products and currencies were also strong and were higher compared with the second quarter of 2006. During the quarter, FICC operated in an environment characterized by solid customer-driven activity, generally low volatility levels and strength in the broader credit markets.

Net revenues in Equities of $2.50 billion increased 6% compared with the second quarter of 2006, due to higher net revenues in principal strategies as well as higher net revenues in the shares business, primarily in Europe. These increases were partially offset by strong but lower net revenues in derivatives compared with the second quarter of 2006. Following challenging market conditions early in the quarter, Equities operated in a favorable environment characterized by generally rising equity prices and strong customer-driven activity.

Principal Investments recorded net revenues of $784 million, primarily reflecting gains and overrides from corporate principal investments. These results included a $125 million loss related to our investment in the ordinary shares of ICBC and a $64 million loss related to our investment in the convertible preferred stock of SMFG.

Operating expenses of $4.20 billion for the second quarter of 2007 decreased 7% compared with the second quarter of 2006, primarily due to decreased compensation and benefits expenses resulting from a lower accrual of discretionary compensation. Partially offsetting this decrease, non-compensation expenses increased due to the impact of higher levels of business activity and continued geographic expansion. The majority of this increase was in brokerage, clearing, exchange and distribution fees, which principally reflected higher transaction volumes in Equities. Pre-tax earnings of $2.45 billion in the second quarter of 2007 decreased 5% compared with the second quarter of 2006.

Six Months Ended May 2007 versus May 2006. Net revenues in Trading and Principal Investments of $16.07 billion for the first half of 2007 increased 14% compared with the same period last year.

Net revenues in FICC of $7.97 billion decreased 4% compared with the same period last year, primarily reflecting strong but lower net revenues in commodities. The decrease in commodities was primarily attributable to a $700 million gain in the second quarter of 2006 related to the sale of East Coast Power, L.L.C. In addition, net revenues in mortgages were lower, principally attributable to weakness in the subprime sector, while net revenues in interest rate products were strong but were lower than the same period last year. Net revenues in credit products were also strong and higher compared with the same period last year, while currencies performed well but net revenues were essentially unchanged. During the first half of 2007, FICC operated in an environment characterized by solid customer-driven activity, generally low volatility levels and strength in the broader credit markets.

Net revenues in Equities of $5.58 billion increased 16% compared with the same period last year, due to higher net revenues in principal strategies as well as higher net revenues in the shares business, primarily in Europe. These increases were partially offset by strong but lower net revenues in derivatives compared with the same period last year. During the first half of 2007, Equities operated in a favorable environment generally characterized by rising equity prices, strong customer-driven activity and favorable market opportunities.

Principal Investments recorded net revenues of $2.51 billion, reflecting gains and overrides from corporate and real estate principal investments, including a $102 million gain related to our investment in the ordinary shares of ICBC and a $97 million gain related to our investment in the convertible preferred stock of SMFG.

Operating expenses of $9.59 billion for the first half of 2007 increased 7% compared with the same period last year. Compensation and benefits expenses increased primarily due to a higher accrual of discretionary compensation. Non-compensation expenses increased due to the impact of higher levels of business activity and continued geographic expansion. The majority of this increase was in brokerage, clearing, exchange and distribution fees, which primarily reflected higher transaction volumes in Equities. Other expenses also increased, reflecting increased business activity, including growth in our insurance business. Pre-tax earnings of $6.48 billion for the first half of 2007 increased 26% compared with the same period last year.

Asset Management and Securities Services

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

- **Asset Management.** Asset Management provides investment advisory and financial planning services and offers investment products (primarily through separate accounts and 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. 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 and they are no longer subject to adjustment. We have numerous incentive fee arrangements, many of which have annual performance periods that end on December 31. For that reason, incentive fees have been seasonally weighted to our first quarter. Based on investment performance in calendar 2006, our incentive fees were significantly lower in the first half of 2007 than they were in the same period last year.

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 May		Six Months Ended May	
	2007	2006	2007	2006
Management and other fees	$1,035	$ 850	$2,017	$1,600
Incentive fees	20	104	110	843
Total Asset Management	1,055	954	2,127	2,443
Securities Services	757	656	1,282	1,147
Total net revenues	1,812	1,610	3,409	3,590
Operating expenses	1,307	1,088	2,490	2,187
Pre-tax earnings	$ 505	$ 522	$ 919	$1,403

Assets under management include 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.

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

Assets Under Management by Asset Class
(in billions)

	As of May 31,		As of November 30,	
	2007	2006	2006	2005
Alternative investments [1]	$151	$128	$145	$110
Equity	253	185	215	167
Fixed income	221	172	198	154
Total non-money market assets	625	485	558	431
Money markets	133	108	118	101
Total assets under management	$758	$593	$676	$532

(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 May 31,		Six Months Ended May 31,	
	2007	**2006**	**2007**	**2006**
Balance, beginning of period	$719	$571	$676	$532
Net asset inflows/(outflows)				
Alternative investments	—	6	2	13
Equity	7	3	18	8
Fixed income	7	4	18	12
Total non-money market net asset inflows/(outflows)	14	13	38	33
Money markets	4	2	15	7
Total net asset inflows/(outflows)	18	15	53	40 (1)
Net market appreciation/(depreciation)	21	7	29	21
Balance, end of period	$758	$593	$758	$593

(1) Includes $3 billion of net asset inflows in connection with our December 30, 2005 acquisition of our variable annuity and variable life insurance business.

Three Months Ended May 2007 versus May 2006. Net revenues in Asset Management and Securities Services of $1.81 billion for the second quarter of 2007 increased 13% compared with the second quarter of 2006.

Asset Management net revenues of $1.06 billion increased 11% compared with the second quarter of 2006, reflecting a 22% increase in management and other fees, partially offset by lower incentive fees. During the quarter, assets under management increased $39 billion to $758 billion, reflecting non-money market net asset inflows of $14 billion in equity and fixed income assets, money market net asset inflows of $4 billion and market appreciation of $21 billion, primarily in equity assets.

Securities Services net revenues of $757 million increased 15% compared with the second quarter of 2006, as our prime brokerage business continued to generate strong results, reflecting significantly higher customer balances in securities lending and margin lending and higher activity levels in Europe.

Operating expenses of $1.31 billion for the second quarter of 2007 increased 20% compared with the second quarter of 2006, primarily due to increased compensation and benefits expenses and higher distribution fees. Pre-tax earnings of $505 million in the second quarter of 2007 decreased 3% compared with the second quarter of 2006.

Six Months Ended May 2007 versus May 2006. Net revenues in Asset Management and Securities Services of $3.41 billion for the first half of 2007 decreased 5% compared with the same period last year.

Asset Management net revenues of $2.13 billion decreased 13% compared with the same period last year, reflecting significantly lower incentive fees, partially offset by a 26% increase in management and other fees. Incentive fees were $110 million for the first half of 2007 compared with $843 million for the same period last year. During the first half of 2007, assets under management increased 12% to $758 billion, reflecting non-money market net asset inflows of $38 billion, primarily in equity and fixed income assets, money market net asset inflows of $15 billion and market appreciation of $29 billion, primarily in equity assets.

Securities Services net revenues of $1.28 billion increased 12% compared with the same period last year, as our prime brokerage business continued to generate strong results, reflecting significantly higher customer balances in securities lending and margin lending and higher activity levels in Europe during the second quarter of 2007.

Operating expenses of $2.49 billion for the first half of 2007 increased 14% compared with the same period last year, primarily due to increased compensation and benefits expenses and higher distribution fees. Pre-tax earnings of $919 million in the first half of 2007 decreased 34% compared with the same period last year.

Geographic Data

See Note 14 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a summary of our net revenues by geographic region.

Equity Capital

The level and composition of our equity capital are principally determined by our consolidated regulatory capital requirements, rating agency guidelines and subsidiary capital requirements. The equity capital we hold may also be influenced by the business environment, conditions in the financial markets and an assessment of potential future losses during an extremely adverse business and market environment. As of May 2007, our total shareholders' equity was $38.46 billion (consisting of common shareholders' equity of $35.36 billion and preferred stock of $3.10 billion) compared with total shareholders' equity of $35.79 billion as of November 2006 (consisting of common shareholders' equity of $32.69 billion and preferred stock of $3.10 billion). In addition to total shareholders' equity, we consider the $5.00 billion of junior subordinated debt issued to trusts (see discussion below) part of our equity capital, as it qualifies as capital for regulatory and certain rating agency purposes.

Consolidated Regulatory Capital Requirements

Goldman Sachs is regulated by the U.S. Securities and Exchange Commission (SEC) as a Consolidated Supervised Entity (CSE) and, as such, is subject to group-wide supervision and examination by the SEC and to minimum capital adequacy standards on a consolidated basis. Minimum capital adequacy standards are principally driven by the amount of our market risk, credit risk and operational risk as calculated by methodologies approved by the SEC. Eligible sources of regulatory capital include common equity and certain types of preferred stock, debt and hybrid capital instruments, including our junior subordinated debt issued to trusts. The recognition of preferred stock, debt and hybrid capital instruments as regulatory capital is subject to limitations. Goldman Sachs was in compliance with the CSE capital adequacy standards as of May 2007 and November 2006.

Rating Agency Guidelines

The credit rating agencies assign credit ratings to the obligations of The Goldman Sachs Group, Inc., which directly issues or guarantees substantially all of Goldman Sachs' senior unsecured obligations. 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.

Subsidiary Capital Requirements

Many of our principal subsidiaries are subject to separate regulation and capital requirements in the United States and/or elsewhere. Goldman, Sachs & Co. and Goldman Sachs Execution & Clearing, L.P. are registered U.S. broker-dealers and futures commissions merchants, and their primary regulators include the SEC, the Commodity Futures Trading Commission, the Chicago Board of Trade, the NYSE, the National Association of Securities Dealers, Inc. and the National Futures Association. Goldman Sachs International, our regulated U.K. broker-dealer, is subject to regulation primarily by the U.K.'s Financial Services Authority. Goldman Sachs Japan Co., Ltd., our regulated Japanese broker-dealer, is subject to regulation by Japan's Financial Services Agency. Several other subsidiaries of Goldman Sachs are regulated by securities, investment advisory, banking, and other regulators and authorities around the world, such as the Federal Financial Supervisory Authority (BaFin) and the Bundesbank in Germany, Banque de France and the Autorité des Marchés Financiers in France, Banca d'Italia and the Commissione Nazionale per le Società e la Borsa (CONSOB) in Italy, the Swiss Federal Banking Commission, the Securities and Futures Commission in Hong Kong, the Monetary Authority of Singapore and the China Securities Regulatory Commission. Goldman Sachs Bank USA (GS Bank), a wholly owned industrial bank, is regulated by the Federal Deposit Insurance Corporation and the State of Utah Department of Financial Institutions and is subject to minimum capital requirements. As of May 2007 and November 2006, these subsidiaries were in compliance with their local capital requirements.

As discussed above, many of our subsidiaries are subject to regulatory capital requirements in jurisdictions throughout the world. Subsidiaries not subject to separate regulation may hold capital to satisfy local tax guidelines, rating agency requirements or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based upon its underlying risk. See "— Liquidity and Funding Risk — Conservative Liability Structure" below for a discussion of our potential inability to access funds from our subsidiaries.

Equity investments in subsidiaries are generally funded with parent company equity capital. As of May 2007, Group Inc.'s equity investment in subsidiaries was $36.18 billion compared with its total shareholders' equity of $38.46 billion.

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. In addition, we generally manage the non-trading exposure to foreign exchange risk that arises from transactions denominated in currencies other than the transacting entity's functional currency.

See Note 13 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our regulated subsidiaries.

Equity Capital Management

Our objective is to maintain a sufficient level and optimize the composition of our equity capital. We manage our capital through repurchases of our common stock and issuances of preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

Share Repurchase Program. We use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases and is influenced by our overall capital position (i.e., the comparison of our capital requirements to our available capital), general market conditions and the prevailing price and trading volumes of our common stock.

The following table sets forth the level of share repurchases for the three and six months ended May 2007 and May 2006:

	Three Months Ended May		Six Months Ended May	
	2007	2006	2007	2006
	(in millions, except per share amounts)			
Number of shares repurchased	5.44	6.49	18.41	25.61
Total cost	$ 1,135	$ 1,015	$ 3,823	$ 3,593
Average cost per share	$208.41	$156.59	$207.60	$140.28

As of May 2007, we were authorized to repurchase up to 34.2 million additional shares of common stock pursuant to our repurchase program. See "— Unregistered Sales of Equity Securities and Use of Proceeds" in Part II, Item 2 of this Quarterly Report on Form 10-Q for additional information on our repurchase program.

Preferred Stock. As of May 2007, Goldman Sachs had 124,000 shares of perpetual non-cumulative preferred stock outstanding in four series as set forth in the following table:

Preferred Stock by Series

Series	Shares Issued	Shares Authorized	Dividend Rate	Earliest Redemption Date	Redemption Value (in millions)
A	30,000	50,000	3 month LIBOR + 0.75%, with floor of 3.75% per annum	April 25, 2010	$ 750
B	32,000	50,000	6.20% per annum	October 31, 2010	800
C	8,000	25,000	3 month LIBOR + 0.75%, with floor of 4% per annum	October 31, 2010	200
D	54,000	60,000	3 month LIBOR + 0.67%, with floor of 4% per annum	May 24, 2011	1,350
	124,000	185,000			$3,100

Each share of preferred stock 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 our option at a redemption price equal to $25,000 plus declared and unpaid dividends. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. Our ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, our common stock is subject to certain restrictions in the event that we fail to pay or set aside full dividends on our preferred stock for the latest completed dividend period. All series of preferred stock are pari passu and have a preference over our common stock upon liquidation.

Junior Subordinated Debt Issued to Trusts in Connection with Normal Automatic Preferred Enhanced Capital Securities. In the second quarter of 2007, we issued $1.75 billion of fixed rate junior subordinated debt to Goldman Sachs Capital II and $500 million of floating rate junior subordinated debt to Goldman Sachs Capital III, Delaware statutory trusts that, in turn, issued $2.25 billion of guaranteed perpetual Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to Goldman Sachs. The junior subordinated debt is included in "Unsecured long-term borrowings" in the condensed consolidated statements of financial condition. In connection with the APEX issuance, we entered into stock purchase contracts with Goldman Sachs Capital II and III under which we will be obligated to sell and these entities will be obligated to purchase $2.25 billion of perpetual non-cumulative preferred stock that we will issue in the future. Goldman Sachs Capital II and III are required to remarket the junior subordinated debt in order to fund their purchase of the preferred stock, but in the event that a remarketing is unsuccessful, they will relinquish the subordinated debt to us in exchange for the preferred stock. Because of certain characteristics of the junior subordinated debt (and the associated APEX), including its long-term nature, the future issuance of perpetual non-cumulative preferred stock under the stock purchase contracts, our ability to defer payments due on the debt and the subordinated nature of the debt in our capital structure, it qualifies as regulatory capital for CSE purposes and is included as part of our equity capital.

Junior Subordinated Debt Issued to a Trust in Connection with Trust Preferred Securities. We issued $2.84 billion of junior subordinated debentures in the first quarter of 2004 to Goldman Sachs Capital I (the 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 Goldman Sachs. The junior subordinated debentures are included in "Unsecured long-term borrowings" in the condensed consolidated statements of financial condition. Because of certain characteristics of the junior subordinated debt (and the associated trust preferred securities), including its long-term nature, our ability to defer coupon interest for up to ten consecutive semiannual periods and the subordinated nature of the debt in our capital structure, it qualifies as regulatory capital for CSE purposes and is included as part of our equity capital.

Subordinated Debt. In addition to junior subordinated debt issued to trusts, we had other outstanding subordinated debt of $8.26 billion as of May 2007. Although not part of our shareholders' equity, subordinated debt may be used to meet a portion of our consolidated capital requirements as a CSE.

Capital Ratios and Metrics

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

	As of May 2007	As of November 2006
	($ in millions, except per share amounts)	
Total assets	$943,196	$838,201
Adjusted assets [1]	653,861	541,033
Total shareholders' equity	38,459	35,786
Tangible equity capital [2]	38,540	33,517
Leverage ratio [3]	24.5x	23.4x
Adjusted leverage ratio [4]	17.0x	16.1x
Debt to equity ratio [5]	3.7x	3.4x
Common shareholders' equity	35,359	32,686
Tangible common shareholders' equity [6]	30,440	27,667
Book value per common share [7]	$ 81.30	$ 72.62
Tangible book value per common share [8]	69.99	61.47

(1) Adjusted assets excludes (i) low-risk collateralized assets generally associated with our matched book and securities lending businesses (which we calculate by adding our securities borrowed and financial instruments purchased under agreements to resell, at fair value, and then subtracting our nonderivative short positions), (ii) cash and securities we segregate for regulatory and other purposes and (iii) goodwill and identifiable intangible assets, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total assets in order to be consistent with the calculation of tangible equity capital and the adjusted leverage ratio (see footnote 2 below).

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

		As of May 2007	As of November 2006
		(in millions)	
Total assets		$ 943,196	$ 838,201
Deduct:	Securities borrowed	(243,835)	(219,342)
	Financial instruments purchased under agreements to resell, at fair value	(69,213)	(82,126)
Add:	Financial instruments sold, but not yet purchased, at fair value	177,202	155,805
	Less derivative liabilities	(70,304)	(65,496)
	Subtotal	106,898	90,309
Deduct:	Cash and securities segregated for regulatory and other purposes	(78,266)	(80,990)
	Goodwill and identifiable intangible assets, excluding power contracts	(4,919)	(5,019)
Adjusted assets		$ 653,861	$ 541,033

(2) Tangible equity capital equals total shareholders' equity and junior subordinated debt issued to trusts less goodwill and identifiable intangible assets, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total shareholders' equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders' equity. 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	
	May 2007	November 2006
	(in millions)	
Total shareholders' equity	$38,459	$35,786
Add: Junior subordinated debt issued to trusts	5,000	2,750
Deduct: Goodwill and identifiable intangible assets, excluding power contracts	(4,919)	(5,019)
Tangible equity capital	$38,540	$33,517

(3) Leverage ratio equals total assets divided by total shareholders' equity.

(4) 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) 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, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total shareholders' equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders' equity.

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

	As of	
	May 2007	November 2006
	(in millions)	
Total shareholders' equity	$38,459	$35,786
Deduct: Preferred stock	(3,100)	(3,100)
Common shareholders' equity	35,359	32,686
Deduct: Goodwill and identifiable intangible assets, excluding power contracts	(4,919)	(5,019)
Tangible common shareholders' equity	$30,440	$27,667

(7) Book value per common share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 434.9 million and 450.1 million as of May 2007 and November 2006, respectively.

(8) 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 granted to employees with no future service requirements.

Contractual Obligations and Commitments

Goldman Sachs has contractual obligations to make future payments related to our unsecured long-term borrowings, secured long-term financings, 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 fiscal maturity date as of May 2007:

Contractual Obligations
(in millions)

	Remainder of 2007	2008-2009	2010-2011	2012-Thereafter	Total
Unsecured long-term borrowings [1][2][3]	$ —	$30,849	$21,372	$89,263	$141,484
Secured long-term financings [1][2][4]	—	2,833	9,308	13,628	25,769
Minimum rental payments	373	853	630	2,261	4,117
Purchase obligations [5]	1,078	947	26	24	2,075

(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) Includes $13.49 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of May 2007, primarily consisting of hybrid financial instruments.

(4) These obligations are reported within "Other secured financings" in the condensed consolidated statements of financial condition and include $7.49 billion accounted for at fair value under SFAS No. 155 and SFAS No. 159 as of May 2007.

(5) Primarily includes construction-related obligations.

As of May 2007, our unsecured long-term borrowings were $141.48 billion and consisted principally of senior borrowings with maturities extending to 2045. See Note 5 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 May 2007, our future minimum rental payments, net of minimum sublease rentals, under noncancelable leases were $4.12 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 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 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. We may incur exit costs in 2007 and thereafter 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.

As of May 2007 and November 2006, we had construction-related obligations of $1.71 billion and $1.63 billion, respectively, including purchase obligations of $846 million and $1.07 billion, respectively, related to the development of wind energy projects by Horizon Wind Energy LLC (see discussion below). Construction-related obligations also include outstanding purchase obligations of $797 million and $500 million as of May 2007 and November 2006, respectively, related to our new world headquarters in New York City, which is expected to cost between $2.3 billion and $2.5 billion.

In March 2007, we entered into an agreement to sell our interest in Horizon Wind Energy LLC to Energias de Portugal, S.A., subject to the receipt of regulatory approvals and other closing conditions. The transaction closed during our third quarter of 2007, and depending on the level of our net revenues in such period, the resulting gain may be material to our results of operations.

The following table sets forth our commitments as of May 2007:

Commitments
(in millions)

	Commitment Amount by Fiscal Period of Expiration				
	Remainder of 2007	2008-2009	2010-2011	2012-Thereafter	Total
Commitments to extend credit					
William Street program	$ 806	$ 2,629	$10,167	$ 7,271	$ 20,873
Other commercial lending:					
Investment-grade	2,423	17,719	4,809	1,782	26,733
Non-investment-grade	9,457	7,996	12,762	41,276	71,491
Warehouse financing	7,876	1,359	—	—	9,235
Total commitments to extend credit	20,562	29,703	27,738	50,329	128,332
Forward starting resale and securities borrowing agreements	20,128	250	—	—	20,378
Forward starting repurchase and securities lending agreements	20,616	—	—	—	20,616
Commitments under letters of credit issued by banks to counterparties	4,852	693	—	163	5,708
Merchant banking commitments	7,729	4,483	1,897	484	14,593
Underwriting commitments	626	—	—	—	626
Other investment commitments	479	95	87	226	887
Total	$74,992	$35,224	$29,722	$51,202	$191,140

Our 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. In connection with our lending activities, we had outstanding commitments to extend credit of $128.33 billion as of May 2007 compared with $100.48 billion as of November 2006. 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. Our commercial lending commitments outside the William Street credit extension program are generally extended in connection with contingent acquisition financing and other types of corporate lending. We may seek to reduce our credit risk on these commitments by syndicating all or substantial portions of commitments to other investors. In addition, commitments that are extended for contingent acquisition financing are often short-term in nature, as borrowers often replace them with other funding sources.

Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are primarily extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of Goldman Sachs, and, to a lesser extent, by William Street Credit Corporation, another consolidated wholly owned subsidiary of Group Inc. A majority of the commitments extended by Commitment Corp. are supported by funding raised by William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are also legally separated from other assets and liabilities of Goldman Sachs. With respect to substantially all of the William Street commitments, SMFG provides us with credit loss protection that is generally limited to 95% of the first loss we realize on approved loan commitments, up to a maximum of $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon our request, SMFG will provide protection for 70% of the second loss on such commitments, up to a maximum of $1.13 billion. We also use other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.

Our commitments to extend credit also include financing for the warehousing of financial assets to be securitized, primarily in connection with collateralized loan obligations, mortgage securitizations and collateralized debt obligations. These financings are expected to be repaid from the proceeds of the related securitizations for which we may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of corporate bank loans, commercial and residential mortgages, other loans and mortgage-backed and other asset-backed securities.

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 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, specialist, proprietary trading and investing, and underwriting activities.

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 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 “Financial instruments owned, at fair value” and “Financial instruments sold, but not yet purchased, 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 Goldman Sachs' 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 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 management believes 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
(in millions)

	Average for the			
	Three Months Ended May		Six Months Ended May	
Risk Categories	**2007**	**2006**	**2007**	**2006**
Interest rates	$ 81	$ 49	$ 69	$ 44
Equity prices	101	83	98	76
Currency rates	20	29	19	24
Commodity prices	24	31	27	31
Diversification effect [1]	(93)	(80)	(83)	(73)
Total	$133	$112	$130	$102

(1) 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 increased to $133 million for the second quarter of 2007 from $112 million for the second quarter of 2006, primarily due to increased levels of exposure to interest rates and equity prices.

Daily VaR
(in millions)

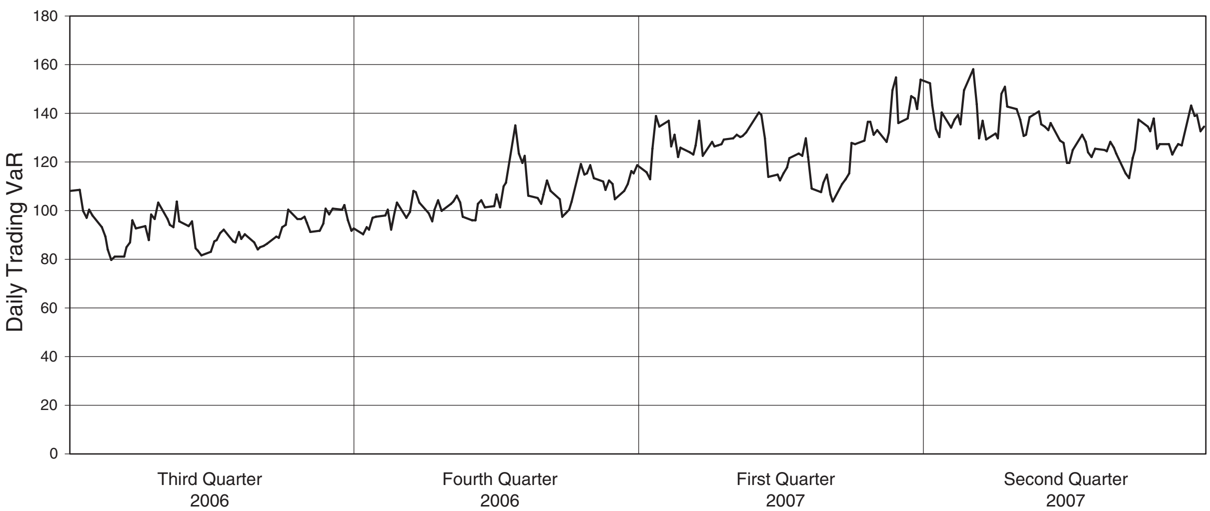
Risk Categories	As of May 2007	As of February 2007	Three Months Ended May 2007 High	Three Months Ended May 2007 Low
Interest rates	$ 68	$ 90	$106	$ 68
Equity prices	95	116	121	77
Currency rates	28	13	29	12
Commodity prices	19	37	39	17
Diversification effect [1]	(75)	(102)		
Total	$135	$ 154	$159	$114

[1] 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 $135 million as of May 2007 from $154 million as of February 2007, primarily due to decreased levels of exposure to interest rates, equity prices and commodity prices.

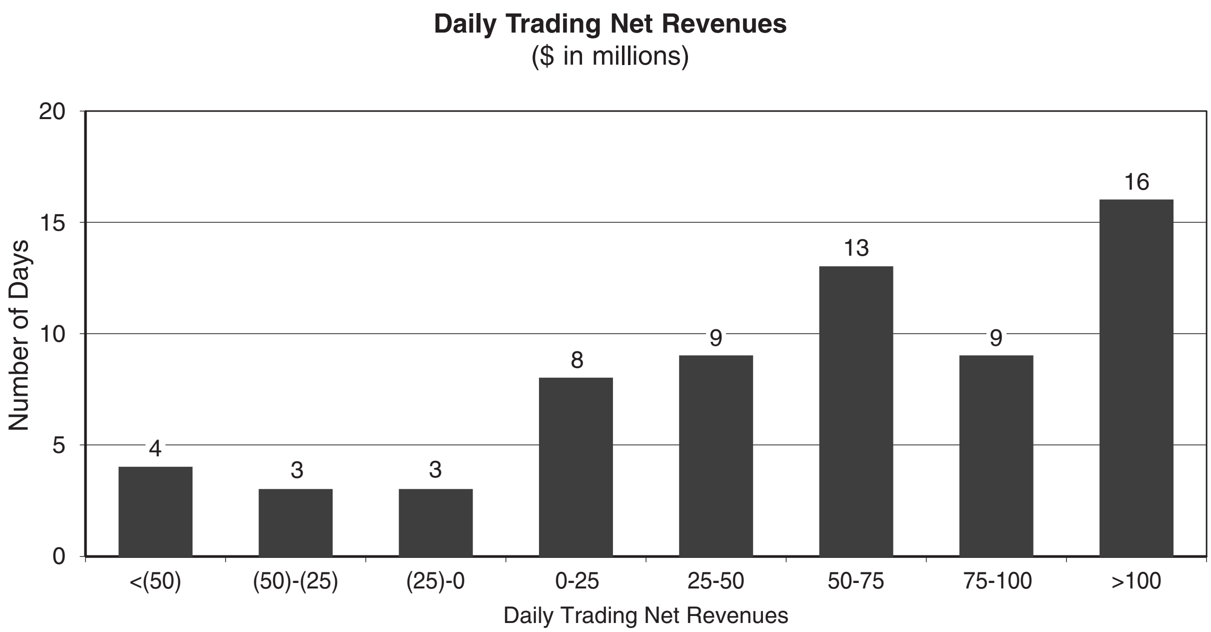
The following chart presents our daily VaR during the last four quarters:

Daily VaR
($ in millions)



Trading Net Revenues Distribution

Substantially all of our inventory positions are marked-to-market on a daily basis and changes are recorded in net revenues. 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 May 2007:



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 one occasion during the quarter ended May 2007.

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 investments in the convertible preferred stock of SMFG and the ordinary shares of ICBC is measured by estimating the potential reduction in net revenues associated with a 10% decline in the SMFG common stock price and a 10% decline in the ICBC ordinary share price, respectively. 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 equity and debt positions in our trading portfolio and equity, debt (primarily mezzanine instruments) and real estate positions in our non-trading portfolio 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 our non-trading portfolio) of such positions. The fair value of the underlying positions may be impacted by factors 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.

The sensitivity analysis of our investment in the convertible preferred stock of SMFG, net of the economic hedge on a substantial portion of the common stock underlying our investment, is measured by the impact of a decline in the SMFG common stock price. This sensitivity should not be extrapolated to a significant decline in the SMFG common stock price, as the relationship between the fair value of our investment and the SMFG common stock price would be nonlinear due to downside protection on the conversion stock price.

The sensitivity analysis of our investment in the ordinary shares of ICBC excludes interests held by investment funds managed by Goldman Sachs.

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 such events occurring, these measures have not been aggregated:

Asset Categories	10% Sensitivity Measure	10% Sensitivity Amount as of May 2007	10% Sensitivity Amount as of February 2007
		(in millions)	
Trading Risk [(1)]			
Equity	Underlying asset value	$ 709	$512
Debt	Underlying asset value	1,045	782
Non-trading Risk			
SMFG	SMFG common stock price	130	133
ICBC	ICBC ordinary share price	205	217
Other Equity	Underlying asset value	591	462
Debt	Underlying asset value	277	222
Real Estate [(2)]	Underlying asset value	497	455

(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 10 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 interests in our real estate investment funds.

During the second quarter of 2007, the market risk for equity and debt positions in our trading portfolio increased primarily due to new investments. In our non-trading portfolio, the market risk for other equity positions increased due to an increase in the fair value of the portfolio as well as new investments, while the market risk for debt and real estate positions increased primarily due to new investments.

In addition, as of May 2007, in our bank and insurance subsidiaries we held approximately $11.57 billion of securities, primarily consisting of mortgage-backed, federal agency and investment-grade corporate bonds.

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 both current exposure and potential exposure. Potential exposure is generally based on projected worst-case market movements over the life of a transaction. 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 affiliates. 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, investment funds and other institutional clients, resulting 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.

Derivatives

Derivative contracts are instruments, such as futures, forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates 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, to take proprietary positions or as a means of risk management. 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 paid 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 management believes 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 product and by remaining contractual maturity:

OTC Derivatives
(in millions)

Assets Contract Type	As of May 2007 0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total
Interest rates [1]	$ 3,063	$ 746	$ 5,545	$ 4,953	$10,015	$24,322
Currencies	5,246	2,039	2,907	1,673	707	12,572
Commodities	2,138	2,726	5,910	867	470	12,111
Equities	2,178	1,274	2,171	2,900	511	9,034
Total	$12,625	$6,785	$16,533	$10,393	$11,703	$58,039

Liabilities Contract Type	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total
Interest rates [1]	$ 3,511	$1,340	$ 5,974	$ 3,476	$ 5,369	$19,670
Currencies	6,208	1,242	2,864	456	547	11,317
Commodities	2,728	2,226	4,519	1,079	123	10,675
Equities	3,507	1,891	3,578	4,801	335	14,112
Total	$15,954	$6,699	$16,935	$ 9,812	$ 6,374	$55,774

Assets Contract Type	As of November 2006 0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total
Interest rates [1]	$ 2,432	$1,706	$ 5,617	$ 5,217	$ 6,201	$21,173
Currencies	5,578	943	3,103	1,669	966	12,259
Commodities	3,892	1,215	5,836	1,258	231	12,432
Equities	1,430	1,134	1,329	2,144	1,235	7,272
Total	$13,332	$4,998	$15,885	$10,288	$ 8,633	$53,136

Liabilities Contract Type	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total
Interest rates [1]	$ 2,807	$1,242	$ 6,064	$ 3,582	$ 5,138	$18,833
Currencies	6,859	1,290	2,582	494	634	11,859
Commodities	3,078	658	4,253	1,643	273	9,905
Equities	3,235	1,682	2,615	3,239	277	11,048
Total	$15,979	$4,872	$15,514	$ 8,958	$ 6,322	$51,645

(1) Includes credit derivatives.

We enter into certain OTC option transactions that provide us or our counterparties with the right to extend the maturity of the underlying contract. The fair value of these option contracts is not material to the aggregate fair value of our OTC derivative portfolio. In the tables above, for option contracts that require settlement by delivery of an underlying derivative instrument, the remaining contractual maturity 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 remaining contractual maturity is generally based upon the option expiration date.

The following table sets forth the distribution, by credit rating, of substantially all of our exposure with respect to OTC derivatives as of May 2007, after taking into consideration the effect of netting agreements. The categories shown reflect our internally determined public rating agency equivalents:

Over-the-Counter Derivative Credit Exposure
($ in millions)

	As of May 2007				As of November 2006
Credit Rating Equivalent	Exposure (1)	Collateral Held	Exposure Net of Collateral	Percentage of Total Exposure Net of Collateral	Percentage of Total Exposure Net of Collateral
AAA/Aaa	$ 6,982	$ 1,731	$ 5,251	14%	12%
AA/Aa2	13,529	2,309	11,220	29	29
A/A2	18,178	6,186	11,992	31	29
BBB/Baa2	7,438	2,974	4,464	11	15
BB/Ba2 or lower	10,550	5,400	5,150	13	13
Unrated	1,362	727	635	2	2
Total	$58,039	$19,327	$38,712	100%	100%

(1) Net of cash received pursuant to credit support agreements of $24.54 billion.

The following tables set forth our OTC derivative credit exposure, net of collateral, by remaining contractual maturity:

Exposure Net of Collateral
(in millions)

	As of May 2007					
Credit Rating Equivalent	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total (1)
AAA/Aaa	$ 660	$ 431	$ 1,225	$1,100	$1,835	$ 5,251
AA/Aa2	2,667	1,131	2,922	2,426	2,074	11,220
A/A2	4,263	2,097	3,078	1,141	1,413	11,992
BBB/Baa2	1,260	612	1,844	207	541	4,464
BB/Ba2 or lower	1,240	510	2,042	899	459	5,150
Unrated	98	66	132	301	38	635
Total	$10,188	$4,847	$11,243	$6,074	$6,360	$38,712

Contract Type	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total (1)
Interest rates (2)	$ 2,726	$ 550	$ 3,809	$2,971	$5,006	$15,062
Currencies	4,023	1,636	2,185	1,048	473	9,365
Commodities	1,888	2,035	3,658	512	469	8,562
Equities	1,551	626	1,591	1,543	412	5,723
Total	$10,188	$4,847	$11,243	$6,074	$6,360	$38,712

(1) Where we have obtained collateral from a counterparty under a master trading agreement that covers multiple products and transactions, we have allocated the collateral ratably based on exposure before giving effect to such collateral.

(2) Includes credit derivatives.

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 resulting from adverse circumstances. 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.

Management has implemented a number of policies according to the following liquidity risk management framework:

- Excess Liquidity — We maintain substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations.
- Asset-Liability Management — We ensure our funding sources are sufficiently long-term in order to withstand a prolonged or severe liquidity-stressed environment without having to rely on asset sales.
- Conservative Liability Structure — We access funding across a diverse range of markets, products and counterparties, emphasize less credit-sensitive sources of funding and conservatively manage the distribution of funding across our entity structure.
- Crisis Planning — We base our liquidity and funding management on stress-scenario planning and maintain a crisis plan detailing our response to a liquidity-threatening event.

Excess Liquidity

Our most important liquidity policy is to pre-fund what we estimate will be our likely cash needs during a liquidity crisis and hold such excess liquidity in the form of unencumbered, highly liquid securities that may be sold or pledged to provide same-day liquidity. This “Global Core Excess” liquidity 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. Goldman Sachs’ businesses are diverse, and its 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 unsecured 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 unsecured liabilities.

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 identifies and estimates cash and collateral outflows over a short-term horizon in a liquidity crisis, including, but not limited to:

- upcoming maturities of unsecured debt and letters of credit;
- potential buybacks of a portion of our outstanding negotiable unsecured debt;
- adverse changes in the terms or availability of secured funding;
- derivatives and other margin and collateral outflows, including those due to market moves;
- potential cash outflows associated with our prime brokerage business;
- additional collateral that could be called in the event of a two-notch downgrade in our credit ratings;
- draws on our unfunded commitments not supported by William Street Funding Corporation [(1)]; and
- upcoming cash outflows, such as tax and other large payments.

(1) The Global Core Excess excludes liquid assets of $6.53 billion held separately by William Street Funding Corporation. See "— Contractual Obligations and Commitments" above for a further discussion of the William Street credit extension program.

The following table sets forth the average loan value (the estimated amount of cash that would be advanced by counterparties against these securities) of our Global Core Excess:

	Three Months Ended May 2007	Year Ended November 2006
	(in millions)	
U.S. dollar-denominated	$41,986	$40,862
Non-U.S. dollar-denominated	11,200	10,202
Total Global Core Excess	$53,186	$51,064

The U.S. dollar-denominated excess is comprised of only unencumbered U.S. government and agency securities and highly liquid mortgage securities, all of which are Federal Reserve repo-eligible, as well as overnight cash deposits. Our non-U.S. dollar-denominated excess is comprised of only unencumbered French, German, United Kingdom and Japanese government bonds and euro, British pound and Japanese yen overnight cash deposits. We strictly limit our Global Core Excess to this narrowly defined list of securities and cash that we believe are highly liquid, even in a difficult funding environment.

The majority of our Global Core Excess is structured such that it is available to meet the liquidity requirements of our parent company, Group Inc., and all of its subsidiaries. The remainder is primarily held to better match the currency and timing requirements for potential liquidity obligations of our principal non-U.S. operating entities.

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, which are located in the United States, Europe and Asia, 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.

We maintain Global Core Excess and other unencumbered assets in an amount that, if pledged or sold, would provide the funds necessary to replace at least 110% of our unsecured obligations that are scheduled to mature (or where holders have the option to redeem) within the next 12 months. We assume conservative loan values that are based on stress-scenario borrowing capacity and we regularly review these assumptions asset class by asset class.

Asset-Liability Management

We seek to maintain a highly liquid balance sheet and substantially all of our inventory is marked-to-market daily. We utilize aged inventory limits for certain financial instruments as a disincentive to our businesses to hold inventory over longer periods of time. We believe that these limits provide a complementary mechanism for ensuring appropriate balance sheet liquidity in addition to our standard position limits. Although our balance sheet fluctuates due to seasonal activity, market conventions and periodic market opportunities in certain of our businesses, our total assets and adjusted assets at financial statement dates are not materially different from those occurring within our reporting periods.

We seek to manage the maturity profile of our 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. We do not rely on immediate sales of assets (other than our Global Core Excess) to maintain liquidity in a distressed environment, although we recognize orderly asset sales may be prudent and necessary in a persistent liquidity crisis.

In order to avoid reliance on asset sales, 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. The amount of our total capital is based on an internal liquidity model, which incorporates, among other things, the following long-term financing requirements:

- the portion of financial instruments owned that we believe could not be funded on a secured basis in periods of market stress, assuming conservative 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 is in excess of their long-term financing requirements. See "— Conservative Liability Structure" below for a further discussion of how we fund our subsidiaries.

Certain financial instruments may be more difficult to fund on a secured basis during times of market stress. Accordingly, we generally hold higher levels of total capital for these assets than more liquid types of financial instruments. The table below sets forth our aggregate holdings in these categories of financial instruments (excluding assets related to consolidated investment funds of $16.29 billion and $6.03 billion as of May 2007 and November 2006, respectively, for which Goldman Sachs is not at risk):

	As of	
	May 2007	November 2006
	(in millions)	
Mortgage whole loans and asset-backed securities [(1)]	$39,865	$41,017
Bank loans [(2)]	31,435	26,576
High-yield securities	10,775	9,403
Emerging market debt securities	3,258	2,291
SMFG convertible preferred stock	4,528	4,505
ICBC ordinary shares [(3)]	5,643	5,194
Other corporate principal investments	5,859	3,675
Other private equity and restricted public equity securities	5,834	3,736
Real estate principal investments	1,289	588

(1) Includes certain mortgage-backed interests held in QSPEs. 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 securitization activities.

(2) Includes funded commitments and inventory held in connection with our origination and secondary trading activities.

(3) Includes interests of $3.57 billion and $3.28 billion as of May 2007 and November 2006, respectively, held by investment funds managed by Goldman Sachs.

A large portion of these assets are funded through secured funding markets or nonrecourse financing. We focus on demonstrating a consistent ability to fund these assets on a secured basis for extended periods of time to reduce refinancing risk and to help ensure that they have an established amount of loan value in order that they can be funded in periods of market stress.

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.

Conservative Liability Structure

We seek to structure our liabilities conservatively to reduce refinancing risk and the risk that we may redeem or repurchase certain of our borrowings prior to their contractual maturity. Our conservative liability structure reflects the following policies:

- We fund a substantial portion of our inventory on a secured basis. We believe secured financing provides Goldman Sachs with a more stable source of liquidity than unsecured financing, as it is less sensitive to changes in our credit due to underlying collateral.
- Our liquidity depends to an important degree on the stability of our short-term unsecured financing base. Accordingly, we prefer the use of promissory notes (in which Goldman Sachs does 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 May 2007 and November 2006, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, was $60.74 billion and $47.90 billion, respectively. See Note 4 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.
- We recognize that secured funding transactions have greater refinancing risk when the underlying collateral is more difficult to fund. Consequently, we seek longer maturities for

secured funding transactions collateralized by these assets. In some cases, we use extendible maturity features to obtain a rolling minimum term to the funding.

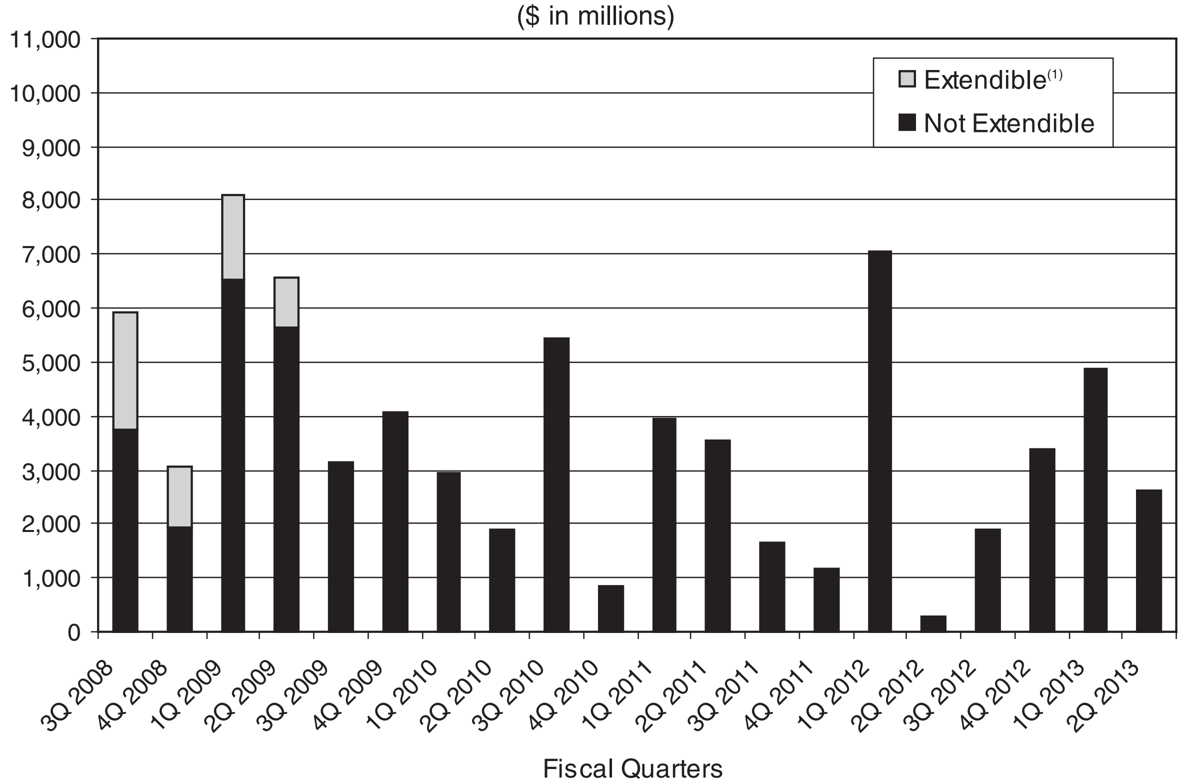
- We issue substantially all of our unsecured debt without provisions that would, based solely upon an adverse change in our credit ratings, financial ratios, earnings, cash flows or stock price, trigger a requirement for an early payment, collateral support, change in terms, acceleration of maturity or the creation of an additional financial obligation.

We seek to maintain broad and diversified funding sources globally for both secured and unsecured funding. We make extensive use of the repurchase agreement and securities lending markets, as well as other secured funding markets. In addition, we issue debt through syndicated U.S. registered offerings, U.S. registered and 144A medium-term note programs, offshore medium-term note offerings and other bond offerings, U.S. and non-U.S. commercial paper and promissory note issuances, and other methods. We also arrange for letters of credit to be issued on our behalf.

We benefit from distributing our debt issuances through our own sales force to a large, diverse global creditor base and we believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies and mutual funds. We access funding in a variety of markets in the United States, Europe and Asia. We have imposed various internal guidelines on investor concentration, including the amount of our commercial paper that can be owned and letters of credit that can be issued by any single investor or group of investors.

To mitigate refinancing risk, we have created internal guidelines on the principal amount of debt maturing on any one day or during any week or year. The following table sets forth our quarterly unsecured long-term borrowings maturity profile through the second quarter of 2013:

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



(1) Our unsecured long-term borrowings include extendible debt if the earliest maturity is one year or greater from our financial statement date. Extendible debt is categorized in the maturity profile at the earliest possible maturity even though the debt can be, and in the past generally has been, extended.

The weighted average maturity of our unsecured long-term borrowings as of May 2007 was approximately eight years. We swap a substantial portion of our long-term borrowings into U.S. dollar obligations with short-term floating interest rates in order to minimize our exposure to interest rates and foreign exchange movements.

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

Subsidiary Funding Policies. Substantially all of our unsecured funding is raised by our parent company, Group Inc. The parent company then lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing and capital requirements. In addition, the parent company 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.

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 limit 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 our parent company or other subsidiaries. In addition, we assume that the Global Core Excess held in our principal non-U.S. operating entities will not be available to our parent company or other subsidiaries and therefore is available only to meet the potential liquidity requirements of those entities.

We also manage our liquidity risk by requiring senior and subordinated intercompany loans to have maturities equal to or shorter than the maturities of the aggregate borrowings of the parent company. This policy ensures that the subsidiaries' obligations to the parent company will generally mature in advance of the parent company's third-party borrowings. In addition, many of our subsidiaries and affiliates pledge collateral to the parent company to cover their intercompany borrowings (other than subordinated debt) in order to mitigate parent company liquidity risk.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries; for example, as of May 2007, Group Inc. had $20.17 billion of such equity and subordinated indebtedness invested in Goldman, Sachs & Co., its principal U.S. registered broker-dealer; $22.56 billion invested in Goldman Sachs International, a regulated U.K. broker-dealer; $2.27 billion invested in Goldman Sachs Execution & Clearing, L.P., a U.S. registered broker-dealer; and $2.62 billion invested in Goldman Sachs Japan Co., Ltd., a regulated Japanese broker-dealer. Group Inc. also had $59.13 billion of unsubordinated loans to these entities as of May 2007, as well as significant amounts of capital invested in and loans to its other regulated subsidiaries.

Crisis Planning

In order to be prepared for a liquidity event, or a period of market stress, we base our liquidity risk management framework and our resulting funding and liquidity policies on conservative stress-scenario assumptions. Our planning incorporates several market-based and operational stress scenarios. We also periodically conduct liquidity crisis drills to test our lines of communication and backup funding procedures.

In addition, we maintain a liquidity crisis plan that specifies an approach for analyzing and responding to a liquidity-threatening event. The plan provides the framework to estimate the likely impact of a liquidity event on Goldman Sachs based on some of the risks identified above and outlines which and to what extent liquidity maintenance activities should be implemented based on the severity of the event. It also lists the crisis management team and internal and external parties to be contacted to ensure effective distribution of information.

Credit Ratings

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. 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. See "— Risk Factors" in Part I, Item 1A of the Annual Report on Form 10-K for a discussion of the risks associated with a reduction in our credit ratings.

The following table sets forth our unsecured credit ratings as of May 2007:

	Short-Term Debt	Long-Term Debt	Subordinated Debt	Preferred Stock
Dominion Bond Rating Service Limited	R-1 (middle)	AA (low)	A (high)	A
Fitch, Inc.	F1+	AA−	A+	A+
Moody's Investors Service	P-1	Aa3	A1	A2
Standard & Poor's	A-1+	AA−	A+	A
Rating and Investment Information, Inc.	a-1+	AA	Not Applicable	Not Applicable

As of May 2007, collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately $598 million would have been required in the event of a one-notch reduction in our long-term credit ratings. In evaluating our liquidity requirements, we consider additional collateral or termination payments that would be required in the event of a two-notch downgrade in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them.

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 business.

Six Months Ended May 2007. Our cash and cash equivalents increased by $1.72 billion to $8.01 billion at the end of the second quarter of 2007. We raised $48.27 billion in net cash from financing activities, primarily in unsecured borrowings, partially offset by common stock repurchases. We used net cash of $46.55 billion in our operating and investing activities, primarily to capitalize on trading and investing opportunities for our clients and ourselves.

Six Months Ended May 2006. Our cash and cash equivalents decreased by $2.54 billion to $7.72 billion at the end of the second quarter of 2006. We raised $32.14 billion in net cash from financing activities, primarily in unsecured long-term borrowings, in light of the favorable debt financing environment, partially offset by common stock repurchases. We used net cash of $34.68 billion in our operating and investing activities, primarily to capitalize on trading and investing opportunities for our clients and ourselves.

Recent Accounting Developments

FIN No. 48. In June 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109." FIN No. 48 requires that we determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. We expect to adopt the provisions of FIN No. 48 beginning in the first quarter of 2008. We do not expect that the adoption of FIN No. 48 will have a material effect on our financial condition, results of operations or cash flows.

SFAS No. 157. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs.

SFAS No. 157 nullifies the guidance included in Emerging Issues Task Force (EITF) Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," that prohibited the recognition of a day one gain or loss on derivative contracts (and hybrid financial instruments measured at fair value under SFAS No. 155) where we were unable to verify all of the significant model inputs to observable market data and/or verify the model to market transactions. However, SFAS No. 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model.

In addition, SFAS No. 157 prohibits the recognition of "block discounts" for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available for an identical asset or liability in an active market.

The provisions of SFAS No. 157 are to be applied prospectively, except changes in fair value measurements that result from the initial application of SFAS No. 157 to existing derivative financial instruments measured under EITF Issue No. 02-3, existing hybrid financial instruments measured at fair value and block discounts, all of which are to be recorded as an adjustment to beginning retained earnings in the year of adoption.

We adopted SFAS No. 157 as of the beginning of 2007. The transition adjustment to beginning retained earnings was a gain of $51 million, net of tax. For the first quarter of 2007, the effect of the nullification of EITF Issue No. 02-3 and the removal of liquidity discounts for actively traded positions was not material. In addition, under SFAS No. 157, gains on principal investments are recorded in the absence of substantial third-party transactions if market evidence is sufficient. In the first quarter of 2007, we recorded approximately $500 million of such gains as a result of adopting SFAS No. 157.

SFAS No. 158. In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132-R." SFAS No. 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS No. 158 also requires an entity to recognize changes in the funded status of a defined benefit pension and postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006. We will adopt SFAS No. 158 as of the end of 2007. We do not expect that the adoption of SFAS No. 158 will have a material effect on our financial condition, results of operations or cash flows.

SFAS No. 159. On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not accounted for at fair value under other accounting standards. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

We adopted SFAS No. 159 as of the beginning of 2007 and elected to apply the fair value option to the following financial assets and liabilities existing at the time of adoption:

- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper;
- certain other secured financings, primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through our William Street program;
- certain unsecured long-term borrowings, including prepaid physical commodity transactions;
- resale and repurchase agreements;
- securities borrowed and loaned within Trading and Principal Investments;
- securities held by our bank subsidiary (previously accounted for as available-for-sale); and
- receivables from customers and counterparties arising from transfers accounted for as secured loans rather than purchases under SFAS No. 140.

The primary reasons for electing the fair value option are mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations. The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of $45 million, net of tax, substantially all of which related to applying the fair value option to prepaid physical commodity transactions.

Subsequent to the adoption of SFAS No. 159, we have elected to apply the fair value option to new positions within the above categories and generally to investments where we would otherwise apply the equity method of accounting. In certain cases, we may continue to apply the equity method of accounting to those investments which 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, and/or where cost-benefit considerations are less significant.

SOP No. 07-1 and FIN No. 46-R-7. In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 07-1, "Clarification of the Scope of the Audit and Accounting Guide 'Audits of Investment Companies' and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies." SOP No. 07-1 clarifies when an entity may apply the provisions of the Audit and Accounting Guide for Investment Companies (the Guide). Investment companies that are within the scope of the Guide report investments at fair value; consolidation or use of the equity method for investments is generally not appropriate. SOP No. 07-1 also addresses the retention of specialized investment company accounting by a parent company in consolidation or by an equity method investor. SOP No. 07-1 is effective for fiscal years beginning on or after December 15, 2007 with early adoption encouraged. In May 2007, the FASB issued FSP FIN No. 46-R-7, "Application of FIN 46-R to Investment Companies," which amends FIN No. 46-R to make permanent the temporary deferral of the application of FIN No. 46-R to entities within the scope of the revised Guide under SOP No. 07-1. FSP FIN No. 46-R-7 is effective upon adoption of SOP No. 07-1. We are evaluating the impact of adopting SOP No. 07-1 and FSP FIN No. 46-R-7 on our financial condition, results of operations and cash flows.

EITF Issue No. 06-11. In June 2007, the EITF reached consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF Issue No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. We currently account for this tax benefit as a reduction to income tax expense. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007, and we expect to adopt the provisions of EITF Issue No. 06-11 beginning in the first quarter of 2009. We are currently evaluating the impact of adopting EITF Issue No. 06-11 on our financial condition, results of operations and cash flows.

Cautionary Statement Pursuant to the 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 Private Securities Litigation Reform Act of 1995. These 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 the Annual Report on Form 10-K for the fiscal year ended November 24, 2006 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the firm's Annual Report on Form 10-K for the fiscal year ended November 24, 2006.

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 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 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 the Annual Report on Form 10-K for the fiscal year ended November 24, 2006.

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). 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 Securities Exchange Act of 1934) occurred during our most recent fiscal 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

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 November 24, 2006, as updated by our Quarterly Report on Form 10-Q for the quarter ended February 23, 2007.

IPO Process Matters

By orders dated, April 6 and May 18, 2007, the U.S. Court of Appeals for the Second Circuit denied plaintiffs' petition for rehearing and rehearing *en banc* in the appeal challenging class certification of certain lawsuits alleging, among other things, that prospectuses for certain offerings violated the federal securities laws by failing to disclose the existence of alleged arrangements to "tie" allocations to higher customer brokerage commission rates as well as purchase orders in the aftermarket and that the alleged arrangements resulted in market manipulation. On June 22, 2007, plaintiffs and the issuer defendants informed the district court that they had entered into a stipulation terminating their proposed settlement.

In the lawsuit alleging an antitrust conspiracy to "tie" allocations in certain offerings to higher customer brokerage commission rates as well as purchase orders in the aftermarket, by a decision dated June 18, 2007, the U.S. Supreme Court reversed the ruling of the U.S. Court of Appeals for the Second Circuit and held that the antitrust claims were impliedly preempted.

World Online Litigation

By a decision dated May 3, 2007, the Netherlands Court of Appeals affirmed in part and reversed in part the decision of the district court dismissing the complaint, holding that certain of the alleged disclosure deficiencies were actionable.

Owens Corning Bondholder Litigation

On April 10, 2007, the district court preliminarily approved the proposed settlement and set a final hearing on the settlement for August 9, 2007.

Specialist Matters

Spear, Leeds & Kellogg Specialists LLC and The Goldman Sachs Group, Inc. are among numerous defendants named in a purported class action brought in June 2007 on behalf of investors in the U.S. District Court for the Southern District of New York alleging violations of the federal antitrust and securities laws, as well as common law, in connection with execution of transactions through the New York Stock Exchange's SuperDot system. The complaint seeks, among other things, unspecified treble damages.

Mutual Fund Matters

In the putative consolidated class and derivative actions brought by purported shareholders of certain Goldman Sachs mutual funds, plaintiffs' appeal from the dismissal was deemed withdrawn as of March 30, 2007.

Fannie Mae Litigation

By a decision dated May 8, 2007, the district court granted Goldman, Sachs & Co.'s motion to dismiss.

The Goldman Sachs Group, Inc. was named as a defendant in a purported derivative action commenced on June 29, 2007 in the U.S. District Court for the District of Columbia by a Fannie Mae shareholder on behalf of Fannie Mae. The complaint's claims against The Goldman Sachs Group, Inc., which are substantively identical to the claims raised in the previous derivative action which had been voluntarily dismissed subject to a tolling agreement, generally allege that the firm's conduct in connection with the REMIC transactions constituted aiding and abetting a breach of fiduciary duty by certain Fannie Mae officers and directors as well as a breach of contract. The complaint also names as defendants certain former officers and directors of Fannie Mae as well as an outside accounting firm. The complaint seeks, inter alia, unspecified damages.

General American Litigation

On May 14, 2007, The Goldman Sachs Group, Inc. and Goldman, Sachs & Co., moved (i) to dismiss the complaint, and (ii) to drop them as parties from the pre-existing action.

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 The Goldman Sachs Group, Inc. or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the three months ended May 25, 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
Month #1 (February 24, 2007 to March 30, 2007) (1)	3,887,400	$205.13	3,887,400	35,711,556
Month #2 (March 31, 2007 to April 27, 2007)	1,048,400	$213.37	1,048,400	34,663,156
Month #3 (April 28, 2007 to May 25, 2007) (1)	508,257	$223.25	508,257	34,154,899
Total (1)	5,444,057		5,444,057	

(1) Goldman Sachs generally does not repurchase shares of its common stock as part of the repurchase program during self-imposed "black-out" periods, which run from the last two weeks of a fiscal quarter through the date of the earnings release for such quarter.

(2) On March 21, 2000, we announced that our Board of Directors had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 220 million shares by resolutions of our Board of Directors adopted on June 18, 2001, March 18, 2002, November 20, 2002, January 30, 2004, January 25, 2005, September 16, 2005 and September 11, 2006. The repurchase program is intended to maintain our total shareholders' equity at appropriate levels and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program has been effected primarily through regular open-market purchases and is influenced by, among other factors, the level of our common shareholders' equity, our overall capital position, share-based awards and exercises of employee stock options, the prevailing market price of our common stock and general market conditions. The total remaining authorization under the repurchase program was 31,776,199 shares as of June 22, 2007; the repurchase program has no set expiration or termination date.

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

On March 27, 2007, Group Inc. held its Annual Meeting of Shareholders at which the shareholders voted upon (i) the election of Lloyd C. Blankfein, Lord Browne of Madingley, John H. Bryan, Gary D. Cohn, Claes Dahlbäck, Stephen Friedman, William W. George, Rajat K. Gupta, James A. Johnson, Lois D. Juliber, Edward M. Liddy, Ruth J. Simmons and Jon Winkelried to the Board of Directors for one-year terms, (ii) the ratification of the appointment of PricewaterhouseCoopers LLP as Group Inc.'s independent auditors for the 2007 fiscal year, (iii) a shareholder proposal that Group Inc. prepare a charitable contributions report, (iv) a shareholder proposal that the Board of Directors prepare a sustainability report and (v) a shareholder proposal that Group Inc. no longer grant stock options to employees. The Annual Meeting was reconvened on April 11, 2007 to conclude the voting on the shareholder proposal regarding stock options.

The shareholders elected all thirteen directors and approved the ratification of the appointment of PricewaterhouseCoopers LLP as Group Inc.'s independent auditors for the 2007 fiscal year. The shareholder proposals did not receive the approval of a majority of the outstanding shares of our common stock; as a result, in accordance with our By-Laws, these shareholder proposals were not approved. The number of votes cast for or against and the number of abstentions and broker non-votes with respect to each matter voted upon, as applicable, is set forth below.

	For	Against	Abstain	Broker Non-Votes
Election of Directors:				
Lloyd C. Blankfein	363,083,662	6,072,884	2,986,482	*
Lord Browne of Madingley (1)	361,221,607	8,060,872	2,860,549	*
John H. Bryan	363,361,963	8,386,711	394,354	*
Gary D. Cohn	367,043,339	2,322,355	2,777,334	*
Claes Dahlbäck	358,313,891	10,977,252	2,851,885	*
Stephen Friedman	346,586,995	22,247,836	3,308,197	*
William W. George	361,958,251	7,362,328	2,822,449	*
Rajat K. Gupta	361,107,503	8,216,807	2,818,718	*
James A. Johnson	359,144,781	10,128,205	2,870,042	*
Lois D. Juliber	361,982,736	7,345,140	2,815,152	*
Edward M. Liddy	361,953,460	7,357,144	2,832,424	*
Ruth J. Simmons	361,944,547	7,389,771	2,808,710	*
Jon Winkelried	366,629,095	2,701,449	2,812,484	*
Ratification of the Appointment of Independent Auditors	364,082,723	4,625,892	3,434,413	*
Shareholder Proposal Regarding a Charitable Contributions Report	18,622,600	239,548,036	39,957,214	74,015,178
Shareholder Proposal Regarding a Sustainability Report	20,289,915	244,416,078	33,421,857	74,015,178
Shareholder Proposal Regarding Stock Options	4,728,074	252,658,305	3,573,763	116,275,829

(1) As disclosed in Group Inc.'s Current Report on Form 8-K filed on May 10, 2007, Lord Browne of Madingley resigned from Group Inc.'s Board of Directors on May 9, 2007.

* Not applicable

Item 6: Exhibits

Exhibits:

3.1 Restated Certificate of Incorporation of The Goldman Sachs Group, Inc.

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.

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: July 3, 2007

Exhibit 3.1

**RESTATED
CERTIFICATE OF INCORPORATION
OF
THE GOLDMAN SACHS GROUP, INC.**

THE GOLDMAN SACHS GROUP, INC., a corporation organized and existing under the Delaware General Corporation Law (the "Corporation"), DOES HEREBY CERTIFY:

1. The name of the Corporation is The Goldman Sachs Group, Inc. The date of filing of its original certificate of incorporation with the Secretary of State of the State of Delaware was July 21, 1998.

2. This Restated Certificate of Incorporation restates and integrates and does not further amend the provisions of the certificate of incorporation of the Corporation as heretofore amended or supplemented. There is no discrepancy between the provisions of this Restated Certificate of Incorporation and the provisions of the certificate of incorporation of the Corporation as heretofore amended or supplemented. This Restated Certificate of Incorporation has been duly adopted in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware. The text of the certificate of incorporation is hereby restated to read herein as set forth in full:

FIRST. The name of the Corporation is The Goldman Sachs Group, Inc.

SECOND. The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

THIRD. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law. Without limiting the generality of the foregoing, the Corporation shall have all of the powers conferred on corporations by the Delaware General Corporation Law and other law, including the power and authority to make an initial charitable contribution (as defined in Section 170(c) of the Internal Revenue Code of 1986, as currently in effect or as the same may hereafter be amended) of up to an aggregate of $200,000,000 to one or more entities (the "Contribution"), and to make other charitable contributions from time to time thereafter, in such amounts, on such terms and conditions and for such purposes as may be lawful.

FOURTH. The total number of shares of all classes of stock which the Corporation shall have authority to issue is 4,350,000,000, of which 4,000,000,000 shares of the par value of $0.01 per share shall be a separate class designated as Common Stock, 200,000,000 shares of the par value of $0.01 per share shall be a separate class designated as Nonvoting Common Stock and 150,000,000 shares of the par value of $0.01 per share shall be a separate class designated as Preferred Stock.

COMMON STOCK AND NONVOTING COMMON STOCK

Except as set forth in this Article FOURTH, the Common Stock and the Nonvoting Common Stock (together, the "Common Shares") shall have the same rights and privileges and shall rank equally, share ratably and be identical in all respects as to all matters.

(i) Voting. Except as may be provided in this Restated Certificate of Incorporation or required by law, the Common Stock shall have voting rights in the election of directors and on all other matters presented to stockholders, with each holder of Common Stock being entitled to one vote for each share of Common Stock held of record by such holder on such matters. The Nonvoting Common Stock shall have no voting rights other than such rights as may be required by the first sentence of Section 242(b)(2) of the Delaware General Corporation Law or any similar provision hereafter enacted; provided that an amendment of this Restated Certificate of Incorporation to increase or decrease the number of authorized shares of Nonvoting Common Stock (but not below the number of shares thereof then outstanding) may be adopted by resolution adopted by the board of directors of the Corporation and approved by the affirmative vote of the holders of a majority of the voting power of all outstanding shares of Common Stock of the Corporation and all other outstanding shares of stock of the Corporation entitled to vote thereon irrespective of the provisions of Section 242(b)(2) of the Delaware General Corporation Law or any similar provision hereafter enacted, with such outstanding shares of Common Stock and other stock considered for this purpose as a single class, and no vote of the holders of any shares of Nonvoting Common Stock, voting separately as a class, shall be required therefor.

(ii) Dividends. Subject to the rights of the holders of any series of Preferred Stock, holders of Common Stock and holders of Nonvoting Common Stock shall be entitled to receive such dividends and distributions (whether payable in cash or otherwise) as may be declared on the Common Shares by the board of directors of the Corporation from time to time out of assets or funds of the Corporation legally available therefor; *provided* that the board of directors of the Corporation shall declare no dividend, and no dividend shall be paid, with respect to any outstanding share of Common Stock or Nonvoting Common Stock, whether in cash or otherwise (including any dividend in shares of Common Stock on or with respect to shares of Common Stock or any dividend in shares of Nonvoting Common Stock on or with respect to shares of Nonvoting Common Stock (collectively, "Stock Dividends")), unless, simultaneously, the same dividend is declared or paid with respect to each share of Common Stock and Nonvoting Common Stock. If a Stock Dividend is declared or paid with respect to one class, then a Stock Dividend shall likewise be declared or paid with respect to the other class and shall consist of shares of such other class in a number that bears the same relationship to the total number of shares of such other class, issued and outstanding immediately prior to the payment of such dividend, as the number of shares comprising the Stock Dividend with respect to the first referenced class bears to the total number of shares of such first referenced class, issued and outstanding immediately prior to the payment of such dividend. Stock Dividends with respect to Common Stock may be paid only with shares of Common Stock. Stock Dividends with respect to Nonvoting Common Stock may be paid only with shares of Nonvoting Common Stock. Notwithstanding the foregoing, in the case of any dividend in the form of capital stock of a subsidiary of the Corporation, the capital stock of the subsidiary distributed to holders of Common Stock shall be identical to the capital stock of the subsidiary distributed to holders of Nonvoting Common Stock, except that the capital stock distributed to holders of Common Stock may have full or any other voting rights and the capital stock distributed to holders of Nonvoting Common Stock shall be non-voting to the same extent as the Nonvoting Common Stock is non-voting.

(iii) Subdivisions, Combinations and Mergers. If the Corporation shall in any manner split, subdivide or combine the outstanding shares of Common Stock or the outstanding shares of Nonvoting Common Stock, the outstanding shares of the other such class of the Common Shares shall likewise be split, subdivided or combined in the same manner proportionately and on the same basis per share. In the event of any merger, statutory share exchange, consolidation or similar form of corporate transaction involving the Corporation (whether or not the Corporation is the surviving entity), the holders of Common Stock and the holders of Nonvoting Common Stock shall be entitled to receive the same per share consideration, if any, except that any securities received by holders of Common Stock in consideration of such stock may have full or any other voting rights and any securities received by holders of Nonvoting Common Stock in consideration of such stock shall be non-voting to the same extent as the Nonvoting Common Stock is non-voting.

(iv) Rights on Liquidation. Subject to the rights of the holders of any series of Preferred Stock, in the event of any liquidation, dissolution or winding-up of the Corporation (whether voluntary or involuntary), the assets of the Corporation available for distribution to stockholders shall be distributed in equal amounts per share to the holders of Common Stock and the holders of Nonvoting Common Stock, as if such classes constituted a single class. For purposes of this paragraph, a merger, statutory share exchange, consolidation or similar corporate transaction involving the Corporation (whether or not the Corporation is the surviving entity), or the sale, transfer or lease by the Corporation of all or substantially all its assets, shall not constitute or be deemed a liquidation, dissolution or winding-up of the Corporation.

PREFERRED STOCK

Shares of Preferred Stock may be issued in one or more series from time to time as determined by the board of directors of the Corporation, and the board of directors of the Corporation is authorized to fix by resolution or resolutions the designations and the powers, preferences and rights, and the qualifications, limitations and restrictions thereof, of the shares of each series of Preferred Stock, including the following:

(i) the distinctive serial designation of such series which shall distinguish it from other series;

(ii) the number of shares included in such series;

(iii) whether dividends shall be payable to the holders of the shares of such series and, if so, the basis on which such holders shall be entitled to receive dividends (which may include, without limitation, a right to receive such dividends or distributions as may be declared on the shares of such series by the board of directors of the Corporation, a right to receive such dividends or distributions, or any portion or multiple thereof, as may be declared on the Common Stock or any other class of stock or, in addition to or in lieu of any other right to receive dividends, a right to receive dividends at a particular rate or at a rate determined by a particular method, in which case such rate or method of determining such rate may be set forth), the form of such dividend, any conditions on which such dividends shall be payable and the date or dates, if any, on which such dividends shall be payable;

(iv) whether dividends on the shares of such series shall be cumulative and, if so, the date or dates or method of determining the date or dates from which dividends on the shares of such series shall be cumulative;

(v) the amount or amounts, if any, which shall be payable out of the assets of the Corporation to the holders of the shares of such series upon the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, and the relative rights of priority, if any, of payment of the shares of such series;

(vi) the price or prices (in cash, securities or other property or a combination thereof) at which, the period or periods within which and the terms and conditions upon which the shares of such series may be redeemed, in whole or in part, at the option of the Corporation or at the option of the holder or holders thereof or upon the happening of a specified event or events;

(vii) the obligation, if any, of the Corporation to purchase or redeem shares of such series pursuant to a sinking fund or otherwise and the price or prices (in cash, securities or other property or a combination thereof) at which, the period or periods within which and the terms and conditions upon which the shares of such series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(viii) whether or not the shares of such series shall be convertible or exchangeable, at any time or times at the option of the holder or holders thereof or at the option of the Corporation or upon the happening of a specified event or events, into shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or any other securities or property of the Corporation or any other entity, and the price or prices (in cash, securities or other property or a combination thereof) or rate or rates of conversion or exchange and any adjustments applicable thereto; and

(ix) whether or not the holders of the shares of such series shall have voting rights, in addition to the voting rights provided by law, and if so the terms of such voting rights, which may provide, among other things and subject to the other provisions of this Restated Certificate of Incorporation, that each share of such series shall carry one vote or more or less than one vote per share, that the holders of such series shall be entitled to vote on certain matters as a separate class (which for such purpose may be comprised solely of such series or of such series and one or more other series or classes of stock of the Corporation) and that all the shares of such series entitled to vote on a particular matter shall be deemed to be voted on such matter in the manner that a specified portion of the voting power of the shares of such series or separate class are voted on such matter.

For all purposes, this Restated Certificate of Incorporation shall include each certificate of designations (if any) setting forth the terms of a series of Preferred Stock.

Subject to the rights, if any, of the holders of any series of Preferred Stock set forth in a certificate of designations, an amendment of this Restated Certificate of Incorporation to increase or decrease the number of authorized shares of any series of Preferred Stock (but not below the number of shares thereof then outstanding) may be adopted by resolution adopted by the board of directors of the Corporation and approved by the affirmative vote of the holders of a majority of the voting power of all outstanding shares of Common Stock of the Corporation and all other outstanding shares of stock of the Corporation entitled to vote thereon irrespective of the provisions of Section 242 (b)(2) of the Delaware General Corporation Law or any similar provision hereafter enacted, with such outstanding shares of Common Stock and other stock considered for this purpose as a single class, and no vote of the holders of any series of Preferred Stock, voting as a separate class, shall be required therefor.

Except as otherwise required by law or provided in the certificate of designations for the relevant series, holders of Common Shares, as such, shall not be entitled to vote on any amendment of this Restated Certificate of Incorporation that alters or changes the powers, preferences, rights or other terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other series of Preferred Stock, to vote thereon as a separate class pursuant to this Restated Certificate of Incorporation or pursuant to the Delaware General Corporation Law as then in effect.

Pursuant to the authority conferred by this Article FOURTH upon the board of directors of the Corporation and authority delegated by the board of directors to the Securities Issuance Committee of the board of directors of the Corporation (the "Securities Issuance Committee"), the Securities Issuance Committee created a series of shares of Preferred Stock designated as Floating Rate Non-Cumulative Preferred Stock, Series A, by filing a certificate of designations of the Corporation with the Secretary of State of the State of Delaware on April 22, 2005, and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Corporation's Floating Rate Non-Cumulative Preferred Stock, Series A, are set forth in Appendix A hereto and are incorporated herein by reference.

Pursuant to the authority conferred by this Article FOURTH upon the board of directors of the Corporation and authority delegated by the board of directors to the Securities Issuance Committee, the Securities Issuance Committee created a series of shares of Preferred Stock designated as 6.20% Non-Cumulative Preferred Stock, Series B, by filing a certificate of designations of the Corporation with the Secretary of State of the State of Delaware on October 28, 2005, and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Corporation's 6.20% Non-Cumulative Preferred Stock, Series B, are set forth in Appendix B hereto and are incorporated herein by reference.

Pursuant to the authority conferred by this Article FOURTH upon the board of directors of the Corporation and authority delegated by the board of directors to the Securities Issuance Committee, the Securities Issuance Committee created a series of shares of Preferred Stock designated as Floating Rate Non-Cumulative Preferred Stock, Series C, by filing a certificate of designations of the Corporation with the Secretary of State of the State of Delaware on October 28, 2005, and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Corporation's Floating Rate Non-Cumulative Preferred Stock, Series C, are set forth in Appendix C hereto and are incorporated herein by reference.

Pursuant to the authority conferred by this Article FOURTH upon the board of directors of the Corporation and authority delegated by the board of directors to the Securities Issuance Committee, the Securities Issuance Committee created a series of shares of Preferred Stock designated as Floating Rate Non-Cumulative Preferred Stock, Series D, by filing a certificate of designations of the Corporation with the Secretary of State of the State of Delaware on May 23, 2006, and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Corporation's Floating Rate Non-Cumulative Preferred Stock, Series D, are set forth in Appendix D hereto and are incorporated herein by reference.

Pursuant to the authority conferred by this Article FOURTH upon the board of directors of the Corporation and authority delegated by the board of directors to the

Securities Issuance Committee, the Securities Issuance Committee created a series of shares of Preferred Stock designated as Perpetual Non-Cumulative Preferred Stock, Series E, by filing a certificate of designations of the Corporation with the Secretary of State of the State of Delaware on May 14, 2007, and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Corporation's Perpetual Non-Cumulative Preferred Stock, Series E, are set forth in Appendix E hereto and are incorporated herein by reference.

Pursuant to the authority conferred by this Article FOURTH upon the board of directors of the Corporation and authority delegated by the board of directors to the Securities Issuance Committee, the Securities Issuance Committee created a series of shares of Preferred Stock designated as Perpetual Non-Cumulative Preferred Stock, Series F, by filing a certificate of designations of the Corporation with the Secretary of State of the State of Delaware on May 14, 2007, and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the Corporation's Perpetual Non-Cumulative Preferred Stock, Series F, are set forth in Appendix F hereto and are incorporated herein by reference.

OPTIONS, WARRANTS AND OTHER RIGHTS

The board of directors of the Corporation is authorized to create and issue options, warrants and other rights from time to time entitling the holders thereof to purchase securities or other property of the Corporation or any other entity, including any class or series of stock of the Corporation or any other entity and whether or not in connection with the issuance or sale of any securities or other property of the Corporation, for such consideration (if any), at such times and upon such other terms and conditions as may be determined or authorized by the board of directors of the Corporation and set forth in one or more agreements or instruments. Among other things and without limitation, such terms and conditions may provide for the following:

(i) adjusting the number or exercise price of such options, warrants or other rights or the amount or nature of the securities or other property receivable upon exercise thereof in the event of a subdivision or combination of any securities, or a recapitalization, of the Corporation, the acquisition by any person of beneficial ownership of securities representing more than a designated percentage of the voting power of any outstanding series, class or classes of securities, a change in ownership of the Corporation's securities or a merger, statutory share exchange, consolidation, reorganization, sale of assets or other occurrence relating to the Corporation or any of its securities, and restricting the ability of the Corporation to enter into an agreement with respect to any such transaction absent an assumption by another party or parties thereto of the obligations of the Corporation under such options, warrants or other rights;

(ii) restricting, precluding or limiting the exercise, transfer or receipt of such options, warrants or other rights by any person that becomes the beneficial owner of a designated percentage of the voting power of any outstanding series, class or classes of securities of the Corporation or any direct or indirect transferee of such a person, or invalidating or voiding such options, warrants or other rights held by any such person or transferee; and

(iii) permitting the board of directors (or certain directors specified or qualified by the terms of the governing instruments of such options, warrants or other rights) to redeem, terminate or exchange such options, warrants or other rights.

This paragraph shall not be construed in any way to limit the power of the board of directors of the Corporation to create and issue options, warrants or other rights.

FIFTH. The name and mailing address of the incorporator is Gregory K. Palm, 85 Broad Street, New York, New York 10004.

SIXTH. All corporate powers shall be exercised by the board of directors of the Corporation, except as otherwise specifically required by law or as otherwise provided in this Restated Certificate of Incorporation. Any meeting of stockholders may be postponed by action of the board of directors at any time in advance of such meeting. The board of directors of the Corporation shall have the power to adopt such rules and regulations for the conduct of the meetings and management of the affairs of the Corporation as they may deem proper and the power to adjourn any meeting of stockholders without a vote of the stockholders, which powers may be delegated by the board of directors to the chairman of such meeting either in such rules and regulations or pursuant to the by-laws of the Corporation.

Special meetings of stockholders of the Corporation may be called at any time by, but only by, the board of directors of the Corporation, to be held at such date, time and place either within or without the State of Delaware as may be stated in the notice of the meeting.

The board of directors of the Corporation is authorized to adopt, amend or repeal by-laws of the Corporation. No adoption, amendment or repeal of a by-law by action of stockholders shall be effective unless approved by the affirmative vote of the holders of not less than 80% of the voting power of all outstanding shares of Common Stock of the Corporation and all other outstanding shares of stock of the Corporation entitled to vote on such matter, with such outstanding shares of Common Stock and other stock considered for this purpose as a single class. Any vote of stockholders required by this Article SIXTH shall be in addition to any other vote of stockholders that may be required by law, this Restated Certificate of Incorporation, the by-laws of the Corporation, any agreement with a national securities exchange or otherwise.

SEVENTH. Elections of directors need not be by written ballot except and to the extent provided in the by-laws of the Corporation.

EIGHTH. The number of directors of the Corporation shall be fixed only by resolution of the board of directors of the Corporation from time to time. Each director who is serving as a director on the date of this Restated Certificate of Incorporation shall hold office until the next annual meeting of stockholders after such date and until his or her successor has been duly elected and qualified, notwithstanding that such director may have been elected for a term that extended beyond the date of such next annual meeting of stockholders. At each annual meeting of stockholders after the date of this Restated Certificate of Incorporation, directors elected at such annual meeting shall hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified.

Any director may be removed, with or without cause, with the affirmative vote of the holders of not less than 80% of the voting power of all outstanding shares of stock of the Corporation entitled to vote generally in the election of directors, considered for this purpose as a single class.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors or from any other cause (other than vacancies and newly created directorships which the holders of any class or classes of stock or series thereof are expressly entitled by this Restated Certificate of Incorporation to fill) shall be filled by, and only by, a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Any director appointed to fill a vacancy or a newly created directorship shall hold office until the next annual meeting of stockholders, and until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Notwithstanding the foregoing, in the event that the holders of any class or series of Preferred Stock of the Corporation shall be entitled, voting separately as a class, to elect any directors of the Corporation, then the number of directors that may be elected by such holders voting separately as a class shall be in addition to the number fixed pursuant to a resolution of the board of directors of the Corporation. Except as otherwise provided in the terms of such class or series, (i) the terms of the directors elected by such holders voting separately as a class shall expire at the annual meeting of stockholders next succeeding their election and (ii) any director or directors elected by such holders voting separately as a class may be removed, with or without cause, by the holders of a majority of the voting power of all outstanding shares of stock of the Corporation entitled to vote separately as a class in an election of such directors.

NINTH. In taking any action, including action that may involve or relate to a change or potential change in the control of the Corporation, a director of the Corporation may consider, among other things, both the long-term and short-term interests of the Corporation and its stockholders and the effects that the Corporation’s actions may have in the short term or long term upon any one or more of the following matters:

(i) the prospects for potential growth, development, productivity and profitability of the Corporation;

(ii) the Corporation’s current employees;

(iii) the retired former partners of The Goldman Sachs Group, L.P. (“GS Group”) and the Corporation’s employees and other beneficiaries receiving or entitled to receive retirement, welfare or similar benefits from or pursuant to any plan sponsored, or agreement entered into, by the Corporation;

(iv) the Corporation’s customers and creditors;

(v) the ability of the Corporation to provide, as a going concern, goods, services, employment opportunities and employment benefits and otherwise to contribute to the communities in which it does business; and

(vi) such other additional factors as a director may consider appropriate in such circumstances.

Nothing in this Article NINTH shall create any duty owed by any director of the Corporation to any person or entity to consider, or afford any particular weight to, any of the foregoing matters or to limit his or her consideration to the foregoing matters. No such employee, retired former partner of GS Group, former employee, beneficiary, customer, creditor or community or member thereof shall have any rights against any director of the Corporation or the Corporation under this Article NINTH.

TENTH. From and after the consummation of the initial public offering of the shares of Common Stock of the Corporation, no action of stockholders of the Corporation required or permitted to be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting of stockholders, without prior notice and without a vote, and the power of stockholders of the Corporation to consent in writing to the taking of any action without a meeting is specifically denied. Notwithstanding this Article TENTH, the holders of any series of Preferred Stock of the Corporation shall be entitled to take action by written consent to such extent, if any, as may be provided in the terms of such series.

ELEVENTH. No provision of Articles SIXTH, NINTH, TENTH or TWELFTH or of this Article ELEVENTH or of the second paragraph of Article EIGHTH shall be amended, modified or repealed, and no provision inconsistent with any such provision shall become part of this Restated Certificate of Incorporation, unless such matter is approved by the affirmative vote of the holders of not less than 80% of the voting power of all outstanding shares of Common Stock of the Corporation and all other outstanding shares of stock of the Corporation entitled to vote on such matter, with such outstanding shares of Common Stock and other stock considered for this purpose as a single class. Any vote of stockholders required by this Article ELEVENTH shall be in addition to any other vote of the stockholders that may be required by law, this Restated Certificate of Incorporation, the by-laws of the Corporation, any agreement with a national securities exchange or otherwise.

TWELFTH. A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director of the Corporation, except to the extent that such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as currently in effect or as the same may hereafter be amended.

Pursuant to the Plan of Incorporation of GS Group, dated as of March 8, 1999, as currently in effect or as the same may hereafter be amended (the “Plan”), the Corporation has the right, but not the obligation, to make special arrangements with any person who was a partner of GS Group participating in the Plan to ameliorate, in whole or in part, certain significantly disproportionate tax or other burdens. The board of directors of the Corporation is authorized to cause the Corporation to make such arrangements (which may include special payments) as the board of directors of the Corporation may, in its sole discretion, deem appropriate to effectuate the intent of the relevant provision of the Plan and the Corporation and each stockholder of the Corporation shall, to the fullest extent permitted by law, be deemed to have approved and ratified any such determination and to have waived any claim or objection on behalf of the Corporation or any such stockholder arising out of the making of such arrangements.

Pursuant to the Plan, the Corporation has the right, but not the obligation, to register with the Securities and Exchange Commission the resale of certain securities of the Corporation by directors, employees and former directors and employees of the Corporation and its subsidiaries and affiliates and former partners and employees of GS Group and its subsidiaries and affiliates and to undertake various actions and to enter into agreements and arrangements in connection therewith (collectively, the "Registration Arrangements"). The board of directors of the Corporation is authorized to cause the Corporation to undertake such Registration Arrangements as the board of directors of the Corporation may, in its sole discretion, deem appropriate and the Corporation and each stockholder of the Corporation shall, to the fullest extent permitted by law, be deemed to have approved and ratified any such determination and to have waived any claim or objection on behalf of the Corporation or any such stockholder arising out of the undertaking of such Registration Arrangements.

The Corporation and each stockholder of the Corporation shall, to the fullest extent permitted by law, be deemed to have approved and ratified any decision by the board of directors of the Corporation to make the Contribution referred to in Article THIRD, including the amount thereof (up to the limit specified in Article THIRD) and to have waived any claim or objection on behalf of the Corporation or any such stockholder arising out of any such decision to make, or the making of, the Contribution.

The authorizations, approvals and ratifications contained in the second, third and fourth paragraphs of this Article TWELFTH shall not be construed to indicate that any other arrangements or contributions not specifically referred to in such paragraphs are, by reason of such omission, not within the power and authority of the board of directors of the Corporation or that the determination of the board of directors of the Corporation with respect thereto should be judged by any legal standard other than that which would have applied but for the inclusion of the second, third and fourth paragraphs of this Article TWELFTH.

No amendment, modification or repeal of this Article TWELFTH shall adversely affect any right or protection of a director of the Corporation that exists at the time of such amendment, modification or repeal.

IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate of Incorporation to be signed and attested by its duly authorized officer on this 27th day of June, 2007.

By: /s/ Gregory K. Palm
Name: Gregory K. Palm
Title: General Counsel

Appendix A

CERTIFICATE OF DESIGNATIONS

OF

FLOATING RATE NON-CUMULATIVE PREFERRED STOCK, SERIES A

OF

THE GOLDMAN SACHS GROUP, INC.

THE GOLDMAN SACHS GROUP, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), in accordance with the provisions of Sections 103 and 151 thereof, DOES HEREBY CERTIFY :

The Securities Issuance Committee (the "Committee") of the board of directors of the Corporation (the "Board of Directors"), in accordance with the resolutions of the Board of Directors dated April 6, 2005, the provisions of the amended and restated certificate of incorporation and bylaws of the Corporation and applicable law, by unanimous written consent dated April 18, 2005, adopted the following resolution creating a series of 50,000 shares of Preferred Stock of the Corporation designated as "Floating Rate Non-Cumulative Preferred Stock, Series A".

RESOLVED, that pursuant to the authority vested in the Committee and in accordance with the resolutions of the Board of Directors dated April 6, 2005, the provisions of the amended and restated certificate of incorporation and bylaws of the Corporation and applicable law, a series of Preferred Stock, par value $.01 per share, of the Corporation be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Section 1. Designation. The distinctive serial designation of such series of Preferred Stock is "Floating Rate Non-Cumulative Preferred Stock, Series A" ("Series A"). Each share of Series A shall be identical in all respects to every other share of Series A, except as to the respective dates from which dividends thereon shall accrue, to the extent such dates may differ as permitted pursuant to Section 4(a) below.

Section 2. Number of Shares. The authorized number of shares of Series A shall be 50,000. Shares of Series A that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Preferred Stock, shall be cancelled and shall revert to authorized but unissued shares of Series A.

Section 3. Definitions. As used herein with respect to Series A:

(a) “Board of Directors” means the board of directors of the Corporation.

(b) “ByLaws” means the amended and restated bylaws of the Corporation, as they may be amended from time to time.

(c) “Business Day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close.

(d) “Calculation Agent” means, at any time, the person or entity appointed by the Corporation and serving as such agent at such time. The Corporation may terminate any such appointment and may appoint a successor agent at any time and from time to time, *provided* that the Corporation shall use its best efforts to ensure that there is, at all relevant times when the Series A is outstanding, a person or entity appointed and serving as such agent. The Calculation Agent may be a person or entity affiliated with the Corporation.

(e) “Certificate of Designations” means this Certificate of Designations relating to the Series A, as it may be amended from time to time.

(f) “Certification of Incorporation” shall mean the amended and restated certificate of incorporation of the Corporation, as it may be amended from time to time, and shall include this Certificate of Designations.

(g) “Common Stock” means the common stock, par value $0.01 per share, of the Corporation.

(h) “Junior Stock” means the Common Stock and any other class or series of stock of the Corporation (other than Series A) that ranks junior to Series A either or both as to the payment of dividends and/or as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(i) “London Business Day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is a day on which dealings in U.S. dollars are transacted in the London interbank market.

(j) “Moneyline Telerate Page” means the display on Moneyline Telerate, Inc., or any successor service, on the page or pages specified in Section 4 below or any replacement page or pages on that service.

(k) “Parity Stock” means any class or series of stock of the Corporation (other than Series A) that ranks equally with Series A both in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(l) “Preferred Stock” means any and all series of Preferred Stock, having a par value of $0.01 per share, of the Corporation, including the Series A.

(m) “Representative Amount” means, at any time, an amount that, in the Calculation Agent’s judgment, is representative of a single transaction in the relevant market at the relevant time.

(n) “Voting Preferred Stock” means, with regard to any election or removal of a Preferred Stock Director (as defined in Section 8(b) below) or any other matter as to which the holders of Series A are entitled to vote as specified in Section 8 of this Certificate of Designations, any and all series of Preferred Stock (other than Series A) that rank equally with Series A either as to the payment of dividends or as to the distribution of assets upon liquidation, dissolution or winding up of the Corporation and upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 4. Dividends.

(a) Rate. Holders of Series A shall be entitled to receive, when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) out of funds legally available for the payment of dividends under Delaware law, non-cumulative cash dividends at the rate determined as set forth below in this Section (4) applied to the liquidation preference amount of $25,000 per share of Series A. Such dividends shall be payable quarterly in arrears (as provided below in this Section 4(a)), but only when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), on February 10, May 10, August 10 and November 10 (“Dividend Payment Dates”), commencing on August 10, 2005; *provided* that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series A on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day, unless such immediately succeeding Business Day falls in the next calendar month, in which case such Dividend Payment Date shall instead be (and any such dividend shall instead be payable on) the immediately preceding Business Day. Dividends on Series A shall not be cumulative; holders of Series A shall not be entitled to receive any dividends not declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend not so declared.

Dividends that are payable on Series A on any Dividend Payment Date will be payable to holders of record of Series A as they appear on the stock register of the Corporation on the applicable record date, which shall be the 15th calendar day before such Dividend Payment Date or such other record date fixed by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a “Dividend Record Date”). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Each dividend period (a "Dividend Period") shall commence on and include a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the date of original issue of the Series A, *provided* that, for any share of Series A issued after such original issue date, the initial Dividend Period for such shares may commence on and include such other date as the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) shall determine and publicly disclose) and shall end on and include the calendar day next preceding the next Dividend Payment Date. Dividends payable on the Series A in respect of any Dividend Period shall be computed by the Calculation Agent on the basis of a 360-day year and the actual number of days elapsed in such Dividend Period. Dividends payable in respect of a Dividend Period shall be payable in arrears – i.e., on the first Dividend Payment Date after such Dividend Period.

The dividend rate on the Series A, for each Dividend Period, shall be a rate per annum equal to the greater of (1) 0.75% above LIBOR (as defined below) for such Dividend Period and (2) 3.75%. LIBOR, with respect to any Dividend Period, means the offered rate expressed as a percentage per annum for three-month deposits in U.S. dollars on the first day of such Dividend Period, as that rate appears on Moneyline Telerate Page 3750 as of 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period.

If the rate described in the preceding paragraph does not appear on Moneyline Telerate Page 3750, LIBOR shall be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: three-month deposits in U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount. The Calculation Agent shall request the principal London office of each of these banks to provide a quotation of its rate at approximately 11:00 A.M., London time. If at least two quotations are provided, LIBOR for such Dividend Period shall be the arithmetic mean of such quotations.

If fewer than two quotations are provided as described in the preceding paragraph, LIBOR for such Dividend Period shall be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M. New York City time, on the second London Business Day immediately preceding the first day of such Dividend Period, by three major banks in New York City selected by the Calculation Agent: three-month loans of U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount.

If fewer than three banks selected by the Calculation Agent are quoting as described in the preceding paragraph, LIBOR for such Dividend Period shall be LIBOR in effect for the prior Dividend Period.

The Calculation Agent's determination of any dividend rate, and its calculation of the amount of dividends for any Dividend Period, will be maintained on file at the Corporation's principal offices and will be available to any stockholder upon request and will be final and binding in the absence of manifest error.

Holders of Series A shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on the Series A as specified in this Section 4 (subject to the other provisions of this Certificate of Designations).

(b) Priority of Dividends. So long as any share of Series A remains outstanding, no dividend shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than a dividend payable solely in Junior Stock), and no Common Stock or other Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by the Corporation, directly or indirectly (other than as a result of a reclassification of Junior Stock for or into other Junior Stock, or the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock and other than through the use of the proceeds of a substantially contemporaneous sale of Junior Stock) during a Dividend Period, unless the full dividends for the latest completed Dividend Period on all outstanding shares of Series A have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside). The foregoing provision shall not restrict the ability of Goldman, Sachs & Co., or any other affiliate of the Corporation, to engage in any market-making transactions in Junior Stock in the ordinary course of business.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period) in full upon the Series A and any shares of Parity Stock, all dividends declared on the Series A and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of parity stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Series A and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) bear to each other.

Subject to the foregoing, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and the Series A shall not be entitled to participate in any such dividends.

Section 5. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Series A shall be entitled to receive, out of the assets of the Corporation or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Corporation, and after satisfaction of all liabilities and obligations to creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Corporation ranking junior to the Series A as to such distribution, in full an amount equal to $25,000 per share (the "Series A Liquidation Amount"), together with an amount equal to all dividends (if any) that have been declared but not paid prior to the date of payment of such distribution (but without any amount in respect of dividends that have not been declared prior to such payment date).

(b) Partial Payment. If in any distribution described in Section 5(a) above the assets of the Corporation or proceeds thereof are not sufficient to pay the Liquidation Preferences (as defined below) in full to all holders of Series A and all holders of any stock of the Corporation ranking equally with the Series A as to such distribution, the amounts paid to the holders of Series A and to the holders of all such other stock shall be paid pro rata in accordance with the respective aggregate Liquidation Preferences of the holders of Series A and the holders of all such other stock. In any such distribution, the "Liquidation Preference" of any holder of stock of the Corporation shall mean the amount otherwise payable to such holder in such distribution (assuming no limitation on the assets of the Corporation available for such distribution), including an amount equal to any declared but unpaid dividends (and, in the case of any holder of stock other than Series A and on which dividends accrue on a cumulative basis, an amount equal to any unpaid, accrued, cumulative dividends, whether or not declared, as applicable).

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Series A, the holders of other stock of the Corporation shall be entitled to receive all remaining assets of the Corporation (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 5, the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the holders of Series A receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

Section 6. Redemption.

(a) Optional Redemption. The Series A may not be redeemed by the Corporation prior to April 25, 2010. On or after April 25, 2010, the Corporation, at its option, may redeem, in whole at any time or in part from time to time, the shares of Series A at the time outstanding, upon notice given as provided in Section 6(c) below, at a redemption price equal to $25,000 per share, together (except as otherwise provided herein below) with an amount equal to any dividends that have been declared but not paid prior to the redemption date (but with no amount in respect of any dividends that have not been declared prior to such date). The redemption price for any shares of Series A shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Corporation or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 4 above.

(b) No Sinking Fund. The Series A will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Series A will have no right to require redemption of any shares of Series A.

(c) Notice of Redemption. Notice of every redemption of shares of Series A shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Corporation. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Series A designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series A. Notwithstanding the foregoing, if the Series A or any depositary shares representing interests in the Series A are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Series A at such time and in any manner permitted by such facility. Each such notice given to a holder shall state: (1) the redemption date; (2) the number of shares of Series A to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of only part of the shares of Series A at the time outstanding, the shares to be redeemed shall be selected either pro rata or in such other manner as the Corporation may determine to be fair and equitable. Subject to the provisions hereof, the Corporation shall have full power and authority to prescribe the terms and conditions upon which shares of Series A shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares.

Section 7. Conversion Upon Regulatory Changes. If both (i) and (ii) below occur:

(i) after the date of the issuance of the Series A, the Corporation (by election or otherwise) becomes subject to any law, rule, regulation or guidance (together, "Regulations") relating to its capital adequacy, which Regulation (x) modifies the existing requirements for treatment as Allowable Capital (as defined under the Securities and Exchange Commission rules relating to consolidated supervised entities as in effect from time to time), (y) provides for a type or level of capital characterized as "Tier 1" or its equivalent pursuant to Regulations of any governmental agency, authority or other body having regulatory jurisdiction over the Corporation (or any of its subsidiaries or consolidated affiliates) and implementing the capital standards published by the Basel Committee on Banking Supervision, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System or any other United States national governmental agency, authority or other body, or any other applicable regime based on capital standards published by the Basel Committee on Banking Supervision or its successor, or (z) provides for a type or level of capital that in the judgment of the Corporation (after consultation with legal counsel of recognized standing) is substantially equivalent to such "Tier 1" capital (such capital described in either (y) or (z) above is referred to below as "Tier 1 Capital Equivalent"), and

(ii) the Corporation affirmatively elects to qualify the Series A for treatment as Allowable Capital or Tier 1 Capital Equivalent without any sublimit or other quantitative restriction on the inclusion of the Series A in Allowable Capital or Tier 1 Capital Equivalent (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) under such Regulations, then, upon such affirmative election, the Series A shall be convertible at the Corporation's option into a new series of Preferred Stock having terms and provisions substantially identical to those of the Series A, except that such new series may have such additional or modified rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as are necessary in the judgment of the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) (after consultation with legal counsel of recognized standing) to comply with the Required Unrestricted Capital Provisions (as defined below), *provided* that the Corporation will not cause any such conversion unless the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) determines that the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of such new series of Preferred Stock, taken as a whole, are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of the Series A, taken as a whole.

As used above, the term "Required Unrestricted Capital Provisions" means such terms and provisions as are, in the judgment of the Corporation (after consultation with counsel of recognized standing), required for preferred stock to be treated as Allowable Capital or Tier 1 Capital Equivalent, as applicable, without any sublimit or other quantitative restriction on the inclusion of such preferred stock in Allowable Capital or Tier 1 Capital Equivalent, as applicable (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) pursuant to the applicable Regulations.

The Corporation shall provide notice to the holders of Series A of any election to qualify the Series A for Allowable Capital or Tier 1 Capital Equivalent treatment and of any determination to convert the Series A into a new series of Preferred Stock pursuant to the terms of this Section 7, promptly upon the effectiveness of any such election or determination. A copy of such notice and of the relevant Regulations shall be maintained on file at the principal offices of the Corporation and, upon request, will be made available to any stockholder of the Corporation. Any conversion of the Series A pursuant to this Section 7 shall be effected pursuant to such procedures as the Corporation may determine and publicly disclose.

Except as specified in this Section 7, holders of Series A shares shall have no right to exchange or convert such shares into any other securities.

Section 8. Voting Rights.

(a) General. The holders of Series A shall not have any voting rights except as set forth below or as otherwise from to time required by law.

(b) Right To Elect Two Directors Upon Nonpayment Events. If and whenever dividends on any shares of Series A shall not have been declared and paid for at least six Dividend Periods, whether or not consecutive (a "Nonpayment Event"), the number of directors then constituting the Board of Directors shall automatically be increased by two and the holders of Series A, together with the holders of any outstanding shares of Voting Preferred Stock, voting together as a single class, shall be entitled to elect the two additional directors (the "Preferred Stock Directors"), *provided* that it shall be a qualification for election for any such Preferred Stock Director that the election of such director shall not cause the Corporation to violate the corporate governance requirement of the New York Stock Exchange (or any other securities exchange or other trading facility on which securities of the Corporation may then be listed or traded) that listed or traded companies must have a majority of independent directors.

In the event that the holders of the Series A, and such other holders of Voting Preferred Stock, shall be entitled to vote for the election of the Preferred Stock Directors following a Nonpayment Event, such directors shall be initially elected following such Nonpayment Event only at a special meeting called at the request of the holders of record of at least 20% of the Series A or of any other series of Voting Preferred Stock then outstanding (unless such request for a special meeting is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders of the Corporation, in which event such election shall be held only at such next annual or special meeting of stockholders), and at each subsequent annual meeting of stockholders of the Corporation. Such request to call a special meeting for the initial election of the Preferred Stock Directors after a Nonpayment Event shall be made by written notice, signed by the requisite holders of Series A or Voting Preferred Stock, and delivered to the Secretary of the Corporation in such manner as provided for in Section 10 below, or as may otherwise be required by law.

When dividends have been paid (or declared and a sum sufficient for payment thereof set aside) in full on the Series A for at least four Dividend Periods (whether or not consecutive) after a Nonpayment Event, then the right of the holders of Series A to elect the Preferred Stock Directors shall cease (but subject always to revesting of such voting rights in the case of any future Nonpayment Event), and, if and when any rights of holders of Series A and Voting Preferred Stock to elect the Preferred Stock Directors shall have ceased, the terms of office of all the Preferred Stock Directors shall forthwith terminate and the number of directors constituting the Board of Directors shall automatically be reduced accordingly.

Any Preferred Stock Director may be removed at any time without cause by the holders of record of a majority of the outstanding shares of the Series A and Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). So long as a Nonpayment Event shall continue, any vacancy in the office of a Preferred Stock Director (other than prior to the initial election of Preferred Stock Directors after a Nonpayment Event) may be filled by the written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of the Series A and all Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). Any such vote of stockholders to remove, or to fill a vacancy in the office of, a Preferred Stock Director may be taken only at a special meeting of such stockholders, called as provided above for an initial election of Preferred Stock Director after a Nonpayment Event (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders). The Preferred Stock Directors shall each be entitled to one vote per director on any matter that shall come before the Board of Directors for a vote. Each Preferred Stock Director elected at any special meeting of stockholders or by written consent of the other Preferred Stock Director shall hold office until the next annual meeting of the stockholders if such office shall not have previously terminated as above provided.

(c) Other Voting Rights. So long as any shares of Series A are outstanding, in addition to any other vote or consent of stockholders required by law or by the Certificate of Incorporation, the vote or consent of the holders of at least $66^{2}/_{3}\%$ of the shares of Series A and any Voting Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) **Authorization of Senior Stock**. Any amendment or alteration of the Certificate of Incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series of capital stock of the Corporation ranking senior to the Series A with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(ii) **Amendment of Series A**. Any amendment, alteration or repeal of any provision of the Certificate of Incorporation so as to materially and adversely affect the special rights, preferences, privileges or voting powers of the Series A, taken as a whole; or

(iii) **Share Exchanges, Reclassifications, Mergers and Consolidations**. Any consummation of a binding share exchange or reclassification involving the Series A, or of a merger or consolidation of the Corporation with another corporation or other entity, unless in each case (x) the shares of Series A remain outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series A immediately prior to such consummation, taken as a whole;

provided, *however*, that for all purposes of this Section 8(c), any increase in the amount of the authorized or issued Series A or authorized Preferred Stock, or the creation and issuance, or an increase in the authorized or issued amount, of any other series of

Preferred Stock ranking equally with and/or junior to the Series A with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/or the distribution of assets upon liquidation, dissolution or winding up of the Corporation will not be deemed to adversely affect the special rights, preferences, privileges or voting powers of the Series A. In addition, any conversion of the Series A pursuant to Section 7 above shall not be deemed to adversely affect the rights, preferences, privileges and voting powers of the Series A.

If any amendment, alteration, repeal, share exchange, reclassification, merger or consolidation specified in this Section 7(c) would adversely affect the Series A and one or more but not all other series of Preferred Stock, then only the Series A and such series of Preferred Stock as are adversely affected by and entitled to vote on the matter shall vote on the matter together as a single class (in lieu of all other series of Preferred Stock).

(d) Changes for Clarification. Without the consent of the holders of the Series A, so long as such action does not adversely affect the special rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series A, the Corporation may amend, alter, supplement or repeal any terms of the Series A:

(i) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designations that may be defective or inconsistent; or

(ii) to make any provision with respect to matters or questions arising with respect to the Series A that is not inconsistent with the provisions of this Certificate of Designations.

(e) Changes after Provision for Redemption. No vote or consent of the holders of Series A shall be required pursuant to Section 8 (b), (c) or (d) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of Series A shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been set aside for such redemption, in each case pursuant to Section 6 above.

(f) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Series A (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Certificate of Incorporation, the Bylaws, applicable law and any national securities exchange or other trading facility on which the Series A is listed or traded at the time. Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Series A and any Voting Preferred Stock has been cast or given on any matter on which the holders of shares of Series A are entitled to vote shall be determined by the Corporation by reference to the specified liquidation amounts of the shares voted or covered by the consent.

Section 9. Record Holders. To the fullest extent permitted by applicable law, the Corporation and the transfer agent for the Series A may deem and treat the record holder of any share of Series A as the true and lawful owner thereof for all purposes, and neither the Corporation nor such transfer agent shall be affected by any notice to the contrary.

Section 10. Notices. All notices or communications in respect of Series A shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Certificate of Incorporation or Bylaws or by applicable law.

Section 11. No Preemptive Rights. No share of Series A shall have any rights of preemption whatsoever as to any securities of the Corporation, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 12. Other Rights. The shares of Series A shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law.

Appendix B

CERTIFICATE OF DESIGNATIONS

OF

6.20% NON-CUMULATIVE PREFERRED STOCK, SERIES B

OF

THE GOLDMAN SACHS GROUP, INC.

THE GOLDMAN SACHS GROUP, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), in accordance with the provisions of Sections 103 and 151 thereof, DOES HEREBY CERTIFY :

The Securities Issuance Committee (the "Committee") of the board of directors of the Corporation (the "Board of Directors"), in accordance with the resolutions of the Board of Directors dated September 16, 2005, the provisions of the amended and restated certificate of incorporation and bylaws of the Corporation and applicable law, by unanimous written consent dated October 25, 2005, adopted the following resolution creating a series of 50,000 shares of Preferred Stock of the Corporation designated as "6.20% Non-Cumulative Preferred Stock, Series B".

RESOLVED, that pursuant to the authority vested in the Committee and in accordance with the resolutions of the Board of Directors dated September 16, 2005, the provisions of the amended and restated certificate of incorporation and bylaws of the Corporation and applicable law, a series of Preferred Stock, par value $.01 per share, of the Corporation be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Section 1. Designation. The distinctive serial designation of such series of Preferred Stock is "6.20% Non-Cumulative Preferred Stock, Series B" ("Series B"). Each share of Series B shall be identical in all respects to every other share of Series B, except as to the respective dates from which dividends thereon shall accrue, to the extent such dates may differ as permitted pursuant to Section 4(a) below.

Section 2. Number of Shares. The authorized number of shares of Series B shall be 50,000. Shares of Series B that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Preferred Stock, shall be cancelled and shall revert to authorized but unissued shares of Series B.

Section 3. Definitions. As used herein with respect to Series B:

(a) "Board of Directors" means the board of directors of the Corporation.

(b) "ByLaws" means the amended and restated bylaws of the Corporation, as they may be amended from time to time.

(c) "Business Day" means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close.

(d) "Certificate of Designations" means this Certificate of Designations relating to the Series B, as it may be amended from time to time.

(e) "Certification of Incorporation" shall mean the amended and restated certificate of incorporation of the Corporation, as it may be amended from time to time, and shall include this Certificate of Designations.

(f) "Common Stock" means the common stock, par value $0.01 per share, of the Corporation.

(g) "Junior Stock" means the Common Stock and any other class or series of stock of the Corporation (other than Series B) that ranks junior to Series B either or both as to the payment of dividends and/or as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(h) "Parity Stock" means any class or series of stock of the Corporation (other than Series B) that ranks equally with Series B both in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(i) "Preferred Stock" means any and all series of Preferred Stock, having a par value of $0.01 per share, of the Corporation, including the Series B.

(j) "Voting Preferred Stock" means, with regard to any election or removal of a Preferred Stock Director (as defined in Section 8(b) below) or any other matter as to which the holders of Series B are entitled to vote as specified in Section 8 of this Certificate of Designations, any and all series of Preferred Stock (other than Series B) that rank equally with Series B either as to the payment of dividends or as to the distribution of assets upon liquidation, dissolution or winding up of the Corporation and upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 4. Dividends.

(a) Rate. Holders of Series B shall be entitled to receive, when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) out of funds legally available for the payment of dividends under Delaware law, non-cumulative cash dividends at a rate per annum of 6.20% applied to the liquidation preference amount of $25,000 per share of Series B. Such dividends shall be payable quarterly in arrears (as provided below in this Section 4(a)), but only when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), on February 10, May 10, August 10 and November 10 ("Dividend Payment Dates"), commencing on February 10, 2006; *provided* that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series B on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day. Dividends on Series B shall not be cumulative; holders of Series B shall not be entitled to receive any dividends not declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend not so declared.

Dividends that are payable on Series B on any Dividend Payment Date will be payable to holders of record of Series B as they appear on the stock register of the Corporation on the applicable record date, which shall be the 15th calendar day before such Dividend Payment Date or such other record date fixed by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Each dividend period (a "Dividend Period") shall commence on and include a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the date of original issue of the Series B, *provided* that, for any share of Series B issued after such original issue date, the initial Dividend Period for such shares may commence on and include such other date as the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) shall determine and publicly disclose) and shall end on and include the calendar day next preceding the next Dividend Payment Date. Dividends payable on the Series B in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable in respect of a Dividend Period shall be payable in arrears – i.e., on the first Dividend Payment Date after such Dividend Period.

Holders of Series B shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on the Series B as specified in this Section 4 (subject to the other provisions of this Certificate of Designations).

(b) Priority of Dividends. So long as any share of Series B remains outstanding, no dividend shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than a dividend payable solely in Junior Stock), and no Common Stock or other Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by the Corporation, directly or indirectly (other than as a result of a reclassification of Junior Stock for or into other Junior Stock, or the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock and other than through the use of the proceeds of a substantially contemporaneous sale of Junior Stock) during a Dividend Period, unless the full dividends for the latest completed Dividend Period on all outstanding shares of Series B have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside). The foregoing provision shall not restrict the ability of Goldman, Sachs & Co., or any other affiliate of the Corporation, to engage in any market-making transactions in Junior Stock in the ordinary course of business.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period) in full upon the Series B and any shares of Parity Stock, all dividends declared on the Series B and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of parity stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Series B and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) bear to each other.

Subject to the foregoing, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and the Series B shall not be entitled to participate in any such dividends.

Section 5. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Series B shall be entitled to receive, out of the assets of the Corporation or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Corporation, and after satisfaction of all liabilities and obligations to creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Corporation ranking junior to the Series B as to such distribution, in full an amount equal to $25,000 per share (the “Series B Liquidation Amount”), together with an amount equal to all dividends (if any) that have been declared but not paid prior to the date of payment of such distribution (but without any amount in respect of dividends that have not been declared prior to such payment date).

(b) Partial Payment. If in any distribution described in Section 5(a) above the assets of the Corporation or proceeds thereof are not sufficient to pay the Liquidation Preferences (as defined below) in full to all holders of Series B and all holders of any stock of the Corporation ranking equally with the Series B as to such distribution, the amounts paid to the holders of Series B and to the holders of all such other stock shall be paid pro rata in accordance with the respective aggregate Liquidation Preferences of the holders of Series B and the holders of all such other stock. In any such distribution, the “Liquidation Preference” of any holder of stock of the Corporation shall mean the amount otherwise payable to such holder in such distribution (assuming no limitation on the assets of the Corporation available for such distribution), including an amount equal to any declared but unpaid dividends (and, in the case of any holder of stock other than Series B and on which dividends accrue on a cumulative basis, an amount equal to any unpaid, accrued, cumulative dividends, whether or not declared, as applicable).

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Series B, the holders of other stock of the Corporation shall be entitled to receive all remaining assets of the Corporation (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 5, the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the holders of Series B receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

Section 6. Redemption.

(a) Optional Redemption. The Series B may not be redeemed by the Corporation prior to October 31, 2010. On or after October 31, 2010, the Corporation, at its option, may redeem, in whole at any time or in part from time to time, the shares of Series B at the time outstanding, upon notice given as provided in Section 6(c) below, at a redemption price equal to $25,000 per share, together (except as otherwise provided herein below) with an amount equal to any dividends that have been declared but not paid prior to the redemption date (but with no amount in respect of any dividends that have not been declared prior to such date). The redemption price for any shares of Series B shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Corporation or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 4 above.

(b) No Sinking Fund. The Series B will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Series B will have no right to require redemption of any shares of Series B.

(c) Notice of Redemption. Notice of every redemption of shares of Series B shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Corporation. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Series B designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series B. Notwithstanding the foregoing, if the Series B or any depositary shares representing interests in the Series B are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Series B at such time and in any manner permitted by such facility. Each such notice given to a holder shall state: (1) the redemption date; (2) the number of shares of Series B to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of only part of the shares of Series B at the time outstanding, the shares to be redeemed shall be selected either pro rata or in such other manner as the Corporation may determine to be fair and equitable. Subject to the provisions hereof, the Corporation shall have full power and authority to prescribe the terms and conditions upon which shares of Series B shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares.

Section 7. Conversion Upon Regulatory Changes. If both (i) and (ii) below occur:

(i) after the date of the issuance of the Series B, the Corporation (by election or otherwise) becomes subject to any law, rule, regulation or guidance (together, "Regulations") relating to its capital adequacy, which Regulation (x) modifies the existing requirements for treatment as Allowable Capital (as defined under the Securities and Exchange Commission rules relating to consolidated supervised entities as in effect from time to time), (y) provides for a type or level of capital characterized as "Tier 1" or its equivalent pursuant to Regulations of any governmental agency, authority or other body having regulatory jurisdiction over the Corporation (or any of its subsidiaries or consolidated affiliates) and implementing the capital standards published by the Basel Committee on Banking Supervision, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System or any other United States national governmental agency, authority or other body, or any other applicable regime based on capital standards published by the Basel Committee on Banking Supervision or its successor, or (z) provides for a type or level of capital that in the judgment of the Corporation (after consultation with legal counsel of recognized standing) is substantially equivalent to such "Tier 1" capital (such capital described in either (y) or (z) above is referred to below as "Tier 1 Capital Equivalent"), and

(ii) the Corporation affirmatively elects to qualify the Series B for treatment as Allowable Capital or Tier 1 Capital Equivalent without any sublimit or other quantitative restriction on the inclusion of the Series B in Allowable Capital or Tier 1 Capital Equivalent (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) under such Regulations,

then, upon such affirmative election, the Series B shall be convertible at the Corporation's option into a new series of Preferred Stock having terms and provisions substantially identical to those of the Series B, except that such new series may have such additional or modified rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as are necessary in the judgment of the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) (after consultation with legal counsel of recognized standing) to comply with the Required Unrestricted Capital Provisions (as defined below), *provided* that the Corporation will not cause any such conversion unless the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) determines that the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of such new series of Preferred Stock, taken as a whole, are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of the Series B, taken as a whole.

As used above, the term "Required Unrestricted Capital Provisions" means such terms and provisions as are, in the judgment of the Corporation (after consultation with counsel of recognized standing), required for preferred stock to be treated as Allowable Capital or Tier 1 Capital Equivalent, as applicable, without any sublimit or other quantitative restriction on the inclusion of such preferred stock in Allowable Capital or Tier 1 Capital Equivalent, as applicable (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) pursuant to the applicable Regulations.

The Corporation shall provide notice to the holders of Series B of any election to qualify the Series B for Allowable Capital or Tier 1 Capital Equivalent treatment and of any determination to convert the Series B into a new series of Preferred Stock pursuant to the terms of this Section 7, promptly upon the effectiveness of any such election or determination. A copy of such notice and of the relevant Regulations shall be maintained on file at the principal offices of the Corporation and, upon request, will be made available to any stockholder of the Corporation. Any conversion of the Series B pursuant to this Section 7 shall be effected pursuant to such procedures as the Corporation may determine and publicly disclose.

Except as specified in this Section 7, holders of Series B shares shall have no right to exchange or convert such shares into any other securities.

Section 8. Voting Rights.

(a) General. The holders of Series B shall not have any voting rights except as set forth below or as otherwise from to time required by law.

(b) Right To Elect Two Directors Upon Nonpayment Events. If and whenever dividends on any shares of Series B shall not have been declared and paid for at least six Dividend Periods, whether or not consecutive (a "Nonpayment Event"), the number of directors then constituting the Board of Directors shall automatically be increased by two and the holders of Series B, together with the holders of any outstanding shares of Voting Preferred Stock, voting together as a single class, shall be entitled to elect the two additional directors (the "Preferred Stock Directors"), *provided* that it shall be a qualification for election for any such Preferred Stock Director that the election of such director shall not cause the Corporation to violate the corporate governance requirement of the New York Stock Exchange (or any other securities exchange or other trading facility on which securities of the Corporation may then be listed or traded) that listed or traded companies must have a majority of independent directors and *provided further* that the Board of Directors shall at no time include more than two Preferred Stock Directors (including, for purposes of this limitation, all directors that the holders of any series of Voting Preferred Stock are entitled to elect pursuant to like voting rights).

In the event that the holders of the Series B, and such other holders of Voting Preferred Stock, shall be entitled to vote for the election of the Preferred Stock Directors following a Nonpayment Event, such directors shall be initially elected following such Nonpayment Event only at a special meeting called at the request of the holders of record of at least 20% of the Series B or of any other series of Voting Preferred Stock then outstanding (unless such request for a special meeting is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders of the Corporation, in which event such election shall be held only at such next annual or special meeting of stockholders), and at each subsequent annual meeting of stockholders of the Corporation. Such request to call a special meeting for the initial election of the Preferred Stock Directors after a Nonpayment Event shall be made by written notice, signed by the requisite holders of Series B or Voting Preferred Stock, and delivered to the Secretary of the Corporation in such manner as provided for in Section 10 below, or as may otherwise be required by law.

When dividends have been paid (or declared and a sum sufficient for payment thereof set aside) in full on the Series B for at least four Dividend Periods (whether or not consecutive) after a Nonpayment Event, then the right of the holders of Series B to elect the Preferred Stock Directors shall cease (but subject always to revesting of such voting rights in the case of any future Nonpayment Event), and, if and when any rights of holders of Series B and Voting Preferred Stock to elect the Preferred Stock Directors shall have ceased, the terms of office of all the Preferred Stock Directors shall forthwith terminate and the number of directors constituting the Board of Directors shall automatically be reduced accordingly.

Any Preferred Stock Director may be removed at any time without cause by the holders of record of a majority of the outstanding shares of the Series B and Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). So long as a Nonpayment Event shall continue, any vacancy in the office of a Preferred Stock Director (other than prior to the initial election of Preferred Stock Directors after a Nonpayment Event) may be filled by the written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of the Series B and all Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). Any such vote of stockholders to remove, or to fill a vacancy in the office of, a Preferred Stock Director may be taken only at a special meeting of such stockholders, called as provided above for an initial election of Preferred Stock Director after a Nonpayment Event (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders). The Preferred Stock Directors shall each be entitled to one vote per director on any matter that shall come before the Board of Directors for a vote. Each Preferred Stock Director elected at any special meeting of stockholders or by written consent of the other Preferred Stock Director shall hold office until the next annual meeting of the stockholders if such office shall not have previously terminated as above provided.

(c) Other Voting Rights. So long as any shares of Series B are outstanding, in addition to any other vote or consent of stockholders required by law or by the Certificate of Incorporation, the vote or consent of the holders of at least $66^2/_3$% of the shares of Series B and any Voting Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) **Authorization of Senior Stock**. Any amendment or alteration of the Certificate of Incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series of capital stock of the Corporation ranking senior to the Series B with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(ii) **Amendment of Series B**. Any amendment, alteration or repeal of any provision of the Certificate of Incorporation so as to materially and adversely affect the special rights, preferences, privileges or voting powers of the Series B, taken as a whole; or

(iii) **Share Exchanges, Reclassifications, Mergers and Consolidations**. Any consummation of a binding share exchange or reclassification involving the Series B, or of a merger or consolidation of the Corporation with another corporation or other entity, unless in each case (x) the shares of Series B remain outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series B immediately prior to such consummation, taken as a whole;

provided, *however*, that for all purposes of this Section 8(c), any increase in the amount of the authorized or issued Series B or authorized Preferred Stock, or the creation and issuance, or an increase in the authorized or issued amount, of any other series of Preferred Stock ranking equally with and/or junior to the Series B with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/or the distribution of assets upon liquidation, dissolution or winding up of the Corporation will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series B. In addition, any conversion of the Series B pursuant to Section 7 above shall not be deemed to adversely affect the rights, preferences, privileges and voting powers of the Series B.

If any amendment, alteration, repeal, share exchange, reclassification, merger or consolidation specified in this Section 7(c) would adversely affect the Series B and one or more but not all other series of Preferred Stock, then only the Series B and such series of Preferred Stock as are adversely affected by and entitled to vote on the matter shall vote on the matter together as a single class (in lieu of all other series of Preferred Stock).

(d) Changes for Clarification. Without the consent of the holders of the Series B, so long as such action does not adversely affect the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series B, the Corporation may amend, alter, supplement or repeal any terms of the Series B:

(i) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designations that may be defective or inconsistent; or

(ii) to make any provision with respect to matters or questions arising with respect to the Series B that is not inconsistent with the provisions of this Certificate of Designations.

(e) Changes after Provision for Redemption. No vote or consent of the holders of Series B shall be required pursuant to Section 8 (b), (c) or (d) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of Series B shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been set aside for such redemption, in each case pursuant to Section 6 above.

(f) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Series B (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Certificate of Incorporation, the Bylaws, applicable law and any national securities exchange or other trading facility on which the Series B is listed or traded at the time. Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Series B and any Voting Preferred Stock has been cast or given on any matter on which the holders of shares of Series B are entitled to vote shall be determined by the Corporation by reference to the specified liquidation amounts of the shares voted or covered by the consent.

Section 9. Record Holders. To the fullest extent permitted by applicable law, the Corporation and the transfer agent for the Series B may deem and treat the record holder of any share of Series B as the true and lawful owner thereof for all purposes, and neither the Corporation nor such transfer agent shall be affected by any notice to the contrary.

Section 10. Notices. All notices or communications in respect of Series B shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Certificate of Incorporation or Bylaws or by applicable law.

Section 11. No Preemptive Rights. No share of Series B shall have any rights of preemption whatsoever as to any securities of the Corporation, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 12. Other Rights. The shares of Series B shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law.

CERTIFICATE OF DESIGNATIONS

OF

FLOATING RATE NON-CUMULATIVE PREFERRED STOCK, SERIES C

OF

THE GOLDMAN SACHS GROUP, INC.

THE GOLDMAN SACHS GROUP, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), in accordance with the provisions of Sections 103 and 151 thereof, DOES HEREBY CERTIFY :

The Securities Issuance Committee (the "Committee") of the board of directors of the Corporation (the "Board of Directors"), in accordance with the resolutions of the Board of Directors dated September 16, 2005, the provisions of the amended and restated certificate of incorporation and bylaws of the Corporation and applicable law, by unanimous written consent dated October 25, 2005, adopted the following resolution creating a series of 25,000 shares of Preferred Stock of the Corporation designated as "Floating Rate Non-Cumulative Preferred Stock, Series C".

RESOLVED, that pursuant to the authority vested in the Committee and in accordance with the resolutions of the Board of Directors dated September 16, 2005, the provisions of the amended and restated certificate of incorporation and bylaws of the Corporation and applicable law, a series of Preferred Stock, par value $.01 per share, of the Corporation be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Section 1. Designation. The distinctive serial designation of such series of Preferred Stock is "Floating Rate Non-Cumulative Preferred Stock, Series C" ("Series C"). Each share of Series C shall be identical in all respects to every other share of Series C, except as to the respective dates from which dividends thereon shall accrue, to the extent such dates may differ as permitted pursuant to Section 4(a) below.

Section 2. Number of Shares. The authorized number of shares of Series C shall be 25,000. Shares of Series C that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Preferred Stock, shall be cancelled and shall revert to authorized but unissued shares of Series C.

Section 3. Definitions. As used herein with respect to Series C:

(a) “Board of Directors” means the board of directors of the Corporation.

(b) “ByLaws” means the amended and restated bylaws of the Corporation, as they may be amended from time to time.

(c) “Business Day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close.

(d) “Calculation Agent” means, at any time, the person or entity appointed by the Corporation and serving as such agent at such time. The Corporation may terminate any such appointment and may appoint a successor agent at any time and from time to time, *provided* that the Corporation shall use its best efforts to ensure that there is, at all relevant times when the Series C is outstanding, a person or entity appointed and serving as such agent. The Calculation Agent may be a person or entity affiliated with the Corporation.

(e) “Certificate of Designations” means this Certificate of Designations relating to the Series C, as it may be amended from time to time.

(f) “Certification of Incorporation” shall mean the amended and restated certificate of incorporation of the Corporation, as it may be amended from time to time, and shall include this Certificate of Designations.

(g) “Common Stock” means the common stock, par value $0.01 per share, of the Corporation.

(h) “Junior Stock” means the Common Stock and any other class or series of stock of the Corporation (other than Series C) that ranks junior to Series C either or both as to the payment of dividends and/or as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(i) “London Business Day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is a day on which dealings in U.S. dollars are transacted in the London interbank market.

(j) “Moneyline Telerate Page” means the display on Moneyline Telerate, Inc., or any successor service, on the page or pages specified in Section 4 below or any replacement page or pages on that service.

(k) “Parity Stock” means any class or series of stock of the Corporation (other than Series C) that ranks equally with Series C both in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(l) “Preferred Stock” means any and all series of Preferred Stock, having a par value of $0.01 per share, of the Corporation, including the Series C.

(m) “Representative Amount” means, at any time, an amount that, in the Calculation Agent’s judgment, is representative of a single transaction in the relevant market at the relevant time.

(n) “Voting Preferred Stock” means, with regard to any election or removal of a Preferred Stock Director (as defined in Section 8(b) below) or any other matter as to which the holders of Series C are entitled to vote as specified in Section 8 of this Certificate of Designations, any and all series of Preferred Stock (other than Series C) that rank equally with Series C either as to the payment of dividends or as to the distribution of assets upon liquidation, dissolution or winding up of the Corporation and upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 4. Dividends.

(a) Rate. Holders of Series C shall be entitled to receive, when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) out of funds legally available for the payment of dividends under Delaware law, non-cumulative cash dividends at the rate determined as set forth below in this Section (4) applied to the liquidation preference amount of $25,000 per share of Series C. Such dividends shall be payable quarterly in arrears (as provided below in this Section 4(a)), but only when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), on February 10, May 10, August 10 and November 10 (“Dividend Payment Dates”), commencing on February 10, 2006; *provided* that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series C on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day, unless such immediately succeeding Business Day falls in the next calendar month, in which case such Dividend Payment Date shall instead be (and any such dividend shall instead be payable on) the immediately preceding Business Day. Dividends on Series C shall not be cumulative; holders of Series C shall not be entitled to receive any dividends not declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend not so declared.

Dividends that are payable on Series C on any Dividend Payment Date will be payable to holders of record of Series C as they appear on the stock register of the Corporation on the applicable record date, which shall be the 15th calendar day before such Dividend Payment Date or such other record date fixed by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a “Dividend Record Date”). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Each dividend period (a “Dividend Period”) shall commence on and include a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the date of original issue of the Series C, *provided* that, for any share of Series C issued after such original issue date, the initial Dividend Period for such shares may commence on and include such other date as the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) shall determine and publicly disclose) and shall end on and include the calendar day next preceding the next Dividend Payment Date. Dividends payable on the Series C in respect of any Dividend Period shall be computed by the Calculation Agent on the basis of a 360-day year and the actual number of days elapsed in such Dividend Period. Dividends payable in respect of a Dividend Period shall be payable in arrears – i.e., on the first Dividend Payment Date after such Dividend Period.

The dividend rate on the Series C, for each Dividend Period, shall be a rate per annum equal to the greater of (1) 0.75% above LIBOR (as defined below) for such Dividend Period and (2) 4.00%. LIBOR, with respect to any Dividend Period, means the offered rate expressed as a percentage per annum for three-month deposits in U.S. dollars on the first day of such Dividend Period, as that rate appears on Moneyline Telerate Page 3750 as of 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period.

If the rate described in the preceding paragraph does not appear on Moneyline Telerate Page 3750, LIBOR shall be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: three-month deposits in U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount. The Calculation Agent shall request the principal London office of each of these banks to provide a quotation of its rate at approximately 11:00 A.M., London time. If at least two quotations are provided, LIBOR for such Dividend Period shall be the arithmetic mean of such quotations.

If fewer than two quotations are provided as described in the preceding paragraph, LIBOR for such Dividend Period shall be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M. New York City time, on the second London Business Day immediately preceding the first day of such Dividend Period, by three major banks in New York City selected by the Calculation Agent: three-month loans of U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount.

If fewer than three banks selected by the Calculation Agent are quoting as described in the preceding paragraph, LIBOR for such Dividend Period shall be LIBOR in effect for the prior Dividend Period.

The Calculation Agent’s determination of any dividend rate, and its calculation of the amount of dividends for any Dividend Period, will be maintained on file at the Corporation's principal offices and will be available to any stockholder upon request and will be final and binding in the absence of manifest error.

Holders of Series C shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on the Series C as specified in this Section 4 (subject to the other provisions of this Certificate of Designations).

(b) Priority of Dividends. So long as any share of Series C remains outstanding, no dividend shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than a dividend payable solely in Junior Stock), and no Common Stock or other Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by the Corporation, directly or indirectly (other than as a result of a reclassification of Junior Stock for or into other Junior Stock, or the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock and other than through the use of the proceeds of a substantially contemporaneous sale of Junior Stock) during a Dividend Period, unless the full dividends for the latest completed Dividend Period on all outstanding shares of Series C have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside). The foregoing provision shall not restrict the ability of Goldman, Sachs & Co., or any other affiliate of the Corporation, to engage in any market-making transactions in Junior Stock in the ordinary course of business.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period) in full upon the Series C and any shares of Parity Stock, all dividends declared on the Series C and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of parity stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Series C and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) bear to each other.

Subject to the foregoing, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and the Series C shall not be entitled to participate in any such dividends.

Section 5. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Series C shall be entitled to receive, out of the assets of the Corporation or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Corporation, and after satisfaction of all liabilities and obligations to creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Corporation ranking junior to the Series C as to such distribution, in full an amount equal to $25,000 per share (the "Series C Liquidation Amount"), together with an amount equal to all dividends (if any) that have been declared but not paid prior to the date of payment of such distribution (but without any amount in respect of dividends that have not been declared prior to such payment date).

(b) Partial Payment. If in any distribution described in Section 5(a) above the assets of the Corporation or proceeds thereof are not sufficient to pay the Liquidation Preferences (as defined below) in full to all holders of Series C and all holders of any stock of the Corporation ranking equally with the Series C as to such distribution, the amounts paid to the holders of Series C and to the holders of all such other stock shall be paid pro rata in accordance with the respective aggregate Liquidation Preferences of the holders of Series C and the holders of all such other stock. In any such distribution, the "Liquidation Preference" of any holder of stock of the Corporation shall mean the amount otherwise payable to such holder in such distribution (assuming no limitation on the assets of the Corporation available for such distribution), including an amount equal to any declared but unpaid dividends (and, in the case of any holder of stock other than Series C and on which dividends accrue on a cumulative basis, an amount equal to any unpaid, accrued, cumulative dividends, whether or not declared, as applicable).

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Series C, the holders of other stock of the Corporation shall be entitled to receive all remaining assets of the Corporation (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 5, the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the holders of Series C receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

Section 6. Redemption.

(a) Optional Redemption. The Series C may not be redeemed by the Corporation prior to October 31, 2010. On or after October 31, 2010, the Corporation, at its option, may redeem, in whole at any time or in part from time to time, the shares of Series C at the time outstanding, upon notice given as provided in Section 6(c) below, at a redemption price equal to $25,000 per share, together (except as otherwise provided herein below) with an amount equal to any dividends that have been declared but not paid prior to the redemption date (but with no amount in respect of any dividends that have not been declared prior to such date). The redemption price for any shares of Series C shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Corporation or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 4 above.

(b) No Sinking Fund. The Series C will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Series C will have no right to require redemption of any shares of Series C.

(c) Notice of Redemption. Notice of every redemption of shares of Series C shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Corporation. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Series C designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series C. Notwithstanding the foregoing, if the Series C or any depositary shares representing interests in the Series C are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Series C at such time and in any manner permitted by such facility. Each such notice given to a holder shall state: (1) the redemption date; (2) the number of shares of Series C to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of only part of the shares of Series C at the time outstanding, the shares to be redeemed shall be selected either pro rata or in such other manner as the Corporation may determine to be fair and equitable. Subject to the provisions hereof, the Corporation shall have full power and authority to prescribe the terms and conditions upon which shares of Series C shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares.

Section 7. Conversion Upon Regulatory Changes. If both (i) and (ii) below occur:

(i) after the date of the issuance of the Series C, the Corporation (by election or otherwise) becomes subject to any law, rule, regulation or guidance (together, "Regulations") relating to its capital adequacy, which Regulation (x) modifies the existing requirements for treatment as Allowable Capital (as defined under the Securities and Exchange Commission rules relating to consolidated supervised entities as in effect from time to time), (y) provides for a type or level of capital characterized as "Tier 1" or its equivalent pursuant to Regulations of any governmental agency, authority or other body having regulatory jurisdiction over the Corporation (or any of its subsidiaries or consolidated affiliates) and implementing the capital standards published by the Basel Committee on Banking Supervision, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System or any other United States national governmental agency, authority or other body, or any other applicable regime based on capital standards published by the Basel Committee on Banking Supervision or its successor, or (z) provides for a type or level of capital that in the judgment of the Corporation (after consultation with legal counsel of recognized standing) is substantially equivalent to such "Tier 1" capital (such capital described in either (y) or (z) above is referred to below as "Tier 1 Capital Equivalent"), and

(ii) the Corporation affirmatively elects to qualify the Series C for treatment as Allowable Capital or Tier 1 Capital Equivalent without any sublimit or other quantitative restriction on the inclusion of the Series C in Allowable Capital or Tier 1 Capital Equivalent (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) under such Regulations, then, upon such affirmative election, the Series C shall be convertible at the Corporation's option into a new series of Preferred Stock having terms and provisions substantially identical to those of the Series C, except that such new series may have such additional or modified rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as are necessary in the judgment of the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) (after consultation with legal counsel of recognized standing) to comply with the Required Unrestricted Capital Provisions (as defined below), *provided* that the Corporation will not cause any such conversion unless the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) determines that the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of such new series of Preferred Stock, taken as a whole, are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of the Series C, taken as a whole.

As used above, the term "Required Unrestricted Capital Provisions" means such terms and provisions as are, in the judgment of the Corporation (after consultation with counsel of recognized standing), required for preferred stock to be treated as Allowable Capital or Tier 1 Capital Equivalent, as applicable, without any sublimit or other quantitative restriction on the inclusion of such preferred stock in Allowable Capital or Tier 1 Capital Equivalent, as applicable (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) pursuant to the applicable Regulations.

The Corporation shall provide notice to the holders of Series C of any election to qualify the Series C for Allowable Capital or Tier 1 Capital Equivalent treatment and of any determination to convert the Series C into a new series of Preferred Stock pursuant to the terms of this Section 7, promptly upon the effectiveness of any such election or determination. A copy of such notice and of the relevant Regulations shall be maintained on file at the principal offices of the Corporation and, upon request, will be made available to any stockholder of the Corporation. Any conversion of the Series C pursuant to this Section 7 shall be effected pursuant to such procedures as the Corporation may determine and publicly disclose.

Except as specified in this Section 7, holders of Series C shares shall have no right to exchange or convert such shares into any other securities.

Section 8. Voting Rights.

(a) General. The holders of Series C shall not have any voting rights except as set forth below or as otherwise from to time required by law.

(b) Right To Elect Two Directors Upon Nonpayment Events. If and whenever dividends on any shares of Series C shall not have been declared and paid for at least six Dividend Periods, whether or not consecutive (a "Nonpayment Event"), the number of directors then constituting the Board of Directors shall automatically be increased by two and the holders of Series C, together with the holders of any outstanding shares of Voting Preferred Stock, voting together as a single class, shall be entitled to elect the two additional directors (the "Preferred Stock Directors"), *provided* that it shall be a qualification for election for any such Preferred Stock Director that the election of such director shall not cause the Corporation to violate the corporate governance requirement of the New York Stock Exchange (or any other securities exchange or other trading facility on which securities of the Corporation may then be listed or traded) that listed or traded companies must have a majority of independent directors and *provided further* that the Board of Directors shall at no time include more than two Preferred Stock Directors (including, for purposes of this limitation, all directors that the holders of any series of Voting Preferred Stock are entitled to elect pursuant to like voting rights).

In the event that the holders of the Series C, and such other holders of Voting Preferred Stock, shall be entitled to vote for the election of the Preferred Stock Directors following a Nonpayment Event, such directors shall be initially elected following such Nonpayment Event only at a special meeting called at the request of the holders of record of at least 20% of the Series C or of any other series of Voting Preferred Stock then outstanding (unless such request for a special meeting is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders of the Corporation, in which event such election shall be held only at such next annual or special meeting of stockholders), and at each subsequent annual meeting of stockholders of the Corporation. Such request to call a special meeting for the initial election of the Preferred Stock Directors after a Nonpayment Event shall be made by written notice, signed by the requisite holders of Series C or Voting Preferred Stock, and delivered to the Secretary of the Corporation in such manner as provided for in Section 10 below, or as may otherwise be required by law.

When dividends have been paid (or declared and a sum sufficient for payment thereof set aside) in full on the Series C for at least four Dividend Periods (whether or not consecutive) after a Nonpayment Event, then the right of the holders of Series C to elect the Preferred Stock Directors shall cease (but subject always to revesting of such voting rights in the case of any future Nonpayment Event), and, if and when any rights of holders of Series C and Voting Preferred Stock to elect the Preferred Stock Directors shall have ceased, the terms of office of all the Preferred Stock Directors shall forthwith terminate and the number of directors constituting the Board of Directors shall automatically be reduced accordingly.

Any Preferred Stock Director may be removed at any time without cause by the holders of record of a majority of the outstanding shares of the Series C and Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). So long as a Nonpayment Event shall continue, any vacancy in the office of a Preferred Stock Director (other than prior to the initial election of Preferred Stock Directors after a Nonpayment Event) may be filled by the written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of the Series C and all Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). Any such vote of stockholders to remove, or to fill a vacancy in the office of, a Preferred Stock Director may be taken only at a special meeting of such stockholders, called as provided above for an initial election of Preferred Stock Director after a Nonpayment Event (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders). The Preferred Stock Directors shall each be entitled to one vote per director on any matter that shall come before the Board of Directors for a vote. Each Preferred Stock Director elected at any special meeting of stockholders or by written consent of the other Preferred Stock Director shall hold office until the next annual meeting of the stockholders if such office shall not have previously terminated as above provided.

(c) Other Voting Rights. So long as any shares of Series C are outstanding, in addition to any other vote or consent of stockholders required by law or by the Certificate of Incorporation, the vote or consent of the holders of at least 66⅔% of the shares of Series C and any Voting Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) **Authorization of Senior Stock**. Any amendment or alteration of the Certificate of Incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series of capital stock of the Corporation ranking senior to the Series C with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(ii) **Amendment of Series C**. Any amendment, alteration or repeal of any provision of the Certificate of Incorporation so as to materially and adversely affect the special rights, preferences, privileges or voting powers of the Series C, taken as a whole; or

(iii) **Share Exchanges, Reclassifications, Mergers and Consolidations**. Any consummation of a binding share exchange or reclassification involving the Series C, or of a merger or consolidation of the Corporation with another corporation or other entity, unless in each case (x) the shares of Series C remain outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series C immediately prior to such consummation, taken as a whole;

provided, *however*, that for all purposes of this Section 8(c), any increase in the amount of the authorized or issued Series C or authorized Preferred Stock, or the creation and issuance, or an increase in the authorized or issued amount, of any other series of Preferred Stock ranking equally with and/or junior to the Series C with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/or the distribution of assets upon liquidation, dissolution or winding up of the Corporation will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series C. In addition, any conversion of the Series C pursuant to Section 7 above shall not be deemed to adversely affect the rights, preferences, privileges and voting powers of the Series C.

If any amendment, alteration, repeal, share exchange, reclassification, merger or consolidation specified in this Section 7(c) would adversely affect the Series C and one or more but not all other series of Preferred Stock, then only the Series C and such series of Preferred Stock as are adversely affected by and entitled to vote on the matter shall vote on the matter together as a single class (in lieu of all other series of Preferred Stock).

(d) Changes for Clarification. Without the consent of the holders of the Series C, so long as such action does not adversely affect the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series C, the Corporation may amend, alter, supplement or repeal any terms of the Series C:

(i) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designations that may be defective or inconsistent; or

(ii) to make any provision with respect to matters or questions arising with respect to the Series C that is not inconsistent with the provisions of this Certificate of Designations.

(e) Changes after Provision for Redemption. No vote or consent of the holders of Series C shall be required pursuant to Section 8 (b), (c) or (d) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of Series C shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been set aside for such redemption, in each case pursuant to Section 6 above.

(f) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Series C (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Certificate of Incorporation, the Bylaws, applicable law and any national securities exchange or other trading facility on which the Series C is listed or traded at the time. Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Series C and any Voting Preferred

Stock has been cast or given on any matter on which the holders of shares of Series C are entitled to vote shall be determined by the Corporation by reference to the specified liquidation amounts of the shares voted or covered by the consent.

Section 9. Record Holders. To the fullest extent permitted by applicable law, the Corporation and the transfer agent for the Series C may deem and treat the record holder of any share of Series C as the true and lawful owner thereof for all purposes, and neither the Corporation nor such transfer agent shall be affected by any notice to the contrary.

Section 10. Notices. All notices or communications in respect of Series C shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Certificate of Incorporation or Bylaws or by applicable law.

Section 11. No Preemptive Rights. No share of Series C shall have any rights of preemption whatsoever as to any securities of the Corporation, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 12. Other Rights. The shares of Series C shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law.

Appendix D

CERTIFICATE OF DESIGNATIONS

OF

FLOATING RATE NON-CUMULATIVE PREFERRED STOCK, SERIES D

OF

THE GOLDMAN SACHS GROUP, INC.

THE GOLDMAN SACHS GROUP, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware (the “Corporation”), in accordance with the provisions of Sections 103 and 151 thereof, DOES HEREBY CERTIFY :

The Securities Issuance Committee (the “Committee”) of the board of directors of the Corporation (the “Board of Directors”), in accordance with the resolutions of the Board of Directors dated September 16, 2005, the provisions of the restated certificate of incorporation and the amended and restated bylaws of the Corporation and applicable law, by unanimous written consent dated May 16, 2005, adopted the following resolution creating a series of 60,000 shares of Preferred Stock of the Corporation designated as “Floating Rate Non-Cumulative Preferred Stock, Series D”.

RESOLVED, that pursuant to the authority vested in the Committee and in accordance with the resolutions of the Board of Directors dated September 16, 2005, the provisions of the restated certificate of incorporation and the amended and restated bylaws of the Corporation and applicable law, a series of Preferred Stock, par value $.01 per share, of the Corporation be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Section 1. Designation. The distinctive serial designation of such series of Preferred Stock is “Floating Rate Non-Cumulative Preferred Stock, Series D” (“Series D”). Each share of Series D shall be identical in all respects to every other share of Series D, except as to the respective dates from which dividends thereon shall accrue, to the extent such dates may differ as permitted pursuant to Section 4(a) below.

Section 2. Number of Shares. The authorized number of shares of Series D shall be 60,000. Shares of Series D that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Preferred Stock, shall be cancelled and shall revert to authorized but unissued shares of Series D.

Section 3. Definitions. As used herein with respect to Series D:

(a) "Board of Directors" means the board of directors of the Corporation.

(b) "ByLaws" means the amended and restated bylaws of the Corporation, as they may be amended from time to time.

(c) "Business Day" means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close.

(d) "Calculation Agent" means, at any time, the person or entity appointed by the Corporation and serving as such agent at such time. The Corporation may terminate any such appointment and may appoint a successor agent at any time and from time to time, *provided* that the Corporation shall use its best efforts to ensure that there is, at all relevant times when the Series D is outstanding, a person or entity appointed and serving as such agent. The Calculation Agent may be a person or entity affiliated with the Corporation.

(e) "Certificate of Designations" means this Certificate of Designations relating to the Series D, as it may be amended from time to time.

(f) "Certification of Incorporation" shall mean the restated certificate of incorporation of the Corporation, as it may be amended from time to time, and shall include this Certificate of Designations.

(g) "Common Stock" means the common stock, par value $0.01 per share, of the Corporation.

(h) "Junior Stock" means the Common Stock and any other class or series of stock of the Corporation (other than Series D) that ranks junior to Series D either or both as to the payment of dividends and/or as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(i) "London Business Day" means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is a day on which dealings in U.S. dollars are transacted in the London interbank market.

(j) "Moneyline Telerate Page" means the display on Moneyline Telerate, Inc., or any successor service, on the page or pages specified in Section 4 below or any replacement page or pages on that service.

(k) "Parity Stock" means any class or series of stock of the Corporation (other than Series D) that ranks equally with Series D both in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(l) “Preferred Stock” means any and all series of Preferred Stock, having a par value of $0.01 per share, of the Corporation, including the Series D.

(m) “Representative Amount” means, at any time, an amount that, in the Calculation Agent’s judgment, is representative of a single transaction in the relevant market at the relevant time.

(n) “Voting Preferred Stock” means, with regard to any election or removal of a Preferred Stock Director (as defined in Section 8(b) below) or any other matter as to which the holders of Series D are entitled to vote as specified in Section 8 of this Certificate of Designations, any and all series of Preferred Stock (other than Series D) that rank equally with Series D either as to the payment of dividends or as to the distribution of assets upon liquidation, dissolution or winding up of the Corporation and upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 4. Dividends.

(a) Rate. Holders of Series D shall be entitled to receive, when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) out of funds legally available for the payment of dividends under Delaware law, non-cumulative cash dividends at the rate determined as set forth below in this Section (4) applied to the liquidation preference amount of $25,000 per share of Series D. Such dividends shall be payable quarterly in arrears (as provided below in this Section 4(a)), but only when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), on February 10, May 10, August 10 and November 10 (“Dividend Payment Dates”), commencing on August 10, 2006; *provided* that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series D on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day, unless such immediately succeeding Business Day falls in the next calendar month, in which case such Dividend Payment Date shall instead be (and any such dividend shall instead be payable on) the immediately preceding Business Day. Dividends on Series D shall not be cumulative; holders of Series D shall not be entitled to receive any dividends not declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend not so declared.

Dividends that are payable on Series D on any Dividend Payment Date will be payable to holders of record of Series D as they appear on the stock register of the Corporation on the applicable record date, which shall be the 15th calendar day before such Dividend Payment Date or such other record date fixed by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a “Dividend Record Date”). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Each dividend period (a "Dividend Period") shall commence on and include a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the date of original issue of the Series D, *provided* that, for any share of Series D issued after such original issue date, the initial Dividend Period for such shares may commence on and include such other date as the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) shall determine and publicly disclose) and shall end on and include the calendar day next preceding the next Dividend Payment Date. Dividends payable on the Series D in respect of any Dividend Period shall be computed by the Calculation Agent on the basis of a 360-day year and the actual number of days elapsed in such Dividend Period. Dividends payable in respect of a Dividend Period shall be payable in arrears – i.e., on the first Dividend Payment Date after such Dividend Period.

The dividend rate on the Series D, for each Dividend Period, shall be a rate per annum equal to the greater of (1) 0.67% above LIBOR (as defined below) for such Dividend Period and (2) 4.00%. LIBOR, with respect to any Dividend Period, means the offered rate expressed as a percentage per annum for three-month deposits in U.S. dollars on the first day of such Dividend Period, as that rate appears on Moneyline Telerate Page 3750 (or any successor or replacement page) as of 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period.

If the rate described in the preceding paragraph does not appear on Moneyline Telerate Page 3750 (or any successor or replacement page), LIBOR shall be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: three-month deposits in U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount. The Calculation Agent shall request the principal London office of each of these banks to provide a quotation of its rate at approximately 11:00 A.M., London time. If at least two quotations are provided, LIBOR for such Dividend Period shall be the arithmetic mean of such quotations.

If fewer than two quotations are provided as described in the preceding paragraph, LIBOR for such Dividend Period shall be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M. New York City time, on the second London Business Day immediately preceding the first day of such Dividend Period, by three major banks in New York City selected by the Calculation Agent: three-month loans of U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount.

If fewer than three banks selected by the Calculation Agent are quoting as described in the preceding paragraph, LIBOR for such Dividend Period shall be LIBOR in effect for the prior Dividend Period.

The Calculation Agent's determination of any dividend rate, and its calculation of the amount of dividends for any Dividend Period, will be maintained on file at the Corporation's principal offices and will be available to any stockholder upon request and will be final and binding in the absence of manifest error.

Holders of Series D shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on the Series D as specified in this Section 4 (subject to the other provisions of this Certificate of Designations).

(b) Priority of Dividends. So long as any share of Series D remains outstanding, no dividend shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than a dividend payable solely in Junior Stock), and no Common Stock or other Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by the Corporation, directly or indirectly (other than as a result of a reclassification of Junior Stock for or into other Junior Stock, or the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock and other than through the use of the proceeds of a substantially contemporaneous sale of Junior Stock) during a Dividend Period, unless the full dividends for the latest completed Dividend Period on all outstanding shares of Series D have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside). The foregoing provision shall not restrict the ability of Goldman, Sachs & Co., or any other affiliate of the Corporation, to engage in any market-making transactions in Junior Stock in the ordinary course of business.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period) in full upon the Series D and any shares of Parity Stock, all dividends declared on the Series D and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of parity stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Series D and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) bear to each other.

Subject to the foregoing, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and the Series D shall not be entitled to participate in any such dividends.

Section 5. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Series D shall be entitled to receive, out of the assets of the Corporation or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Corporation, and after satisfaction of all liabilities and obligations to creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Corporation ranking junior to the Series D as to such distribution, in full an amount equal to $25,000 per share (the "Series D Liquidation Amount"), together with an amount equal to all dividends (if any) that have been declared but not paid prior to the date of payment of such distribution (but without any amount in respect of dividends that have not been declared prior to such payment date).

(b) Partial Payment. If in any distribution described in Section 5(a) above the assets of the Corporation or proceeds thereof are not sufficient to pay the Liquidation Preferences (as defined below) in full to all holders of Series D and all holders of any stock of the Corporation ranking equally with the Series D as to such distribution, the amounts paid to the holders of Series D and to the holders of all such other stock shall be paid pro rata in accordance with the respective aggregate Liquidation Preferences of the holders of Series D and the holders of all such other stock. In any such distribution, the "Liquidation Preference" of any holder of stock of the Corporation shall mean the amount otherwise payable to such holder in such distribution (assuming no limitation on the assets of the Corporation available for such distribution), including an amount equal to any declared but unpaid dividends (and, in the case of any holder of stock other than Series D and on which dividends accrue on a cumulative basis, an amount equal to any unpaid, accrued, cumulative dividends, whether or not declared, as applicable).

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Series D, the holders of other stock of the Corporation shall be entitled to receive all remaining assets of the Corporation (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 5, the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the holders of Series D receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

Section 6. Redemption.

(a) Optional Redemption. The Series D may not be redeemed by the Corporation prior to May 24, 2011. On or after May 24, 2011, the Corporation, at its option, may redeem, in whole at any time or in part from time to time, the shares of Series D at the time outstanding, upon notice given as provided in Section 6(c) below, at a redemption price equal to $25,000 per share, together (except as otherwise provided hereinbelow) with an amount equal to any dividends that have been declared but not paid prior to the redemption date (but with no amount in respect of any dividends that have not been declared prior to such date). The redemption price for any shares of Series D shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Corporation or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 4 above.

(b) No Sinking Fund. The Series D will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Series D will have no right to require redemption of any shares of Series D.

(c) Notice of Redemption. Notice of every redemption of shares of Series D shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Corporation. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Series D designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series D. Notwithstanding the foregoing, if the Series D or any depositary shares representing interests in the Series D are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Series D at such time and in any manner permitted by such facility. Each such notice given to a holder shall state: (1) the redemption date; (2) the number of shares of Series D to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of only part of the shares of Series D at the time outstanding, the shares to be redeemed shall be selected either pro rata or in such other manner as the Corporation may determine to be fair and equitable. Subject to the provisions hereof, the Corporation shall have full power and authority to prescribe the terms and conditions upon which shares of Series D shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares.

Section 7. Conversion Upon Regulatory Changes. If both (i) and (ii) below occur:

(i) after the date of the issuance of the Series D, the Corporation (by election or otherwise) becomes subject to any law, rule, regulation or guidance (together, "Regulations") relating to its capital adequacy, which Regulation (x) modifies the existing requirements for treatment as Allowable Capital (as defined under the Securities and Exchange Commission rules relating to consolidated supervised entities as in effect from time to time), (y) provides for a type or level of capital characterized as "Tier 1" or its equivalent pursuant to Regulations of any governmental agency, authority or other body having regulatory jurisdiction over the Corporation (or any of its subsidiaries or consolidated affiliates) and implementing the capital standards published by the Basel Committee on Banking Supervision, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System or any other United States national governmental agency, authority or other body, or any other applicable regime based on capital standards published by the Basel Committee on Banking Supervision or its successor, or (z) provides for a type or level of capital that in the judgment of the Corporation (after consultation with legal counsel of recognized standing) is substantially equivalent to such "Tier 1" capital (such capital described in either (y) or (z) above is referred to below as "Tier 1 Capital Equivalent"), and

(ii) the Corporation affirmatively elects to qualify the Series D for treatment as Allowable Capital or Tier 1 Capital Equivalent without any sublimit or other quantitative restriction on the inclusion of the Series D in Allowable Capital or Tier 1 Capital Equivalent (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) under such Regulations, then, upon such affirmative election, the Series D shall be convertible at the Corporation's option into a new series of Preferred Stock having terms and provisions substantially identical to those of the Series D, except that such new series may have such additional or modified rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as are necessary in the judgment of the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) (after consultation with legal counsel of recognized standing) to comply with the Required Unrestricted Capital Provisions (as defined below), *provided* that the Corporation will not cause any such conversion unless the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) determines that the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of such new series of Preferred Stock, taken as a whole, are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of the Series D, taken as a whole.

As used above, the term "Required Unrestricted Capital Provisions" means such terms and provisions as are, in the judgment of the Corporation (after consultation with counsel of recognized standing), required for preferred stock to be treated as Allowable Capital or Tier 1 Capital Equivalent, as applicable, without any sublimit or other quantitative restriction on the inclusion of such preferred stock in Allowable Capital or Tier 1 Capital Equivalent, as applicable (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) pursuant to the applicable Regulations.

The Corporation shall provide notice to the holders of Series D of any election to qualify the Series D for Allowable Capital or Tier 1 Capital Equivalent treatment and of any determination to convert the Series D into a new series of Preferred Stock pursuant to the terms of this Section 7, promptly upon the effectiveness of any such election or determination. A copy of such notice and of the relevant Regulations shall be maintained on file at the principal offices of the Corporation and, upon request, will be made available to any stockholder of the Corporation. Any conversion of the Series D pursuant to this Section 7 shall be effected pursuant to such procedures as the Corporation may determine and publicly disclose.

Except as specified in this Section 7, holders of Series D shares shall have no right to exchange or convert such shares into any other securities.

Section 8. Voting Rights.

(a) General. The holders of Series D shall not have any voting rights except as set forth below or as otherwise from to time required by law.

(b) Right To Elect Two Directors Upon Nonpayment Events. If and whenever dividends on any shares of Series D shall not have been declared and paid for at least six Dividend Periods, whether or not consecutive (a "Nonpayment Event"), the number of directors then constituting the Board of Directors shall automatically be increased by two and the holders of Series D, together with the holders of any outstanding shares of Voting Preferred Stock, voting together as a single class, shall be entitled to elect the two additional directors (the "Preferred Stock Directors"), *provided* that it shall be a qualification for election for any such Preferred Stock Director that the election of such director shall not cause the Corporation to violate the corporate governance requirement of the New York Stock Exchange (or any other securities exchange or other trading facility on which securities of the Corporation may then be listed or traded) that listed or traded companies must have a majority of independent directors and *provided further* that the Board of Directors shall at no time include more than two Preferred Stock Directors (including, for purposes of this limitation, all directors that the holders of any series of Voting Preferred Stock are entitled to elect pursuant to like voting rights).

In the event that the holders of the Series D, and such other holders of Voting Preferred Stock, shall be entitled to vote for the election of the Preferred Stock Directors following a Nonpayment Event, such directors shall be initially elected following such Nonpayment Event only at a special meeting called at the request of the holders of record of at least 20% of the Series D or of any other series of Voting Preferred Stock then outstanding (unless such request for a special meeting is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders of the Corporation, in which event such election shall be held only at such next annual or special meeting of stockholders), and at each subsequent annual meeting of stockholders of the Corporation. Such request to call a special meeting for the initial election of the Preferred Stock Directors after a Nonpayment Event shall be made by written notice, signed by the requisite holders of Series D or Voting Preferred Stock, and delivered to the Secretary of the Corporation in such manner as provided for in Section 10 below, or as may otherwise be required by law.

When dividends have been paid (or declared and a sum sufficient for payment thereof set aside) in full on the Series D for at least four Dividend Periods (whether or not consecutive) after a Nonpayment Event, then the right of the holders of Series D to elect the Preferred Stock Directors shall cease (but subject always to revesting of such voting rights in the case of any future Nonpayment Event), and, if and when any rights of holders of Series D and Voting Preferred Stock to elect the Preferred Stock Directors shall have ceased, the terms of office of all the Preferred Stock Directors shall forthwith terminate and the number of directors constituting the Board of Directors shall automatically be reduced accordingly.

Any Preferred Stock Director may be removed at any time without cause by the holders of record of a majority of the outstanding shares of the Series D and Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). So long as a Nonpayment Event shall continue, any vacancy in the office of a Preferred Stock Director (other than prior to the initial election of Preferred Stock Directors after a Nonpayment Event) may be filled by the written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of the Series D and all Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). Any such vote of stockholders to remove, or to fill a vacancy in the office of, a Preferred Stock Director may be taken only at a special meeting of such stockholders, called as provided above for an initial election of Preferred Stock Director after a Nonpayment Event (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders). The Preferred Stock Directors shall each be entitled to one vote per director on any matter that shall come before the Board of Directors for a vote. Each Preferred Stock Director elected at any special meeting of stockholders or by written consent of the other Preferred Stock Director shall hold office until the next annual meeting of the stockholders if such office shall not have previously terminated as above provided.

(c) Other Voting Rights. So long as any shares of Series D are outstanding, in addition to any other vote or consent of stockholders required by law or by the Certificate of Incorporation, the vote or consent of the holders of at least 66⅔% of the shares of Series D and any Voting Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) **Authorization of Senior Stock**. Any amendment or alteration of the Certificate of Incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series of capital stock of the Corporation ranking senior to the Series D with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(ii) **Amendment of Series D**. Any amendment, alteration or repeal of any provision of the Certificate of Incorporation so as to materially and adversely affect the special rights, preferences, privileges or voting powers of the Series D, taken as a whole; or

(iii) **Share Exchanges, Reclassifications, Mergers and Consolidations**. Any consummation of a binding share exchange or reclassification involving the Series D, or of a merger or consolidation of the Corporation with another corporation or other entity, unless in each case (x) the shares of Series D remain outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series D immediately prior to such consummation, taken as a whole;

provided, *however*, that for all purposes of this Section 8(c), any increase in the amount of the authorized or issued Series D or authorized Preferred Stock, or the creation and issuance, or an increase in the authorized or issued amount, of any other series of Preferred Stock ranking equally with and/or junior to the Series D with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/or the distribution of assets upon liquidation, dissolution or winding up of the Corporation will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series D. In addition, any conversion of the Series D pursuant to Section 7 above shall not be deemed to adversely affect the rights, preferences, privileges and voting powers of the Series D.

If any amendment, alteration, repeal, share exchange, reclassification, merger or consolidation specified in this Section 7(c) would adversely affect the Series D and one or more but not all other series of Preferred Stock, then only the Series D and such series of Preferred Stock as are adversely affected by and entitled to vote on the matter shall vote on the matter together as a single class (in lieu of all other series of Preferred Stock).

(d) Changes for Clarification. Without the consent of the holders of the Series D, so long as such action does not adversely affect the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series D, the Corporation may amend, alter, supplement or repeal any terms of the Series D:

(i) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designations that may be defective or inconsistent; or

(ii) to make any provision with respect to matters or questions arising with respect to the Series D that is not inconsistent with the provisions of this Certificate of Designations.

(e) Changes after Provision for Redemption. No vote or consent of the holders of Series D shall be required pursuant to Section 8 (b), (c) or (d) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of Series D shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been set aside for such redemption, in each case pursuant to Section 6 above.

(f) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Series D (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Certificate of Incorporation, the Bylaws, applicable law and any national securities exchange or other trading facility on which the Series D is listed or traded at the time. Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Series D and any Voting Preferred

Stock has been cast or given on any matter on which the holders of shares of Series D are entitled to vote shall be determined by the Corporation by reference to the specified liquidation amounts of the shares voted or covered by the consent.

Section 9. Record Holders. To the fullest extent permitted by applicable law, the Corporation and the transfer agent for the Series D may deem and treat the record holder of any share of Series D as the true and lawful owner thereof for all purposes, and neither the Corporation nor such transfer agent shall be affected by any notice to the contrary.

Section 10. Notices. All notices or communications in respect of Series D shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Certificate of Incorporation or Bylaws or by applicable law.

Section 11. No Preemptive Rights. No share of Series D shall have any rights of preemption whatsoever as to any securities of the Corporation, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 12. Other Rights. The shares of Series D shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law.

CERTIFICATE OF DESIGNATIONS

OF

PERPETUAL NON-CUMULATIVE PREFERRED STOCK, SERIES E

OF

THE GOLDMAN SACHS GROUP, INC.

THE GOLDMAN SACHS GROUP, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), in accordance with the provisions of Sections 103 and 151 thereof, DOES HEREBY CERTIFY :

The Securities Issuance Committee (the "Committee") of the board of directors of the Corporation (the "Board of Directors"), in accordance with the resolutions of the Board of Directors dated September 16, 2005 and September 29, 2006, the provisions of the restated certificate of incorporation and the amended and restated bylaws of the Corporation and applicable law, by unanimous written consent dated May 14, 2007, adopted the following resolution creating a series of 17,500.1 shares of Preferred Stock of the Corporation designated as "Perpetual Non-Cumulative Preferred Stock, Series E".

RESOLVED, that pursuant to the authority vested in the Committee and in accordance with the resolutions of the Board of Directors dated September 16, 2005 and September 29, 2006, the provisions of the restated certificate of incorporation and the amended and restated bylaws of the Corporation and applicable law, a series of Preferred Stock, par value $.01 per share, of the Corporation be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Section 1. Designation. The distinctive serial designation of such series of Preferred Stock is "Perpetual Non-Cumulative Preferred Stock, Series E" ("Series E"). Each share of Series E shall be identical in all respects to every other share of Series E.

Section 2. Number of Shares. The authorized number of shares of Series E shall be 17,500.1. Shares of Series E that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Preferred Stock, shall be cancelled and shall revert to authorized but unissued shares of Series E.

Section 3. Definitions. As used herein with respect to Series E:

(a) “Board of Directors” means the board of directors of the Corporation.

(b) “ByLaws” means the amended and restated bylaws of the Corporation, as they may be amended from time to time.

(c) “Business Day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close.

(d) “Calculation Agent” means, at any time, the person or entity appointed by the Corporation and serving as such agent at such time. The Corporation may terminate any such appointment and may appoint a successor agent at any time and from time to time, *provided* that the Corporation shall use its best efforts to ensure that there is, at all relevant times when the Series E is outstanding, a person or entity appointed and serving as such agent. The Calculation Agent may be a person or entity affiliated with the Corporation.

(e) “Certificate of Designations” means this Certificate of Designations relating to the Series E, as it may be amended from time to time.

(f) “Certification of Incorporation” shall mean the restated certificate of incorporation of the Corporation, as it may be amended from time to time, and shall include this Certificate of Designations.

(g) “Common Stock” means the common stock, par value $0.01 per share, of the Corporation.

(h) “Junior Stock” means the Common Stock and any other class or series of stock of the Corporation (other than Series E) that ranks junior to Series E either or both as to the payment of dividends and/or as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(i) “London Business Day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is a day on which dealings in U.S. dollars are transacted in the London interbank market.

(j) “Parity Stock” means any class or series of stock of the Corporation (other than Series E) that ranks equally with Series E both in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(k) “Preferred Stock” means any and all series of Preferred Stock, having a par value of $0.01 per share, of the Corporation, including the Series E.

(l) “Representative Amount” means, at any time, an amount that, in the Calculation Agent’s judgment, is representative of a single transaction in the relevant market at the relevant time.

(m) “Reuters Screen LIBOR01” means the display designated on the Reuters 3000 Xtra (or such other page as may replace that page on that service or such other service as may be nominated by the British Bankers’ Association for the purpose of displaying London interbank offered rates for U.S. Dollar deposits).

(n) “Voting Preferred Stock” means, with regard to any election or removal of a Preferred Stock Director (as defined in Section 8(b) below) or any other matter as to which the holders of Series E are entitled to vote as specified in Section 8 of this Certificate of Designations, any and all series of Preferred Stock (other than Series E) that rank equally with Series E either as to the payment of dividends or as to the distribution of assets upon liquidation, dissolution or winding up of the Corporation and upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 4. Dividends.

(a) Rate. Holders of Series E shall be entitled to receive, when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) out of funds legally available for the payment of dividends under Delaware law, non-cumulative cash dividends at the rate determined as set forth below in this Section (4) applied to the liquidation preference amount of $100,000 per share of Series E. Such dividends shall be payable in arrears (as provided below in this Section 4(a)), but only when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), (a) if the shares of Series E are issued prior to June 1, 2012 (or if such date is not a Business Day, the next Business Day), on June 1 and December 1 of each year until June 1, 2012, and (b) thereafter, on March 1, June 1, September 1 and December 1 of each year (each a “Dividend Payment Date”); *provided* that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series E on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day. If a Dividend Payment Date prior to June 1, 2012 is not a Business Day, the applicable dividend shall be paid on the first Business Day following that day without adjustment. Dividends on Series E shall not be cumulative; holders of Series E shall not be entitled to receive any dividends not declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend not so declared.

Dividends that are payable on Series E on any Dividend Payment Date will be payable to holders of record of Series E as they appear on the stock register of the Corporation on the applicable record date, which shall be the 15th calendar day before such Dividend Payment Date or such other record date fixed by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Each dividend period (a "Dividend Period") shall commence on and include a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the date of original issue of the Series E) and shall end on and include the calendar day next preceding the next Dividend Payment Date. Dividends payable on the Series E in respect of a Dividend Period shall be computed by the Calculation Agent (i) if shares of Series E are issued prior to June 1, 2012, on the basis of a 360-day year consisting of twelve 30-day months until the Dividend Payment Date in June 2012 and (ii) thereafter, on the basis of a 360-day year and the actual number of days elapsed in such Dividend Period. Dividends payable in respect of a Dividend Period shall be payable in arrears − i.e., on the first Dividend Payment Date after such Dividend Period.

The dividend rate on the Series E, for each Dividend Period, shall be (a) if the shares of Series E are issued prior to June 1, 2012, a rate per annum equal to 5.793% until the Dividend Payment Date in June 2012, and (b) thereafter, a rate per annum that will reset quarterly and shall be equal to the greater of (i) three-month LIBOR for such Dividend Period plus 0.7675% and (ii) 4.000%. Three-month LIBOR, with respect to any Dividend Period, means the offered rate expressed as a percentage per annum for three-month deposits in U.S. dollars on the first day of such Dividend Period, as that rate appears on Reuters Screen LIBOR01 (or any successor or replacement page) as of 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period.

If the rate described in the preceding paragraph does not appear on Reuters Screen LIBOR01(or any successor or replacement page), LIBOR shall be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: three-month deposits in U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount. The Calculation Agent shall request the principal London office of each of these banks to provide a quotation of its rate at approximately 11:00 A.M., London time. If at least two quotations are provided, LIBOR for such Dividend Period shall be the arithmetic mean of such quotations.

If fewer than two quotations are provided as described in the preceding paragraph, LIBOR for such Dividend Period shall be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M. New York City time, on the second London Business Day immediately preceding the first day of such Dividend Period, by three major banks in New York City selected by the Calculation Agent: three-month loans of U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount.

If fewer than three banks selected by the Calculation Agent are quoting as described in the preceding paragraph, LIBOR for such Dividend Period shall be LIBOR in effect for the prior Dividend Period.

The Calculation Agent's determination of any dividend rate, and its calculation of the amount of dividends for any Dividend Period, will be maintained on file at the Corporation's principal offices and will be available to any stockholder upon request and will be final and binding in the absence of manifest error.

Holders of Series E shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on the Series E as specified in this Section 4 (subject to the other provisions of this Certificate of Designations).

(b) Priority of Dividends. So long as any share of Series E remains outstanding, no dividend shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than a dividend payable solely in Junior Stock), and no Common Stock or other Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by the Corporation, directly or indirectly (other than as a result of a reclassification of Junior Stock for or into other Junior Stock, or the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock and other than through the use of the proceeds of a substantially contemporaneous sale of Junior Stock) during a Dividend Period, unless the full dividends for the latest completed Dividend Period on all outstanding shares of Series E have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside). The foregoing provision shall not restrict the ability of Goldman, Sachs & Co., or any other affiliate of the Corporation, to engage in any market-making transactions in Junior Stock in the ordinary course of business.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period) in full upon the Series E and any shares of Parity Stock, all dividends declared on the Series E and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of parity stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Series E and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) bear to each other.

Subject to the foregoing, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and the Series E shall not be entitled to participate in any such dividends.

Section 5. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Series E shall be entitled to receive, out of the assets of the Corporation or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Corporation, and after satisfaction of all liabilities and obligations to creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Corporation ranking junior to the Series E as to such distribution, in full an amount equal to $100,000 per share (the "Series E Liquidation Amount"), together with an amount equal to all dividends (if any) that have been declared but not paid prior to the date of payment of such distribution (but without any amount in respect of dividends that have not been declared prior to such payment date).

(b) Partial Payment. If in any distribution described in Section 5(a) above the assets of the Corporation or proceeds thereof are not sufficient to pay the Liquidation Preferences (as defined below) in full to all holders of Series E and all holders of any stock of the Corporation ranking equally with the Series E as to such distribution, the amounts paid to the holders of Series E and to the holders of all such other stock shall be paid pro rata in accordance with the respective aggregate Liquidation Preferences of the holders of Series E and the holders of all such other stock. In any such distribution, the "Liquidation Preference" of any holder of stock of the Corporation shall mean the amount otherwise payable to such holder in such distribution (assuming no limitation on the assets of the Corporation available for such distribution), including an amount equal to any declared but unpaid dividends (and, in the case of any holder of stock other than Series E and on which dividends accrue on a cumulative basis, an amount equal to any unpaid, accrued, cumulative dividends, whether or not declared, as applicable).

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Series E, the holders of other stock of the Corporation shall be entitled to receive all remaining assets of the Corporation (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 5, the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the holders of Series E receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

Section 6. Redemption.

(a) Optional Redemption. The Series E may not be redeemed by the Corporation prior to the later of June 1, 2012 and the date of original issue of Series E. On or after that date, the Corporation, at its option, may redeem, in whole at any time or in part from time to time, the shares of Series E at the time outstanding, upon notice given as provided in Section 6(c) below, at a redemption price equal to $100,000 per share, together (except as otherwise provided herein) with an amount equal to any dividends that have been declared but not paid prior to the redemption date (but with no amount in respect of any dividends that have not been declared prior to such date). The redemption price for any shares of Series E shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Corporation or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 4 above.

(b) No Sinking Fund. The Series E will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Series E will have no right to require redemption of any shares of Series E.

(c) Notice of Redemption. Notice of every redemption of shares of Series E shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Corporation. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Series E designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series E. Notwithstanding the foregoing, if the Series E or any depositary shares representing interests in the Series E are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Series E at such time and in any manner permitted by such facility. Each such notice given to a holder shall state: (1) the redemption date; (2) the number of shares of Series E to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of only part of the shares of Series E at the time outstanding, the shares to be redeemed shall be selected either pro rata or in such other manner as the Corporation may determine to be fair and equitable. Subject to the provisions hereof, the Corporation shall have full power and authority to prescribe the terms and conditions upon which shares of Series E shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares.

Section 7. Conversion Upon Regulatory Changes. If both (i) and (ii) below occur:

(i) after the date of the issuance of the Series E, the Corporation (by election or otherwise) becomes subject to any law, rule, regulation or guidance (together, "Regulations") relating to its capital adequacy, which Regulation (x) modifies the existing requirements for treatment as Allowable Capital (as defined under the Securities and Exchange Commission rules relating to consolidated supervised entities as in effect from time to time), (y) provides for a type or level of capital characterized as "Tier 1" or its equivalent pursuant to Regulations of any governmental agency, authority or other body having regulatory jurisdiction over the Corporation (or any of its subsidiaries or consolidated affiliates) and implementing the capital standards published by the Basel Committee on Banking Supervision, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System or any other United States national governmental agency, authority or other body, or any other applicable regime based on capital standards published by the Basel Committee on Banking Supervision or its successor, or (z) provides for a type or level of capital that in the judgment of the Corporation (after consultation with legal counsel of recognized standing) is substantially equivalent to such "Tier 1" capital (such capital described in either (y) or (z) above is referred to below as "Tier 1 Capital Equivalent"), and

(ii) the Corporation affirmatively elects to qualify the Series E for treatment as Allowable Capital or Tier 1 Capital Equivalent without any sublimit or other quantitative restriction on the inclusion of the Series E in Allowable Capital or Tier 1 Capital Equivalent (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) under such Regulations,

then, upon such affirmative election, the Series E shall be convertible at the Corporation's option into a new series of Preferred Stock having terms and provisions substantially identical to those of the Series E, except that such new series may have such additional or modified rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as are necessary in the judgment of the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) (after consultation with legal counsel of recognized standing) to comply with the Required Unrestricted Capital Provisions (as defined below), *provided* that the Corporation will not cause any such conversion unless the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) determines that the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of such new series of Preferred Stock, taken as a whole, are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of the Series E, taken as a whole.

As used above, the term "Required Unrestricted Capital Provisions" means such terms and provisions as are, in the judgment of the Corporation (after consultation with counsel of recognized standing), required for preferred stock to be treated as Allowable Capital or Tier 1 Capital Equivalent, as applicable, without any sublimit or other quantitative restriction on the inclusion of such preferred stock in Allowable Capital or Tier 1 Capital Equivalent, as applicable (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) pursuant to the applicable Regulations.

The Corporation shall provide notice to the holders of Series E of any election to qualify the Series E for Allowable Capital or Tier 1 Capital Equivalent treatment and of any determination to convert the Series E into a new series of Preferred Stock pursuant to the terms of this Section 7, promptly upon the effectiveness of any such election or determination. A copy of such notice and of the relevant Regulations shall be maintained on file at the principal offices of the Corporation and, upon request, will be made available to any stockholder of the Corporation. Any conversion of the Series E pursuant to this Section 7 shall be effected pursuant to such procedures as the Corporation may determine and publicly disclose.

Except as specified in this Section 7, holders of Series E shares shall have no right to exchange or convert such shares into any other securities.

Section 8. Voting Rights.

(a) General. The holders of Series E shall not have any voting rights except as set forth below or as otherwise from to time required by law.

(b) Right To Elect Two Directors Upon Nonpayment Events. If and whenever dividends on any shares of Series E shall not have been declared and paid for Dividend Periods, whether or not consecutive, equivalent to at least eighteen months (a "Nonpayment Event"), the number of directors then constituting the Board of Directors shall automatically be increased by two and the holders of Series E, together with the holders of any outstanding shares of Voting Preferred Stock, voting together as a single class, shall be entitled to elect the two additional directors (the "Preferred Stock Directors"), *provided* that it shall be a qualification for election for any such Preferred Stock Director that the election of such director shall not cause the Corporation to violate the corporate governance requirement of the New York Stock Exchange (or any other securities exchange or other trading facility on which securities of the Corporation may then be listed or traded) that listed or traded companies must have a majority of independent directors and *provided further* that the Board of Directors shall at no time include more than two Preferred Stock Directors (including, for purposes of this limitation, all directors that the holders of any series of Voting Preferred Stock are entitled to elect pursuant to like voting rights).

In the event that the holders of the Series E, and such other holders of Voting Preferred Stock, shall be entitled to vote for the election of the Preferred Stock Directors following a Nonpayment Event, such directors shall be initially elected following such Nonpayment Event only at a special meeting called at the request of the holders of record of at least 20% of the Series E or of any other series of Voting Preferred Stock then outstanding (unless such request for a special meeting is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders of the Corporation, in which event such election shall be held only at such next annual or special meeting of stockholders), and at each subsequent annual meeting of stockholders of the Corporation. Such request to call a special meeting for the initial election of the Preferred Stock Directors after a Nonpayment Event shall be made by written notice, signed by the requisite holders of Series E or Voting Preferred Stock, and delivered to the Secretary of the Corporation in such manner as provided for in Section 10 below, or as may otherwise be required by law.

When dividends have been paid (or declared and a sum sufficient for payment thereof set aside) in full on the Series E for Dividend Periods, whether or not consecutive, equivalent to at least one year after a Nonpayment Event, then the right of the holders of Series E to elect the Preferred Stock Directors shall cease (but subject always to revesting of such voting rights in the case of any future Nonpayment Event), and, if and when any rights of holders of Series E and Voting Preferred Stock to elect the Preferred Stock Directors shall have ceased, the terms of office of all the Preferred Stock Directors shall forthwith terminate and the number of directors constituting the Board of Directors shall automatically be reduced accordingly.

Any Preferred Stock Director may be removed at any time without cause by the holders of record of a majority of the outstanding shares of the Series E and Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). So long as a Nonpayment Event shall continue, any vacancy in the office of a Preferred Stock Director (other than prior to the initial election of

Preferred Stock Directors after a Nonpayment Event) may be filled by the written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of the Series E and all Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). Any such vote of stockholders to remove, or to fill a vacancy in the office of, a Preferred Stock Director may be taken only at a special meeting of such stockholders, called as provided above for an initial election of Preferred Stock Director after a Nonpayment Event (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders). The Preferred Stock Directors shall each be entitled to one vote per director on any matter that shall come before the Board of Directors for a vote. Each Preferred Stock Director elected at any special meeting of stockholders or by written consent of the other Preferred Stock Director shall hold office until the next annual meeting of the stockholders if such office shall not have previously terminated as above provided.

(c) Other Voting Rights. So long as any shares of Series E are outstanding, in addition to any other vote or consent of stockholders required by law or by the Certificate of Incorporation, the vote or consent of the holders of at least 66⅔% of the shares of Series E and any Voting Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) **Authorization of Senior Stock**. Any amendment or alteration of the Certificate of Incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series of capital stock of the Corporation ranking senior to the Series E with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(ii) **Amendment of Series E**. Any amendment, alteration or repeal of any provision of the Certificate of Incorporation so as to materially and adversely affect the special rights, preferences, privileges or voting powers of the Series E, taken as a whole; or

(iii) **Share Exchanges, Reclassifications, Mergers and Consolidations**. Any consummation of a binding share exchange or reclassification involving the Series E, or of a merger or consolidation of the Corporation with another corporation or other entity, unless in each case (x) the shares of Series E remain outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series E immediately prior to such consummation, taken as a whole;

provided, *however*, that for all purposes of this Section 8(c), any increase in the amount of the authorized or issued Series E or authorized Preferred Stock, or the creation and issuance, or an increase in the authorized or issued amount, of any other series of Preferred Stock ranking equally with and/or junior to the Series E with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/or the distribution of assets upon liquidation, dissolution or winding up of the Corporation will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series E. In addition, any conversion of the Series E pursuant to Section 7 above shall not be deemed to adversely affect the rights, preferences, privileges and voting powers of the Series E.

If any amendment, alteration, repeal, share exchange, reclassification, merger or consolidation specified in this Section 7(c) would adversely affect the Series E and one or more but not all other series of Preferred Stock, then only the Series E and such series of Preferred Stock as are adversely affected by and entitled to vote on the matter shall vote on the matter together as a single class (in lieu of all other series of Preferred Stock).

(d) Changes for Clarification. Without the consent of the holders of the Series E, so long as such action does not adversely affect the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series E, the Corporation may amend, alter, supplement or repeal any terms of the Series E:

(i) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designations that may be defective or inconsistent; or

(ii) to make any provision with respect to matters or questions arising with respect to the Series E that is not inconsistent with the provisions of this Certificate of Designations.

(e) Changes after Provision for Redemption. No vote or consent of the holders of Series E shall be required pursuant to Section 8 (b), (c) or (d) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of Series E shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been set aside for such redemption, in each case pursuant to Section 6 above.

(f) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Series E (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Certificate of Incorporation, the Bylaws, applicable law and any national securities exchange or other trading facility on which the Series E is listed or traded at the time. Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Series E and any Voting Preferred Stock has been cast or given on any matter on which the holders of shares of Series E are entitled to vote shall be determined by the Corporation by reference to the specified liquidation amounts of the shares voted or covered by the consent.

Section 9. Record Holders. To the fullest extent permitted by applicable law, the Corporation and the transfer agent for the Series E may deem and treat the record holder of any share of Series E as the true and lawful owner thereof for all purposes, and neither the Corporation nor such transfer agent shall be affected by any notice to the contrary.

Section 10. Notices. All notices or communications in respect of Series E shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Certificate of Incorporation or Bylaws or by applicable law.

Section 11. No Preemptive Rights. No share of Series E shall have any rights of preemption whatsoever as to any securities of the Corporation, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 12. Other Rights. The shares of Series E shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law.

Appendix F

CERTIFICATE OF DESIGNATIONS

OF

PERPETUAL NON-CUMULATIVE PREFERRED STOCK, SERIES F

OF

THE GOLDMAN SACHS GROUP, INC.

THE GOLDMAN SACHS GROUP, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), in accordance with the provisions of Sections 103 and 151 thereof, DOES HEREBY CERTIFY :

The Securities Issuance Committee (the "Committee") of the board of directors of the Corporation (the "Board of Directors"), in accordance with the resolutions of the Board of Directors dated September 16, 2005 and September 29, 2006, the provisions of the restated certificate of incorporation and the amended and restated bylaws of the Corporation and applicable law, by unanimous written consent dated May 14, 2007, adopted the following resolution creating a series of 5,000.1 shares of Preferred Stock of the Corporation designated as "Perpetual Non-Cumulative Preferred Stock, Series F".

RESOLVED, that pursuant to the authority vested in the Committee and in accordance with the resolutions of the Board of Directors dated September 16, 2005 and September 29, 2006, the provisions of the restated certificate of incorporation and the amended and restated bylaws of the Corporation and applicable law, a series of Preferred Stock, par value $.01 per share, of the Corporation be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series, are as follows:

Section 1. Designation. The distinctive serial designation of such series of Preferred Stock is "Perpetual Non-Cumulative Preferred Stock, Series F" ("Series F"). Each share of Series F shall be identical in all respects to every other share of Series F.

Section 2. Number of Shares. The authorized number of shares of Series F shall be 5,000.1. Shares of Series F that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Preferred Stock, shall be cancelled and shall revert to authorized but unissued shares of Series F.

Section 3. Definitions. As used herein with respect to Series F:

(a) “Board of Directors” means the board of directors of the Corporation.

(b) “ByLaws” means the amended and restated bylaws of the Corporation, as they may be amended from time to time.

(c) “Business Day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is not a day on which banking institutions in New York City generally are authorized or obligated by law, regulation or executive order to close.

(d) “Calculation Agent” means, at any time, the person or entity appointed by the Corporation and serving as such agent at such time. The Corporation may terminate any such appointment and may appoint a successor agent at any time and from time to time, *provided* that the Corporation shall use its best efforts to ensure that there is, at all relevant times when the Series F is outstanding, a person or entity appointed and serving as such agent. The Calculation Agent may be a person or entity affiliated with the Corporation.

(e) “Certificate of Designations” means this Certificate of Designations relating to the Series F, as it may be amended from time to time.

(f) “Certification of Incorporation” shall mean the restated certificate of incorporation of the Corporation, as it may be amended from time to time, and shall include this Certificate of Designations.

(g) “Common Stock” means the common stock, par value $0.01 per share, of the Corporation.

(h) “Junior Stock” means the Common Stock and any other class or series of stock of the Corporation (other than Series F) that ranks junior to Series F either or both as to the payment of dividends and/or as to the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(i) “London Business Day” means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is a day on which dealings in U.S. dollars are transacted in the London interbank market.

(j) “Parity Stock” means any class or series of stock of the Corporation (other than Series F) that ranks equally with Series F both in the payment of dividends and in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(k) “Preferred Stock” means any and all series of Preferred Stock, having a par value of $0.01 per share, of the Corporation, including the Series F.

(l) "Representative Amount" means, at any time, an amount that, in the Calculation Agent's judgment, is representative of a single transaction in the relevant market at the relevant time.

(m) "Reuters Screen LIBOR01" means the display designated on the Reuters 3000 Xtra (or such other page as may replace that page on that service or such other service as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. Dollar deposits).

(n) "Voting Preferred Stock" means, with regard to any election or removal of a Preferred Stock Director (as defined in Section 8(b) below) or any other matter as to which the holders of Series F are entitled to vote as specified in Section 8 of this Certificate of Designations, any and all series of Preferred Stock (other than Series F) that rank equally with Series F either as to the payment of dividends or as to the distribution of assets upon liquidation, dissolution or winding up of the Corporation and upon which like voting rights have been conferred and are exercisable with respect to such matter.

Section 4. Dividends.

(a) Rate. Holders of Series F shall be entitled to receive, when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) out of funds legally available for the payment of dividends under Delaware law, non-cumulative cash dividends at the rate determined as set forth below in this Section (4) applied to the liquidation preference amount of $100,000 per share of Series F. Such dividends shall be payable quarterly in arrears (as provided below in this Section 4(a)), but only when, as and if declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), on March 1, June 1, September 1 and December 1 of each year (each a "Dividend Payment Date"); *provided* that if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be (and any dividend payable on Series F on such Dividend Payment Date shall instead be payable on) the immediately succeeding Business Day. If a Dividend Payment Date is not a Business Day, the applicable dividend shall be paid on the first Business Day following that day. Dividends on Series F shall not be cumulative; holders of Series F shall not be entitled to receive any dividends not declared by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend not so declared.

Dividends that are payable on Series F on any Dividend Payment Date will be payable to holders of record of Series F as they appear on the stock register of the Corporation on the applicable record date, which shall be the 15th calendar day before such Dividend Payment Date or such other record date fixed by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) that is not more than 60 nor less than 10 days prior to such Dividend Payment Date (each, a

"Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

Each dividend period (a "Dividend Period") shall commence on and include a Dividend Payment Date (other than the initial Dividend Period, which shall commence on and include the date of original issue of the Series F) and shall end on and include the calendar day next preceding the next Dividend Payment Date. Dividends payable on the Series F in respect of any Dividend Period shall be computed by the Calculation Agent on the basis of a 360-day year and the actual number of days elapsed in such Dividend Period. Dividends payable in respect of a Dividend Period shall be payable in arrears – i.e., on the first Dividend Payment Date after such Dividend Period.

The dividend rate on the Series F, for each Dividend Period, shall be (a) if the shares of Series F are issued prior to September 1, 2012, a rate per annum equal to three-month LIBOR plus 0.77% until the Dividend Payment Date in September 2012, and (b) thereafter, a rate per annum that will reset quarterly and shall be equal to the greater of (i) three-month LIBOR for such Dividend Period plus 0.77 % and (ii) 4.000%. Three-month LIBOR, with respect to any Dividend Period, means the offered rate expressed as a percentage per annum for three-month deposits in U.S. dollars on the first day of such Dividend Period, as that rate appears on Reuters Screen LIBOR01 (or any successor or replacement page) as of 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period.

If the rate described in the preceding paragraph does not appear on Reuters Screen LIBOR01(or any successor or replacement page), LIBOR shall be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the second London Business Day immediately preceding the first day of such Dividend Period, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the Calculation Agent: three-month deposits in U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount. The Calculation Agent shall request the principal London office of each of these banks to provide a quotation of its rate at approximately 11:00 A.M., London time. If at least two quotations are provided, LIBOR for such Dividend Period shall be the arithmetic mean of such quotations.

If fewer than two quotations are provided as described in the preceding paragraph, LIBOR for such Dividend Period shall be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M. New York City time, on the second London Business Day immediately preceding the first day of such Dividend Period, by three major banks in New York City selected by the Calculation Agent: three-month loans of U.S. dollars, beginning on the first day of such Dividend Period, and in a Representative Amount.

If fewer than three banks selected by the Calculation Agent are quoting as described in the preceding paragraph, LIBOR for such Dividend Period shall be LIBOR in effect for the prior Dividend Period.

The Calculation Agent's determination of any dividend rate, and its calculation of the amount of dividends for any Dividend Period, will be maintained on file at the Corporation's principal offices and will be available to any stockholder upon request and will be final and binding in the absence of manifest error.

Holders of Series F shall not be entitled to any dividends, whether payable in cash, securities or other property, other than dividends (if any) declared and payable on the Series F as specified in this Section 4 (subject to the other provisions of this Certificate of Designations).

(b) Priority of Dividends. So long as any share of Series F remains outstanding, no dividend shall be declared or paid on the Common Stock or any other shares of Junior Stock (other than a dividend payable solely in Junior Stock), and no Common Stock or other Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by the Corporation, directly or indirectly (other than as a result of a reclassification of Junior Stock for or into other Junior Stock, or the exchange or conversion of one share of Junior Stock for or into another share of Junior Stock and other than through the use of the proceeds of a substantially contemporaneous sale of Junior Stock) during a Dividend Period, unless the full dividends for the latest completed Dividend Period on all outstanding shares of Series F have been declared and paid (or declared and a sum sufficient for the payment thereof has been set aside). The foregoing provision shall not restrict the ability of Goldman, Sachs & Co., or any other affiliate of the Corporation, to engage in any market-making transactions in Junior Stock in the ordinary course of business.

When dividends are not paid (or declared and a sum sufficient for payment thereof set aside) on any Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within a Dividend Period) in full upon the Series F and any shares of Parity Stock, all dividends declared on the Series F and all such Parity Stock and payable on such Dividend Payment Date (or, in the case of parity stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) shall be declared pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all accrued but unpaid dividends per share on the Series F and all Parity Stock payable on such Dividend Payment Date (or, in the case of Parity Stock having dividend payment dates different from the Dividend Payment Dates, on a dividend payment date falling within the Dividend Period related to such Dividend Payment Date) bear to each other.

Subject to the foregoing, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) may be declared and paid on any securities, including Common Stock and other Junior Stock, from time to time out of any funds legally available for such payment, and the Series F shall not be entitled to participate in any such dividends.

Section 5. Liquidation Rights.

(a) Voluntary or Involuntary Liquidation. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Series F shall be entitled to receive, out of the assets of the Corporation or proceeds thereof (whether capital or surplus) available for distribution to stockholders of the Corporation, and after satisfaction of all liabilities and obligations to creditors of the Corporation, before any distribution of such assets or proceeds is made to or set aside for the holders of Common Stock and any other stock of the Corporation ranking junior to the Series F as to such distribution, in full an amount equal to $100,000 per share (the "Series F Liquidation Amount"), together with an amount equal to all dividends (if any) that have been declared but not paid prior to the date of payment of such distribution (but without any amount in respect of dividends that have not been declared prior to such payment date).

(b) Partial Payment. If in any distribution described in Section 5(a) above the assets of the Corporation or proceeds thereof are not sufficient to pay the Liquidation Preferences (as defined below) in full to all holders of Series F and all holders of any stock of the Corporation ranking equally with the Series F as to such distribution, the amounts paid to the holders of Series F and to the holders of all such other stock shall be paid pro rata in accordance with the respective aggregate Liquidation Preferences of the holders of Series F and the holders of all such other stock. In any such distribution, the "Liquidation Preference" of any holder of stock of the Corporation shall mean the amount otherwise payable to such holder in such distribution (assuming no limitation on the assets of the Corporation available for such distribution), including an amount equal to any declared but unpaid dividends (and, in the case of any holder of stock other than Series F and on which dividends accrue on a cumulative basis, an amount equal to any unpaid, accrued, cumulative dividends, whether or not declared, as applicable).

(c) Residual Distributions. If the Liquidation Preference has been paid in full to all holders of Series F, the holders of other stock of the Corporation shall be entitled to receive all remaining assets of the Corporation (or proceeds thereof) according to their respective rights and preferences.

(d) Merger, Consolidation and Sale of Assets Not Liquidation. For purposes of this Section 5, the merger or consolidation of the Corporation with any other corporation or other entity, including a merger or consolidation in which the holders of Series F receive cash, securities or other property for their shares, or the sale, lease or exchange (for cash, securities or other property) of all or substantially all of the assets of the Corporation, shall not constitute a liquidation, dissolution or winding up of the Corporation.

Section 6. Redemption.

(a) Optional Redemption. The Series F may not be redeemed by the Corporation prior to the later of September 1, 2012 and the date of original issue of Series

F. On or after that date, the Corporation, at its option, may redeem, in whole at any time or in part from time to time, the shares of Series F at the time outstanding, upon notice given as provided in Section 6(c) below, at a redemption price equal to $100,000 per share, together (except as otherwise provided herein) with an amount equal to any dividends that have been declared but not paid prior to the redemption date (but with no amount in respect of any dividends that have not been declared prior to such date). The redemption price for any shares of Series F shall be payable on the redemption date to the holder of such shares against surrender of the certificate(s) evidencing such shares to the Corporation or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to the Dividend Record Date for a Dividend Period shall not be paid to the holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Dividend Record Date relating to the Dividend Payment Date as provided in Section 4 above.

(b) No Sinking Fund. The Series F will not be subject to any mandatory redemption, sinking fund or other similar provisions. Holders of Series F will have no right to require redemption of any shares of Series F.

(c) Notice of Redemption. Notice of every redemption of shares of Series F shall be given by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on the books of the Corporation. Such mailing shall be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this Subsection shall be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing thereof, to any holder of shares of Series F designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series F. Notwithstanding the foregoing, if the Series F or any depositary shares representing interests in the Series F are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the holders of Series F at such time and in any manner permitted by such facility. Each such notice given to a holder shall state: (1) the redemption date; (2) the number of shares of Series F to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) the redemption price; and (4) the place or places where certificates for such shares are to be surrendered for payment of the redemption price.

(d) Partial Redemption. In case of any redemption of only part of the shares of Series F at the time outstanding, the shares to be redeemed shall be selected either pro rata or in such other manner as the Corporation may determine to be fair and equitable. Subject to the provisions hereof, the Corporation shall have full power and authority to prescribe the terms and conditions upon which shares of Series F shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

(e) Effectiveness of Redemption. If notice of redemption has been duly given and if on or before the redemption date specified in the notice all funds necessary for the redemption have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date dividends shall cease to accrue on all shares so called for redemption, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on such redemption, without interest. Any funds unclaimed at the end of three years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares.

Section 7. Conversion Upon Regulatory Changes. If both (i) and (ii) below occur:

(i) after the date of the issuance of the Series F, the Corporation (by election or otherwise) becomes subject to any law, rule, regulation or guidance (together, "Regulations") relating to its capital adequacy, which Regulation (x) modifies the existing requirements for treatment as Allowable Capital (as defined under the Securities and Exchange Commission rules relating to consolidated supervised entities as in effect from time to time), (y) provides for a type or level of capital characterized as "Tier 1" or its equivalent pursuant to Regulations of any governmental agency, authority or other body having regulatory jurisdiction over the Corporation (or any of its subsidiaries or consolidated affiliates) and implementing the capital standards published by the Basel Committee on Banking Supervision, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System or any other United States national governmental agency, authority or other body, or any other applicable regime based on capital standards published by the Basel Committee on Banking Supervision or its successor, or (z) provides for a type or level of capital that in the judgment of the Corporation (after consultation with legal counsel of recognized standing) is substantially equivalent to such "Tier 1" capital (such capital described in either (y) or (z) above is referred to below as "Tier 1 Capital Equivalent"), and

(ii) the Corporation affirmatively elects to qualify the Series F for treatment as Allowable Capital or Tier 1 Capital Equivalent without any sublimit or other quantitative restriction on the inclusion of the Series F in Allowable Capital or Tier 1 Capital Equivalent (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) under such Regulations, then, upon such affirmative election, the Series F shall be convertible at the Corporation's option into a new series of Preferred Stock having terms and provisions substantially identical to those of the Series F, except that such new series may have such additional or modified rights, preferences, privileges and voting powers, and limitations and restrictions thereof, as are necessary in the judgment of the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) (after consultation with legal counsel of recognized standing) to comply with the Required Unrestricted Capital Provisions (as defined below), *provided* that the Corporation will not cause any such conversion unless the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors) determines that the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of such new series of Preferred Stock, taken as a whole, are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and the qualifications, limitations and restrictions thereof, of the Series F, taken as a whole.

As used above, the term "Required Unrestricted Capital Provisions" means such terms and provisions as are, in the judgment of the Corporation (after consultation with counsel of recognized standing), required for preferred stock to be treated as Allowable Capital or Tier 1 Capital Equivalent, as applicable, without any sublimit or other quantitative restriction on the inclusion of such preferred stock in Allowable Capital or Tier 1 Capital Equivalent, as applicable (other than any limitation the Corporation elects to accept and any limitation requiring that common equity or a specified form of common equity constitute the dominant form of Allowable Capital or Tier 1 Capital Equivalent) pursuant to the applicable Regulations.

The Corporation shall provide notice to the holders of Series F of any election to qualify the Series F for Allowable Capital or Tier 1 Capital Equivalent treatment and of any determination to convert the Series F into a new series of Preferred Stock pursuant to the terms of this Section 7, promptly upon the effectiveness of any such election or determination. A copy of such notice and of the relevant Regulations shall be maintained on file at the principal offices of the Corporation and, upon request, will be made available to any stockholder of the Corporation. Any conversion of the Series F pursuant to this Section 7 shall be effected pursuant to such procedures as the Corporation may determine and publicly disclose.

Except as specified in this Section 7, holders of Series F shares shall have no right to exchange or convert such shares into any other securities.

Section 8. Voting Rights.

(a) General. The holders of Series F shall not have any voting rights except as set forth below or as otherwise from to time required by law.

(b) Right To Elect Two Directors Upon Nonpayment Events. If and whenever dividends on any shares of Series F shall not have been declared and paid for at least six Dividend Periods, whether or not consecutive (a "Nonpayment Event"), the number of directors then constituting the Board of Directors shall automatically be increased by two and the holders of Series F, together with the holders of any outstanding shares of Voting Preferred Stock, voting together as a single class, shall be entitled to elect the two additional directors (the "Preferred Stock Directors"), *provided* that it shall be a qualification for election for any such Preferred Stock Director that the election of such director shall not cause the Corporation to violate the corporate governance requirement of the New York Stock Exchange (or any other securities exchange or other trading facility on which securities of the Corporation may then be listed or traded) that listed or traded companies must have a majority of independent directors and *provided further* that the Board of Directors shall at no time include more than two Preferred Stock Directors (including, for purposes of this limitation, all directors that the holders of any series of Voting Preferred Stock are entitled to elect pursuant to like voting rights).

In the event that the holders of the Series F, and such other holders of Voting Preferred Stock, shall be entitled to vote for the election of the Preferred Stock Directors following a Nonpayment Event, such directors shall be initially elected following such Nonpayment Event only at a special meeting called at the request of the holders of record of at least 20% of the Series F or of any other series of Voting Preferred Stock then outstanding (unless such request for a special meeting is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders of the Corporation, in which event such election shall be held only at such next annual or special meeting of stockholders), and at each subsequent annual meeting of stockholders of the Corporation. Such request to call a special meeting for the initial election of the Preferred Stock Directors after a Nonpayment Event shall be made by written notice, signed by the requisite holders of Series F or Voting Preferred Stock, and delivered to the Secretary of the Corporation in such manner as provided for in Section 10 below, or as may otherwise be required by law.

When dividends have been paid (or declared and a sum sufficient for payment thereof set aside) in full on the Series F for at least four Dividend Periods (whether or not consecutive) after a Nonpayment Event, then the right of the holders of Series F to elect the Preferred Stock Directors shall cease (but subject always to revesting of such voting rights in the case of any future Nonpayment Event), and, if and when any rights of holders of Series F and Voting Preferred Stock to elect the Preferred Stock Directors shall have ceased, the terms of office of all the Preferred Stock Directors shall forthwith terminate and the number of directors constituting the Board of Directors shall automatically be reduced accordingly.

Any Preferred Stock Director may be removed at any time without cause by the holders of record of a majority of the outstanding shares of the Series F and Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). So long as a Nonpayment Event shall continue, any vacancy in the office of a Preferred Stock Director (other than prior to the initial election of Preferred Stock Directors after a Nonpayment Event) may be filled by the written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of the Series F and all Voting Preferred Stock, when they have the voting rights described above (voting together as a single class). Any such vote of stockholders to remove, or to fill a vacancy in the office of, a

Preferred Stock Director may be taken only at a special meeting of such stockholders, called as provided above for an initial election of Preferred Stock Director after a Nonpayment Event (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders, in which event such election shall be held at such next annual or special meeting of stockholders). The Preferred Stock Directors shall each be entitled to one vote per director on any matter that shall come before the Board of Directors for a vote. Each Preferred Stock Director elected at any special meeting of stockholders or by written consent of the other Preferred Stock Director shall hold office until the next annual meeting of the stockholders if such office shall not have previously terminated as above provided.

(c) Other Voting Rights. So long as any shares of Series F are outstanding, in addition to any other vote or consent of stockholders required by law or by the Certificate of Incorporation, the vote or consent of the holders of at least 66⅔% of the shares of Series F and any Voting Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy, either in writing without a meeting or by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(i) **Authorization of Senior Stock**. Any amendment or alteration of the Certificate of Incorporation to authorize or create, or increase the authorized amount of, any shares of any class or series of capital stock of the Corporation ranking senior to the Series F with respect to either or both the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(ii) **Amendment of Series F**. Any amendment, alteration or repeal of any provision of the Certificate of Incorporation so as to materially and adversely affect the special rights, preferences, privileges or voting powers of the Series F, taken as a whole; or

(iii) **Share Exchanges, Reclassifications, Mergers and Consolidations**. Any consummation of a binding share exchange or reclassification involving the Series F, or of a merger or consolidation of the Corporation with another corporation or other entity, unless in each case (x) the shares of Series F remain outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (y) such shares remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series F immediately prior to such consummation, taken as a whole;

provided, *however*, that for all purposes of this Section 8(c), any increase in the amount of the authorized or issued Series F or authorized Preferred Stock, or the creation and issuance, or an increase in the authorized or issued amount, of any other series of Preferred Stock ranking equally with and/or junior to the Series F with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/or the distribution of assets upon liquidation, dissolution or winding up of the Corporation will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series F. In addition, any conversion of the Series F pursuant to Section 7 above shall not be deemed to adversely affect the rights, preferences, privileges and voting powers of the Series F.

If any amendment, alteration, repeal, share exchange, reclassification, merger or consolidation specified in this Section 7(c) would adversely affect the Series F and one or more but not all other series of Preferred Stock, then only the Series F and such series of Preferred Stock as are adversely affected by and entitled to vote on the matter shall vote on the matter together as a single class (in lieu of all other series of Preferred Stock).

(d) Changes for Clarification. Without the consent of the holders of the Series F, so long as such action does not adversely affect the rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Series F, the Corporation may amend, alter, supplement or repeal any terms of the Series F:

(i) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designations that may be defective or inconsistent; or

(ii) to make any provision with respect to matters or questions arising with respect to the Series F that is not inconsistent with the provisions of this Certificate of Designations.

(e) Changes after Provision for Redemption. No vote or consent of the holders of Series F shall be required pursuant to Section 8 (b), (c) or (d) above if, at or prior to the time when any such vote or consent would otherwise be required pursuant to such Section, all outstanding shares of Series F shall have been redeemed, or shall have been called for redemption upon proper notice and sufficient funds shall have been set aside for such redemption, in each case pursuant to Section 6 above.

(f) Procedures for Voting and Consents. The rules and procedures for calling and conducting any meeting of the holders of Series F (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules the Board of Directors or the Committee (or another duly authorized committee of the Board of Directors), in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of the Certificate of Incorporation, the Bylaws, applicable law and any national securities exchange or other trading facility on which the Series F is listed or traded at the time. Whether the vote or consent of the holders of a plurality, majority or other portion of the shares of Series F and any Voting Preferred

Stock has been cast or given on any matter on which the holders of shares of Series F are entitled to vote shall be determined by the Corporation by reference to the specified liquidation amounts of the shares voted or covered by the consent.

Section 9. Record Holders. To the fullest extent permitted by applicable law, the Corporation and the transfer agent for the Series F may deem and treat the record holder of any share of Series F as the true and lawful owner thereof for all purposes, and neither the Corporation nor such transfer agent shall be affected by any notice to the contrary.

Section 10. Notices. All notices or communications in respect of Series F shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in this Certificate of Designations, in the Certificate of Incorporation or Bylaws or by applicable law.

Section 11. No Preemptive Rights. No share of Series F shall have any rights of preemption whatsoever as to any securities of the Corporation, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated, issued or granted.

Section 12. Other Rights. The shares of Series F shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law.

EXHIBIT 12.1

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

($ in millions)

	Six Months Ended May	Year Ended November			
	2007	2006	2005	2004	2003
Net earnings	$ 5,530	$ 9,537	$ 5,626	$ 4,553	$ 3,005
Add:					
Provision for taxes	2,760	5,023	2,647	2,123	1,440
Portion of rents representative of an interest factor	68	135	119	118	120
Interest expense on all indebtedness	19,719	31,688	18,153	8,888	7,600
Pre-tax earnings, as adjusted	$ 28,077	$46,383	$26,545	$15,682	$12,165
Fixed charges [1]:					
Portion of rents representative of an interest factor	68	135	119	118	120
Interest expense on all indebtedness	19,751	31,755	18,161	8,893	7,613
Fixed charges	$ 19,819	$31,890	$18,280	$ 9,011	$ 7,733
Preferred stock dividend requirements	142	212	25	—	—
Total combined fixed charges and preferred stock dividends	$ 19,961	$32,102	$18,305	$ 9,011	$ 7,733
Ratio of earnings to fixed charges	1.42x	1.45x	1.45x	1.74x	1.57x
Ratio of earnings to combined fixed charges and preferred stock dividends	1.41x	1.44x	1.45x	—	—

[1] Fixed charges include capitalized interest of $32 million, $67 million, $8 million, $5 million and $13 million as of May 2007, November 2006, November 2005, November 2004 and November 2003, respectively.

EXHIBIT 15.1

July 3, 2007

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. 333-49958)
(No. 333-74006)
(No. 333-101093)
(No. 333-110371)
(No. 333-112367)
(No. 333-122977)
(No. 333-128461)
(No. 333-130074)
(No. 333-135453)

Commissioners:

We are aware that our report dated June 29, 2007 on our review of the condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and subsidiaries (the Company) at May 25, 2007, the related condensed consolidated statements of earnings for the three and six months ended May 25, 2007 and May 26, 2006, the condensed consolidated statement of changes in shareholders' equity for the six months ended May 25, 2007, the condensed consolidated statements of cash flows for the six months ended May 25, 2007 and May 26, 2006, and the condensed consolidated statements of comprehensive income for the three and six months ended May 25, 2007 and May 26, 2006, included in the Company's quarterly report on Form 10-Q for the quarter ended May 25, 2007 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

EXHIBIT 31.1

CERTIFICATIONS

I, Lloyd C. Blankfein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended May 25, 2007 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: July 3, 2007

CERTIFICATIONS

I, David A. Viniar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended May 25, 2007 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: July 3, 2007

EXHIBIT 32.1

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 May 25, 2007 (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: July 3, 2007

/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 May 25, 2007 (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: July 3, 2007

/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.