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Consolidated  
Statement of  
Financial Condition  
June 30, 2010  
(UNAUDITED)

**GOLDMAN, SACHS & CO. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**(UNAUDITED)**

**As of June 30, 2010**  
**(in millions)**

**Assets**

|  |    |                |
|--|----|----------------|
| Cash and cash equivalents.....   | \$ | 3,874          |
| Cash and securities segregated for regulatory and other purposes<br>(includes \$33,258 at fair value)..... |    | 35,111         |
| Collateralized agreements:   |    |                |
| Securities borrowed (includes \$80,975 at fair value).....   |    | 210,131        |
| Financial instruments purchased under agreements to resell, at fair value .....                            |    | 106,466        |
| Receivables from brokers, dealers and clearing organizations .....   |    | 7,857          |
| Receivables from customers and counterparties (includes \$575 at fair value) .....                         |    | 19,048         |
| Financial instruments owned, at fair value.....  |    | 105,882        |
| Financial instruments owned and pledged as collateral, at fair value.....                                  |    | 30,231         |
| Total financial instruments owned, at fair value.....  |    | 136,113        |
| Other assets .....   |    | 4,533          |
| Total assets .....   | \$ | <u>523,133</u> |

**Liabilities and partners' capital**

|   |    |         |
|---|----|---------|
| Unsecured short-term borrowings, including the current portion of unsecured<br>long-term borrowings (includes \$3 at fair value)..... | \$ | 15,146  |
| Collateralized financings:  |    |         |
| Securities loaned (includes \$26,006 at fair value) .....   |    | 62,058  |
| Financial instruments sold under agreements to repurchase, at fair value .....  |    | 152,040 |
| Other secured financings (includes \$1,266 at fair value).....  |    | 63,128  |
| Payables to brokers, dealers and clearing organizations .....   |    | 14,353  |
| Payables to customers and counterparties.....   |    | 131,471 |
| Financial instruments sold, but not yet purchased, at fair value .....  |    | 51,183  |
| Other liabilities and accrued expenses (includes \$24 at fair value).....   |    | 7,605   |
| Unsecured long-term borrowings (includes \$227 at fair value) .....   |    | 284     |
| Total liabilities .....   |    | 497,268 |

**Commitments, contingencies and guarantees**

|                               |        |
|-------------------------------|--------|
| Subordinated borrowings ..... | 18,250 |
|-------------------------------|--------|

**Partners' capital**

|   |                   |
|---|-------------------|
| Partners' capital .....                       | 7,527             |
| Accumulated other comprehensive income.....   | 88                |
| Total partners' capital .....                 | <u>7,615</u>      |
| Total liabilities and partners' capital ..... | <u>\$ 523,133</u> |

The accompanying notes are an integral part of  
this consolidated statement of financial condition.

**GOLDMAN, SACHS & CO. and SUBSIDIARIES**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
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**Note 1. Description of Business**

Goldman, Sachs & Co. (GS&Co.), a limited partnership registered as a U.S. broker-dealer and futures commission merchant, together with its consolidated subsidiaries (collectively, the firm), is an indirectly wholly owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation and a financial holding company. The firm is a leading investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

The firm's activities are divided as follows:

- **Investment Banking.** The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.
- **Trading and Principal Investments.** The firm facilitates client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals through market making in, trading of and investing in fixed income and equity products, currencies and derivatives on these products. The firm also takes proprietary positions on certain of these products. In addition, the firm engages in market-making activities on equities and options exchanges, and the firm clears client transactions on major stock, options and futures exchanges worldwide. In connection with the firm's other investing activities, the firm makes principal investments.
- **Asset Management and Securities Services.** The firm provides investment and wealth advisory services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse group of institutions and individuals worldwide and provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

**Note 2. Significant Accounting Policies**

***Basis of Presentation***

This consolidated statement of financial condition includes the accounts of GS&Co. and all other entities in which the firm has a controlling financial interest. All material intercompany transactions and balances have been eliminated.

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

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

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

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

**GOLDMAN, SACHS & CO. and SUBSIDIARIES**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)**  
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This consolidated statement of financial condition is unaudited and should be read in conjunction with the audited consolidated statement of financial condition as of December 31, 2009.

All references to June 2010, unless specifically stated otherwise, refer to the date June 30, 2010.

***Use of Estimates***

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

***Financial Instruments***

All financial instruments owned and financial instruments sold, but not yet purchased are reflected in the consolidated statement of financial condition at fair value.

***Other Financial Assets and Financial Liabilities at Fair Value***

In addition to total financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value under ASC 815-15 and 825-10 (i.e., the fair value option). The primary reasons for electing the fair value option are to reflect economic events in earnings on a timely basis, to mitigate volatility in earnings from using different measurement attributes and to address simplification and cost-benefit considerations.

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

- certain unsecured short-term and long-term borrowings, primarily consisting of promissory notes;
- certain other secured financings, primarily consisting of nonrecourse financings;
- resale and repurchase agreements;
- securities borrowed and loaned consisting of the firm's matched book and certain firm financing activities;
- certain receivables from customers and counterparties, primarily consisting of certain margin loans;
- certain subordinated liabilities issued by consolidated VIEs; and
- in general, investments acquired after November 24, 2006, when the fair value option became available, where the firm has significant influence over the investee and would otherwise apply the equity method of accounting.

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***Fair Value Measurements***

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

The fair value hierarchy under ASC 820 prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

**Basis of Fair Value Measurement**

|         |  |
|---------|--|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;                              |
| Level 2 | Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly; |
| Level 3 | Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.   |

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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

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

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***Financial Instruments at Fair Value***

**Level 1 and level 2 financial instruments, at fair value.** In determining fair value, the firm separates total 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.

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

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

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include commercial paper, certificates of deposit, time deposits, most government agency obligations, most corporate debt securities, certain mortgage-backed loans and securities, certain bank loans, less liquid publicly listed equities, certain state and municipal obligations, and certain money market instruments. These instruments are generally classified within level 2 of the fair value hierarchy. For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on market evidence where available.

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

Exchange-traded derivatives typically fall within level 1 or level 2 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. The firm generally values exchange-traded derivatives using models which calibrate to market-clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying instruments. In such cases, exchange-traded derivatives are classified within level 2 of the fair value hierarchy.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, calibration to market-clearing transactions, broker or dealer quotations, or other alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The firm generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, voluntary and involuntary prepayment rates, loss

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severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment. OTC derivatives are classified within level 2 of the fair value hierarchy when all of the significant inputs are corroborated by market evidence. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on market evidence where available.

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

- **Equities and convertible debentures.** For private equity investments, recent third-party investments or pending transactions are considered to be the best evidence for any change in fair value. In the absence of such evidence, valuations are based on one or more of the following methodologies, as appropriate and available: transactions in similar instruments, discounted cash flow techniques, third-party independent appraisals, valuation multiples and public comparables. Such evidence includes pending reorganizations (e.g., merger proposals, tender offers or debt restructurings), and significant changes in financial metrics (e.g., operating results as compared to previous projections, industry multiples, credit ratings and balance sheet ratios).
- **Bank loans, corporate debt securities, state and municipal obligations and other debt obligations.** Valuations are generally based on discounted cash flow techniques, for which the significant inputs are the amount and timing of expected future cash flows, market yields and recovery assumptions. The significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to credit default swaps that reference the same underlying credit risk and to other debt instruments for the same issuer for which observable prices or broker quotes are available.
- **Loans and securities backed by commercial real estate.** Loans and securities backed by commercial real estate are collateralized by specific assets and may be tranching into varying levels of subordination. Due to the nature of these instruments, valuation techniques vary by instrument, but are generally based on relative value analyses, discounted cash flow techniques or a combination thereof. Significant inputs for these valuations include transactions in both the underlying collateral and instruments with the same or substantially the same underlying collateral, credit default swap prices, current levels and trends of market indices (such as the CMBX), market yields and other factors (such as the operating income generated by the underlying collateral) which are used in determining the amount and timing of expected future cash flows.
- **Loans and securities backed by residential real estate.** Valuations are based on both proprietary and industry recognized models (including Intex and Bloomberg), and discounted cash flow techniques. The most significant inputs to the valuation of these instruments are rates and timing of delinquencies, the rates and timing of prepayments, and default and loss expectations, which are



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driven in part by housing prices. The significant inputs are determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles, including relevant indices such as the ABX.

- **Derivative contracts.** Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. The valuations of these less liquid OTC derivatives are typically based on level 1 and/or level 2 inputs that can be observed in the market, as well as unobservable level 3 inputs. Unobservable inputs typically include certain correlations as well as credit spreads, equity volatilities, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified within level 3 of the fair value hierarchy. Subsequent to initial recognition, the firm updates the level 1 and level 2 inputs to reflect observable market changes with resulting gains and losses reflected within level 3. Level 3 inputs are only changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other empirical market data. In circumstances where the firm cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

***Other Financial Assets and Financial Liabilities at Fair Value***

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

- **Resale and repurchase agreements and securities borrowed and loaned.** The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned (which are related to the firm's matched book and certain firm financing activities) are the amount and timing of expected future cash flows, interest rates and collateral funding spreads.
- **Other secured financings.** The significant inputs to the valuation of other secured financings at fair value, including certain nonrecourse financings, are the amount and timing of expected future cash flows, interest rates, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market yields and recovery assumptions), the frequency of additional collateral calls and the credit spreads of the firm.
- **Unsecured short-term and long-term borrowings.** The significant inputs to the valuation of certain short-term and long-term borrowings at fair value, including all promissory notes and certain hybrid financial instruments, are the amount and timing of expected future cash flows, interest rates, the credit spreads of the firm, as well as for certain hybrid financial instruments, equity prices, inflation rates and index levels.
- **Receivables from customers and counterparties.** The significant inputs to the valuation of certain receivables from customers and counterparties, including certain margin loans, are interest rates and the amount and timing of expected future cash flows.

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***Collateralized Agreements and Financings***

Collateralized agreements consist of resale agreements and securities borrowed. For these agreements, the firm requires delivery of collateral with a fair value approximately equal to the carrying value of the relevant assets in the consolidated statement of financial condition. Collateralized financings consist of repurchase agreements, securities loaned and other secured financings. Collateralized agreements and financings are presented on a net-by-counterparty basis when a right of setoff exists.

- **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 securities on a daily basis and delivers or obtains additional collateral as appropriate. As noted above, resale and repurchase agreements are carried in the consolidated statement of financial condition at fair value under the fair value option.
- **Securities borrowed and loaned.** Securities borrowed and loaned are generally collateralized by cash, securities or letters of credit. The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate. Securities borrowed and loaned relating to both customer activities and, to a lesser extent, certain firm financing activities, are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. As noted above, securities borrowed and loaned are related to the firm's matched book and certain firm financing activities, and are recorded at fair value under the fair value option.
- **Other secured financings.** In addition to repurchase agreements and securities loaned, the firm funds assets through the use of other secured financing arrangements and pledges financial instruments and other assets as collateral in these transactions. As noted above, the firm has elected to apply the fair value option to certain nonrecourse financings, for which the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest. See Note 3 for further information regarding other secured financings.

***Hybrid Financial Instruments***

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

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***Transfers of Financial Assets***

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

***Share-Based Compensation***

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

***Goodwill***

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. Goodwill is tested at least annually for impairment. An impairment loss is recognized if the estimated fair value 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 television broadcast royalties, are amortized over their estimated lives. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

***Property, Leasehold Improvements and Equipment***

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

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

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an

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asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

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

***Foreign Currency Translation***

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the consolidated statement of financial condition.

***Income Taxes***

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

***Cash and Cash Equivalents***

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

***Recent Accounting Developments***

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

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The firm adopted ASU Nos. 2009-16 and 2009-17 as of January 1, 2010 and reassessed whether it was the primary beneficiary of any VIEs in which it had variable interests (including VIEs that were formerly QSPEs) as of that date. Adoption resulted in an increase to the firm's total assets of approximately \$90 million, principally within "Financial instruments at fair value" in the consolidated statement of financial condition. In addition, "Other assets" in the consolidated statement of financial condition increased by \$545 million, with a corresponding decrease in "Financial instruments at fair value," as a result of the consolidation of an entity which holds intangible assets. Upon adoption, the firm elected the fair value option for all eligible assets and liabilities of newly consolidated VIEs, except for (i) those VIEs where the financial assets and financial liabilities are accounted for either at fair value or in a manner that approximates fair value under other GAAP and (ii) those VIEs where the election would have caused volatility in earnings as a result of using different measurement attributes for financial instruments and nonfinancial assets.

**Improving Disclosures about Fair Value Measurements (ASC 820).** In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements." ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements of ASU No. 2010-06 were effective for the firm beginning on January 1, 2010, while other disclosure requirements of the ASU are effective for financial statements issued for reporting periods beginning after December 15, 2010. Since these amended principles require only additional disclosures concerning fair value measurements, adoption did not and will not affect the firm's financial condition.

**GOLDMAN, SACHS & CO. and SUBSIDIARIES**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)**  
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**Note 3. Financial Instruments**

***Fair Value of Financial Instruments***

The following table sets forth the firm's total financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value. At any point in time, the firm may use cash instruments as well as derivatives to manage a long or short risk position.

|  | <b>As of June 2010</b> |                      |
|--|------------------------|----------------------|
|  | <b>Assets</b>          | <b>Liabilities</b>   |
|  | (in millions)          |                      |
| Commercial paper, certificates of deposit, time deposits<br>and other money market instruments ..... | \$ 4,268               | \$ -                 |
| U.S. government and federal agency obligations .....   | 81,077                 | 18,685               |
| Non-U.S. government obligations .....  | 2,117                  | 536                  |
| Mortgage and other asset-backed loans and securities .....   | 5,359                  | 19                   |
| Bank loans .....   | 400                    | 1                    |
| Corporate debt securities and other debt obligations .....   | 17,663                 | 4,033                |
| Equities and convertible debentures .....  | 14,540                 | 18,446               |
| Derivative contracts .....   | 10,689 <sup>(1)</sup>  | 9,463 <sup>(2)</sup> |
| <b>Total .....</b>   | <b>\$ 136,113</b>      | <b>\$ 51,183</b>     |

<sup>(1)</sup> Net of cash received pursuant to credit support agreements of \$1.24 billion.

<sup>(2)</sup> Net of cash posted pursuant to credit support agreements of \$568 million.

***Fair Value Hierarchy***

The following tables set forth by level within the fair value hierarchy total financial instruments owned, at fair value, financial instruments sold, but not yet purchased, at fair value, and other financial assets and financial liabilities accounted for at fair value under the fair value option as of June 2010. See Note 2 for further information on the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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| <b>Financial Assets at Fair Value as of June 2010</b>   |                       |                       |                                |                                   |                   |
|---|-----------------------|-----------------------|--------------------------------|-----------------------------------|-------------------|
|   | <u>Level 1</u>        | <u>Level 2</u>        | <u>Level 3</u>                 | <u>Netting and<br/>Collateral</u> | <u>Total</u>      |
|   |                       |                       | (in millions)                  |                                   |                   |
| Commercial paper, certificates of deposit, time deposits and other money market instruments ..... | \$ -                  | \$ 4,268              | \$ -                           | \$ -                              | \$ 4,268          |
| U.S. government and federal agency obligations .....  | 35,366                | 45,711                | -                              | -                                 | 81,077            |
| Non-U.S. government obligations .....   | 753                   | 1,364                 | -                              | -                                 | 2,117             |
| Mortgage and other asset-backed loans and securities <sup>(1)</sup> :                             |                       |                       |                                |                                   |                   |
| Loans and securities backed by commercial real estate .....                                       | -                     | 1,411                 | 423                            | -                                 | 1,834             |
| Loans and securities backed by residential real estate .....                                      | -                     | 2,681                 | 844                            | -                                 | 3,525             |
| Bank loans .....  | -                     | 190                   | 210                            | -                                 | 400               |
| Corporate debt securities <sup>(2)</sup> .....  | 1,097                 | 10,603                | 1,467                          | -                                 | 13,167            |
| State and municipal obligations.....  | -                     | 1,149                 | 855                            | -                                 | 2,004             |
| Other debt obligations .....  | -                     | 2,084                 | 408                            | -                                 | 2,492             |
| Equities and convertible debentures .....   | 11,953 <sup>(3)</sup> | 1,995 <sup>(5)</sup>  | 592 <sup>(7)</sup>             | -                                 | 14,540            |
| Total cash instruments.....   | 49,169                | 71,456                | 4,799                          | -                                 | 125,424           |
| Derivative contracts .....  | 27                    | 12,605                | 276                            | (2,219) <sup>(9)</sup>            | 10,689            |
| Total financial instruments owned, at fair value .....  | 49,196                | 84,061                | 5,075                          | (2,219)                           | 136,113           |
| Securities segregated for regulatory and other purposes .....                                     | 14,811 <sup>(4)</sup> | 18,447 <sup>(6)</sup> | -                              | -                                 | 33,258            |
| Securities borrowed .....   | -                     | 80,975                | -                              | -                                 | 80,975            |
| Financial instruments purchased under agreements to resell, at fair value .....                   | -                     | 106,466               | -                              | -                                 | 106,466           |
| Receivables from customers and counterparties .....   | -                     | 575                   | -                              | -                                 | 575               |
| Total financial assets at fair value .....  | <u>\$ 64,007</u>      | <u>\$ 290,524</u>     | <u>\$ 5,075 <sup>(8)</sup></u> | <u>\$ (2,219)</u>                 | <u>\$ 357,387</u> |

<sup>(1)</sup> Includes \$595 million of collateralized debt obligations (CDOs) backed by real estate within level 3 of the fair value hierarchy.

<sup>(2)</sup> Includes \$4 million and \$728 million of CDOs backed by corporate obligations within level 2 and level 3, respectively, of the fair value hierarchy.

<sup>(3)</sup> Primarily consists of publicly listed equity securities.

<sup>(4)</sup> Principally consists of U.S. Department of the Treasury (U.S. Treasury) securities and money market instruments.

<sup>(5)</sup> Principally consists of less liquid publicly listed securities.

<sup>(6)</sup> Principally consists of securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

<sup>(7)</sup> Includes \$352 million of private equity investments.

<sup>(8)</sup> Level 3 assets were less than 2% of Total financial assets at fair value and 1% of "Total assets" in the consolidated statement of financial condition.

<sup>(9)</sup> 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.

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| <b>Financial Liabilities at Fair Value as of June 2010</b>                     |                  |                   |                                |                               |                   |
|--|------------------|-------------------|--------------------------------|-------------------------------|-------------------|
|  | <u>Level 1</u>   | <u>Level 2</u>    | <u>Level 3</u>                 | <u>Netting and Collateral</u> | <u>Total</u>      |
|  | (in millions)    |                   |                                |                               |                   |
| U.S. government and federal agency obligations .....                           | \$ 17,977        | \$ 708            | \$ -                           | \$ -                          | \$ 18,685         |
| Non-U.S. government obligations .....  | 416              | 120               | -                              | -                             | 536               |
| Mortgage and other asset-backed loans and securities:                          |                  |                   |                                |                               |                   |
| Loans and securities backed by commercial real estate .....                    | -                | 8                 | -                              | -                             | 8                 |
| Loans and securities backed by residential real estate .....                   | -                | 11                | -                              | -                             | 11                |
| Bank loans .....   | -                | 1                 | -                              | -                             | 1                 |
| Corporate debt securities .....  | 63               | 3,885             | 85 <sup>(2)</sup>              | -                             | 4,033             |
| Equities and convertible debentures <sup>(1)</sup> .....                       | 17,945           | 500               | 1                              | -                             | 18,446            |
| Total cash instruments .....   | 36,401           | 5,233             | 86                             | -                             | 41,720            |
| Derivative contracts .....   | 8                | 10,436            | 569                            | (1,550) <sup>(5)</sup>        | 9,463             |
| Financial instruments sold, but not yet purchased, at fair value .....         | 36,409           | 15,669            | 655                            | (1,550)                       | 51,183            |
| Unsecured short-term borrowings .....  | -                | -                 | 3                              | -                             | 3                 |
| Securities loaned .....  | -                | 26,006            | -                              | -                             | 26,006            |
| Financial instruments sold under agreements to repurchase, at fair value ..... | -                | 152,040           | -                              | -                             | 152,040           |
| Other secured financings .....   | -                | 362               | 904 <sup>(3)</sup>             | -                             | 1,266             |
| Other liabilities and accrued expenses .....                                   | -                | 9                 | 15                             | -                             | 24                |
| Unsecured long-term borrowings .....   | -                | -                 | 227                            | -                             | 227               |
| <b>Total financial liabilities at fair value .....</b>                         | <b>\$ 36,409</b> | <b>\$ 194,086</b> | <b>\$ 1,804 <sup>(4)</sup></b> | <b>\$ (1,550)</b>             | <b>\$ 230,749</b> |

<sup>(1)</sup> Substantially all consists of publicly listed equity securities.

<sup>(2)</sup> Includes \$80 million of CDOs backed by corporate obligations within level 3 of the fair value hierarchy.

<sup>(3)</sup> Primarily consists of municipal Tender Option Bond (TOB) program.

<sup>(4)</sup> Level 3 liabilities were less than 1% of Total financial liabilities at fair value and "Total liabilities" in the consolidated statement of financial condition.

<sup>(5)</sup> 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.



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

| <b>Derivative Assets at Fair Value as of June 2010</b>                    |                |                |                |                                |                  |
|---|----------------|----------------|----------------|--------------------------------|------------------|
|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Cross-Level<br/>Netting</b> | <b>Total</b>     |
|   |                |                | (in millions)  |                                |                  |
| Interest rates.....   | \$ 19          | \$ 22,651      | \$ 22          |                                | \$ 22,692        |
| Credit.....   | -              | 3,070          | 309            |                                | 3,379            |
| Currencies .....  | -              | 9,273          | 1              |                                | 9,274            |
| Commodities.....  | -              | 219            | 52             |                                | 271              |
| Equities .....  | 8              | 26,222         | 274            |                                | 26,504           |
| Gross fair value of derivative assets.....                                | \$ 27          | \$ 61,435      | \$ 658         |                                | \$ 62,120        |
| Counterparty netting <sup>(1)</sup> .....                                 | -              | (48,830)       | (382)          | \$ (982) <sup>(3)</sup>        | (50,194)         |
| Subtotal.....   | \$ 27          | \$ 12,605      | \$ 276         | \$ (982)                       | \$ 11,926        |
| Cash collateral netting <sup>(2)</sup> .....                              |                |                |                |                                | (1,237)          |
| Fair value included in financial instruments<br>owned, at fair value..... |                |                |                |                                | <u>\$ 10,689</u> |

| <b>Derivative Liabilities at Fair Value as of June 2010</b>                                     |                |                |                |                                |                 |
|---|----------------|----------------|----------------|--------------------------------|-----------------|
|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Cross-Level<br/>Netting</b> | <b>Total</b>    |
|   |                |                | (in millions)  |                                |                 |
| Interest rates.....   | \$ 4           | \$ 23,226      | \$ 5           |                                | \$ 23,235       |
| Credit.....   | -              | 2,648          | 275            |                                | 2,923           |
| Currencies .....  | -              | 8,747          | 1              |                                | 8,748           |
| Commodities.....  | -              | 205            | 50             |                                | 255             |
| Equities .....  | 4              | 24,440         | 620            |                                | 25,064          |
| Gross fair value of derivative liabilities.....   | \$ 8           | \$ 59,266      | \$ 951         |                                | \$ 60,225       |
| Counterparty netting <sup>(1)</sup> .....   | -              | (48,830)       | (382)          | \$ (982) <sup>(3)</sup>        | (50,194)        |
| Subtotal.....   | \$ 8           | \$ 10,436      | \$ 569         | \$ (982)                       | \$ 10,031       |
| Cash collateral netting <sup>(2)</sup> .....  |                |                |                |                                | (568)           |
| Fair value included in financial instruments sold,<br>but not yet purchased, at fair value..... |                |                |                |                                | <u>\$ 9,463</u> |

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

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

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

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***Credit Concentration***

Credit concentrations may arise from trading, underwriting, lending and securities borrowing activities and may be impacted by changes in economic, industry or political factors. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral as deemed appropriate. While the firm's activities expose it to many different industries and counterparties, the firm routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, clearing houses, exchanges, and investment funds. This has resulted in significant credit concentration with respect to this industry. In the ordinary course of business, the firm may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, or to a particular clearing house or exchange.

As of June 2010, the firm held \$87.31 billion (17% of total assets) of U.S. government and federal agency obligations included in "Total financial instruments owned, at fair value" and "Cash and securities segregated for regulatory and other purposes" in the consolidated statement of financial condition. In addition, as of June 2010, \$138.14 billion of the firm's financial instruments purchased under agreements to resell and securities borrowed (including those in "Cash and securities segregated for regulatory and other purposes"), respectively, were collateralized by U.S. government and federal agency obligations. As of June 2010, \$12.10 billion of the firm's financial instruments purchased under agreements to resell and securities borrowed, were collateralized by other sovereign obligations. As of June 2010, the firm did not have credit exposure to any other counterparty that exceeded 2% of the firm's total assets.

***Derivative Activities***

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

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

The firm applies hedge accounting to certain derivative contracts. The firm uses these derivatives to manage certain interest rate and currency exposures. The firm designates certain interest rate swap contracts as fair value hedges.

The fair value of the firm's derivative contracts is reflected net of cash posted or received pursuant to credit support agreements and is reported on a net-by-counterparty basis in the firm's consolidated statement of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. The following table sets forth the fair value and the number of the firm's derivative contracts by

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major product type on a gross basis as of June 2010. Gross fair values in the table below exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted pursuant to credit support agreements, and therefore are not representative of the firm's exposure:

|  | <b>As of June 2010</b>                    |                                   |                                |
|--|---|-----------------------------------|--------------------------------|
|  | <b>Derivative<br/>Assets</b>              | <b>Derivative<br/>Liabilities</b> | <b>Number of<br/>Contracts</b> |
|  | (in millions, except number of contracts) |                                   |                                |
| <b><u>Derivative contracts for trading activities</u></b>  |   |                                   |                                |
| Interest rates .....   | \$ 22,692                                 | \$ 23,235                         | 39,790                         |
| Credit .....   | 3,379                                     | 2,923                             | 7,216                          |
| Currencies .....   | 9,274                                     | 8,748                             | 173,430                        |
| Commodities .....  | 271                                       | 255                               | 768                            |
| Equities .....   | 26,504                                    | 25,064                            | 245,779                        |
| <b>Gross fair value of derivative contracts</b>  | <b>\$ 62,120</b>                          | <b>\$ 60,225</b>                  | <b>466,983</b>                 |
| Counterparty netting <sup>(1)</sup> .....  | (50,194)                                  | (50,194)                          |                                |
| Cash collateral netting <sup>(2)</sup> .....   | (1,237)                                   | (568)                             |                                |
| <b>Fair value included in financial instruments<br/>owned, at fair value</b> .....                       | <b>\$ 10,689</b>                          |                                   |                                |
| <b>Fair value included in financial instruments<br/>sold, but not yet purchased, at fair value</b> ..... |   | <b>\$ 9,463</b>                   |                                |

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

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

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

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

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Substantially all of the firm's purchased credit derivative transactions are with financial institutions and are subject to stringent collateral thresholds. The firm economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underlyings. In addition, upon the occurrence of a specified trigger event, the firm may take possession of the reference obligations underlying a particular written credit derivative, and consequently may, upon liquidation of the reference obligations, recover amounts on the underlying reference obligations in the event of default. As of June 2010, the firm's written and purchased credit derivatives had total gross notional amounts of \$69.46 billion and \$80.74 billion, respectively, for total net purchased protection of \$11.28 billion in notional value.

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

|  | Maximum Payout/Notional Amount<br>of Written Credit Derivatives by Tenor <sup>(1)</sup> |                  |                          |                  | Maximum Payout/Notional<br>Amount of Purchased Credit<br>Derivatives |  | Fair Value of<br>Written Credit Derivatives |                 |                                  |
|--|---|------------------|--------------------------|------------------|--|--|---|-----------------|----------------------------------|
|  | 0 - 12<br>Months  | 1 - 5<br>Years   | 5 Years<br>or<br>Greater | Total            | Offsetting<br>Purchased<br>Credit<br>Derivatives <sup>(2)</sup>      | Other<br>Purchased<br>Credit<br>Derivatives <sup>(3)</sup> | Asset                                       | Liability       | Net<br>Liability                 |
|  |   |                  |                          |                  | (in millions)  |  |   |                 |                                  |
| <b>As of June 2010</b>   |   |                  |                          |                  |  |  |   |                 |                                  |
| <b>Credit spread<br/>on underlying<br/>(basis points) <sup>(4)</sup></b> |   |                  |                          |                  |  |  |   |                 |                                  |
| 0-250.....   | \$ 3,046  | \$ 39,104        | \$ 6,703                 | \$ 48,853        | \$ 45,074  | \$ 12,149  | \$ 462                                      | \$ 966          | \$ (504)                         |
| 251-500.....   | 416   | 6,616            | 7,082                    | 14,114           | 13,208   | 2,658  | 93  | 775             | (682)                            |
| 501-1,000.....   | 143   | 3,400            | 99                       | 3,642            | 3,580  | 886  | 6   | 83              | (77)                             |
| Greater than 1,000.....  | 191   | 2,362            | 300                      | 2,853            | 2,827  | 355  | 7   | 422             | (415)                            |
| <b>Total.....</b>  | <b>\$ 3,796</b>   | <b>\$ 51,482</b> | <b>\$ 14,184</b>         | <b>\$ 69,462</b> | <b>\$ 64,689</b>   | <b>\$ 16,048</b>   | <b>\$ 568</b>                               | <b>\$ 2,246</b> | <b>\$ (1,678) <sup>(5)</sup></b> |

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

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

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

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

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

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***Collateralized Transactions***

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

In many cases, the firm is permitted to deliver or repledge these financial instruments in connection with entering into repurchase agreements, securities lending agreements and other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements. As of June 2010, the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or repledge was \$447.56 billion, of which the firm delivered or repledged \$344.84 billion.

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 included in "Financial instruments owned and pledged as collateral, at fair value" in the consolidated statement of financial condition and were \$30.23 billion as of June 2010. 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 consolidated statement of financial condition and were \$59.62 billion as of June 2010.

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 primarily consist of liabilities related to the firm's short-term borrowings with Group Inc.

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

|  | <b>As of<br/>June 2010</b> |
|--|----------------------------|
|  | (in millions)              |
| Other secured financings (short-term) <sup>(1) (2)</sup> ..... | \$ 62,092                  |
| Other secured financings (long-term)                           |                            |
| 2011 .....   | 552                        |
| 2012 .....   | -                          |
| 2013 .....   | -                          |
| 2014 .....   | -                          |
| 2015 .....   | -                          |
| 2016- thereafter .....   | 484                        |
| Total other secured financings (long-term) .....               | 1,036                      |
| Total other secured financings <sup>(3)</sup> .....            | \$ 63,128                  |

<sup>(1)</sup> The blended weighted average interest rate was 1.6% as of June 2010.

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

<sup>(3)</sup> As of June 2010, other secured financings were collateralized by financial instruments. Other secured financings include \$1.11 billion of nonrecourse obligations as of June 2010.

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**Note 4. Securitization Activities and Variable Interest Entities**

***Securitization Activities***

The firm securitizes residential and commercial mortgages, corporate bonds and other types of financial assets. The firm acts as underwriter of the beneficial interests that are sold to investors. The firm also acts as underwriter when other subsidiaries of Group Inc. securitize financial assets. The firm derecognizes financial assets transferred in securitizations, provided it has relinquished control over such assets. Transferred assets are accounted for at fair value prior to securitization. The firm generally receives cash in exchange for the transferred assets.

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

During the six months ended June 2010, the firm securitized \$23.42 billion of financial assets in which the firm had continuing involvement, all related to residential mortgages, primarily in connection with government agency securitizations.

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

|  | <b>As of June 2010 <sup>(1)</sup></b>   |   |
|--|---|---|
|  | <b>Outstanding<br/>Principal Amount</b> | <b>Fair Value of<br/>Retained Interests</b> |
|  | (in millions)                           |   |
| Residential mortgage-backed <sup>(2)</sup> ..... | \$ 46,899                               | \$ 3,653                                    |
| Other <sup>(3)</sup> .....                       | 4,354                                   | 22  |
| <b>Total</b> .....                               | <b>\$ 51,253</b>                        | <b>\$ 3,675</b>                             |

<sup>(1)</sup> The firm had other continuing involvement in the form of derivative transactions and guarantees with certain nonconsolidated VIEs for which the carrying value was a net liability of \$80 million as of June 2010. The notional amounts of these transactions are included in maximum exposure to loss in the nonconsolidated VIE table below.

<sup>(2)</sup> Primarily consists of outstanding principal and retained interests related to government agency securitization entities.

<sup>(3)</sup> Primarily consists of CDOs backed by corporate and mortgage obligations and CLOs.



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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:

|   | <b>As of June 2010</b>            |                             |
|---|-----------------------------------|-----------------------------|
|   | <b>Type of Retained Interests</b> |                             |
|   | <b>Mortgage-<br/>Backed</b>       | <b>Other <sup>(1)</sup></b> |
|   | (in millions)                     |                             |
| Fair value of retained interests                  | \$ 3,653                          | \$ 22                       |
| Weighted average life (years) .....               | 5.0                               | 3.8                         |
| Constant prepayment rate <sup>(2)</sup> .....     | 22.1 %                            | N.M.                        |
| Impact of 10% adverse change <sup>(2)</sup> ..... | \$ (44)                           | N.M.                        |
| Impact of 20% adverse change <sup>(2)</sup> ..... | (89)                              | N.M.                        |
| Discount rate <sup>(3)</sup> .....                | 4.8 %                             | N.M.                        |
| Impact of 10% adverse change .....                | \$ (61)                           | N.M.                        |
| Impact of 20% adverse change .....                | (120)                             | N.M.                        |

<sup>(1)</sup> Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of June 2010. The firm's maximum exposure to adverse changes in the value of these interests is the firm's carrying value of \$22 million as of June 2010.

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

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

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

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***Variable Interest Entities***

The firm, in the ordinary course of business, retains interests in VIEs in connection with its securitization activities. The firm also purchases and sells variable interests in VIEs, which primarily issue residential and commercial mortgage-backed 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, and other assets. In addition, the firm utilizes VIEs to provide investors with credit-linked notes and asset-repackaged notes designed to meet their objectives. VIEs generally finance the purchase of assets by issuing debt and equity instruments.

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

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

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

|  | As of June 2010                    |  |   |                                       |                 |
|--|------------------------------------|--|---|---------------------------------------|-----------------|
|  | Mortgage-<br>backed <sup>(1)</sup> | Corporate<br>CDOs and<br>CLOs <sup>(1)</sup> | Real estate,<br>credit-related<br>and other<br>investing <sup>(2)</sup><br><small>(in millions)</small> | Other asset-<br>backed <sup>(1)</sup> | Total           |
| <b>Assets in VIE</b> .....   | \$ 5,558 <sup>(4)</sup>            | \$ 12,343                                    | \$ 2,297  | \$ 277                                | \$ 20,475       |
| <b>Carrying Value of the Firm's Variable Interests</b>                 |                                    |  |   |                                       |                 |
| Assets.....  | \$ 319                             | \$ 188                                       | \$ 202  | \$ 87                                 | \$ 796          |
| Liabilities.....   | -                                  | 96   | -   | -                                     | 96              |
| <b>Maximum Exposure to Loss in Nonconsolidated VIEs <sup>(3)</sup></b> |                                    |  |   |                                       |                 |
| Retained interests.....  | \$ -                               | \$ 44  | \$ -  | \$ -                                  | \$ 44           |
| Purchased interests.....   | 277                                | 144  | -   | 87                                    | 508             |
| Derivatives .....  | -                                  | 623 <sup>(5)</sup>                           | -   | -                                     | 623             |
| Loans and investments.....   | 42                                 | -  | 202   | -                                     | 244             |
| <b>Total</b> .....   | <b>\$ 319</b>                      | <b>\$ 811</b>                                | <b>\$ 202</b>   | <b>\$ 87</b>                          | <b>\$ 1,419</b> |

<sup>(1)</sup> These VIEs are generally financed through the issuance of debt instruments collateralized by assets held by the VIE. Substantially all assets and liabilities held by the firm related to these VIEs are included in "Total financial Instruments owned, at fair value" and "Financial Instruments sold, but not yet purchased at fair value," respectively, in the consolidated statement of financial condition.

<sup>(2)</sup> The firm obtains interests in these VIEs in connection with making investments in real estate, distressed loans and other types of debt, mezzanine instruments and equities. These VIEs are generally financed through the issuance of debt and equity instruments which are either collateralized by or indexed to assets held by the VIE. Substantially all assets and liabilities held by the firm related to these VIEs are included in "Total financial instruments owned, at fair value" and "Other assets," and "Other liabilities and accrued expenses," respectively, in the consolidated statement of financial condition.

<sup>(3)</sup> Such amounts do not represent the anticipated losses in connection with these transactions because they exclude the effect of offsetting financial instruments that are held to mitigate these risks.

<sup>(4)</sup> Primarily consists of written protection on investment-grade, short-term collateral held by VIEs that have issued CDOs.

<sup>(5)</sup> Primarily consists of total return swaps on CDOs and CLOs. The firm has generally transferred the risks related to the underlying securities through derivatives with non-VIEs. The aggregate amounts include \$467 million as of June 2010, related to derivative transactions with VIEs to which the firm transferred assets.

**GOLDMAN, SACHS & CO. and SUBSIDIARIES**  
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The following tables set forth the carrying amount and classification of the firm's assets and liabilities in consolidated VIEs, excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with its variable interests.

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

|   | As of June 2010  |  |  |                 |
|---|--|--|--|-----------------|
|   | Real estate,<br>credit-related and<br>other investing <sup>(1)</sup> | Municipal bond<br>securitizations <sup>(2)</sup> | CDOs, mortgage-<br>backed and<br>other asset-<br>backed <sup>(3)</sup> | Total           |
|   | (in millions)  |  |  |                 |
| <b>Assets <sup>(4)</sup></b>  |  |  |  |                 |
| Cash and cash equivalents.....  | \$ 2   | \$ -   | \$ 36  | \$ 38           |
| Receivables from customers and<br>counterparties .....                    | -  | 6  | 46   | 52              |
| Financial Instruments owned, at fair value .....                          | 15   | 650  | 587  | 1,252           |
| Other assets .....  | 9  | -  | 529  | 538             |
| <b>Total .....</b>  | <b>\$ 26</b>   | <b>\$ 656</b>                                    | <b>\$ 1,198</b>  | <b>\$ 1,880</b> |
| <b>Liabilities</b>  |  |  |  |                 |
| Other secured financings .....  | \$ -   | \$ 761   | \$ 481   | \$ 1,242        |
| Payables to customers and counterparties.....                             | 18   | -  | 28   | 46              |
| Financial Instruments sold, but not yet<br>purchased, at fair value ..... | -  | -  | 44   | 44              |
| Other liabilities and accrued expenses .....                              | 1  | -  | 31   | 32              |
| <b>Total .....</b>  | <b>\$ 19</b>   | <b>\$ 761</b>                                    | <b>\$ 584</b>  | <b>\$ 1,364</b> |

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

<sup>(2)</sup> These VIEs are generally financed through the issuance of debt instruments collateralized by assets held by the VIE, and these VIE liabilities are partially collateralized by the related VIE assets.

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

<sup>(4)</sup> A majority of these VIE assets can be used only to settle obligations of the VIE.

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

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**Note 5. Short-Term Borrowings**

As of June 2010, short-term borrowings were \$77.24 billion, comprised of \$62.09 billion included in “Other secured financings” in the consolidated statement of financial condition and \$15.15 billion of unsecured short-term borrowings. See Note 3 for information on other secured financings.

The firm obtains unsecured short-term borrowings primarily from Group Inc. 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.

**Note 6. Long-Term Borrowings**

As of June 2010, long-term borrowings were \$1.32 billion, comprised of \$1.04 billion included in “Other secured financings” in the consolidated statement of financial condition and \$284 million of unsecured long-term borrowings. See Note 3 for information on other secured financings.

The firm obtains unsecured long-term borrowings, which have various maturity dates, primarily from third parties. As of June 2010, the carrying values of these long-term obligations approximated fair value.

***Subordinated Borrowings***

As of June 2010, the firm had outstanding borrowings of \$5.00 billion from Group Inc. under four subordinated loan agreements, which mature in 2011. In addition, the firm has a \$16.60 billion revolving subordinated loan agreement with Group Inc., which also matures in 2011. As of June 2010, \$13.25 billion was drawn down under these agreements.

Amounts borrowed under these subordinated loan agreements bear interest at a rate of LIBOR plus .75% per annum. The carrying value of these borrowings approximates fair value.

The subordinated borrowings are with related parties and are available in computing net capital under the SEC’s uniform net capital rule. To the extent that such borrowings are required for the firm’s continued compliance with minimum net capital requirements, they may not be repaid.

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**Note 7. Commitments, Contingencies and Guarantees**

**Commitments**

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

|   | Commitment Amount by Period<br>of Expiration as of June 2010 |               |                                |                     | Total<br>Commitments<br>as of<br>June 2010 |
|---|--|---------------|--------------------------------|---------------------|--|
|   | 2010   | 2011-<br>2012 | 2013-<br>2014<br>(in millions) | 2015-<br>Thereafter |  |
| Commitments to extend credit <sup>(1)(2)</sup> .....                  | \$ 100   | \$ 154        | \$ -                           | \$ -                | \$ 254                                     |
| Forward starting resale and<br>securities borrowing agreements.....   | 2,737  | -             | -                              | -                   | 2,737                                      |
| Forward starting repurchase and<br>securities lending agreements..... | 9,522  | -             | -                              | -                   | 9,522                                      |
| Letters of credit <sup>(3)</sup> .....                                | 206  | 221           | -                              | -                   | 427  |
| Other .....   | 110  | 4             | 1                              | 23                  | 138  |
| <b>Total commitments .....</b>  | <b>\$ 12,675</b>   | <b>\$ 379</b> | <b>\$ 1</b>                    | <b>\$ 23</b>        | <b>\$ 13,078</b>                           |

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

<sup>(2)</sup> Consists of investment-grade commercial lending commitments.

<sup>(3)</sup> Consists of commitments under letters of credit issued by various banks which the firm provides to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements.

**Leases.** The firm has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2021. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. Future minimum rental payments, net of minimum sublease rentals are set forth below:

|                         | As of<br>June 2010<br>(in millions) |
|-------------------------|-------------------------------------|
| Remainder of 2010 ..... | \$ 13                               |
| 2011 .....              | 26                                  |
| 2012 .....              | 25                                  |
| 2013 .....              | 6                                   |
| 2014 .....              | 5                                   |
| 2015-thereafter .....   | 27                                  |
| <b>Total .....</b>      | <b>\$ 102</b>                       |

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**Contingencies**

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

**Guarantees**

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

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

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

|                                  | Carrying<br>Value of<br>Net Liability | Maximum Payout/Notional Amount by Period of Expiration <sup>(1)</sup> |               |               |                     | Total   |
|----------------------------------|---------------------------------------|---|---------------|---------------|---------------------|---------|
|                                  |                                       | 2010  | 2011-<br>2012 | 2013-<br>2014 | 2015-<br>Thereafter |         |
| (in millions)                    |                                       |   |               |               |                     |         |
| <b>As of June 2010</b>           |                                       |   |               |               |                     |         |
| Derivatives <sup>(2)</sup> ..... | \$40                                  | \$4,177   | \$219         | \$243         | \$1,032             | \$5,671 |
| Other financial guarantees ..... | -                                     | 19  | -             | -             | -                   | 19      |

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

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

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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. 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 consolidated statement of financial condition as of June 2010.

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 that the firm will have to make any material payments under these arrangements, and no liabilities related to these arrangements have been recognized in the consolidated statement of financial condition as of June 2010.

**Note 8. Employee Benefit Plans**

The firm's employees participate in various Group Inc. sponsored pension plans and certain other postretirement benefit plans, primarily healthcare and life insurance. Group Inc. 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. Group Inc. maintains a defined benefit pension plan for most U.K. employees. As of April 2008, the U.K. defined benefit plan was closed to new participants, but will continue to accrue benefits for existing participants.



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Group Inc. maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan was closed to new participants and frozen such that existing participants would not accrue any additional benefits. Employees of certain subsidiaries participate in various defined benefit pension plans. In addition, Group Inc. maintains unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs.

**Defined Contribution Plans**

The firm contributes to Group Inc. employer-sponsored U.S. and non-U.S. defined contribution plans.

**Note 9. Goodwill and Identifiable Intangible Assets**

***Goodwill***

As of June 2010, the carrying value of the firm's goodwill was \$50 million, related to the acquisition of Liberty Investment Management.

***Identifiable Intangible Assets***

As of June 2010, the gross carrying amount of the firm's identifiable intangible assets was \$560 million, which are included in "Other assets" in the consolidated statement of financial condition. The related accumulated amortization was \$31 million, resulting in a net carrying amount of \$529 million. These identifiable intangible assets represent television broadcast royalties held by a VIE consolidated upon adoption of ASU No. 2009-17.

Substantially all of the firm's identifiable intangible assets are considered to have finite lives and are amortized over their estimated lives. The weighted average remaining life of the firm's identifiable intangible assets is approximately 9 years.

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

|                        | <b>As of<br/>June 2010</b> |
|------------------------|----------------------------|
|                        | (in millions)              |
| Remainder of 2010..... | \$ 31                      |
| 2011 .....             | 62                         |
| 2012 .....             | 62                         |
| 2013 .....             | 62                         |
| 2014 .....             | 62                         |
| 2015 .....             | 62                         |

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**Note 10. Income Taxes**

Effective November 29, 2003, GS&Co. elected to be taxed as a corporation for U.S. federal income tax purposes. As a corporation for tax purposes, the firm is subject to U.S. federal and various state and local income taxes on its earnings. The firm is also subject to taxes in foreign jurisdictions on certain of its operations. The firm is included with Group Inc. and subsidiaries in the consolidated corporate federal tax return as well as the consolidated/combined state and local tax returns. The firm computes its tax liability as if it were filing a tax return on a modified separate company basis and settles such liability with Group Inc. pursuant to the tax sharing agreement. To the extent the firm generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to the tax sharing agreement.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse.

Significant components of the firm's deferred tax assets and liabilities are set forth below:

|   | <b>As of<br/>June 2010</b> |
|---|----------------------------|
|   | (in millions)              |
| Deferred tax assets                                 |                            |
| Compensation and benefits .....                     | \$ 1,189                   |
| Unrealized losses.....                              | 302                        |
| Other, net .....                                    | 274                        |
| Total deferred tax assets .....                     | <u>\$ 1,765</u>            |
| Total deferred tax liabilities <sup>(1)</sup> ..... | <u>\$ 205</u>              |

<sup>(1)</sup> Relates to depreciation and amortization.

As of June 2010, the firm did not record a liability related to accounting for uncertainty in income taxes.

All years subsequent to and including 2005 for U.S. Federal and 2004 for New York State and City remain open to examination by the taxing authority.

**GOLDMAN, SACHS & CO. and SUBSIDIARIES**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)**  
**(UNAUDITED)**

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**Note 11. Transactions with Related Parties**

The firm enters into transactions with Group Inc. and affiliates in the normal course of business as part of its trading, financing and general operations. Amounts payable to, and receivable from, such affiliates are reflected in the consolidated statement of financial condition as set forth below:

|  | <b>As of</b><br><b>June 2010</b> |
|--|----------------------------------|
|  | (in millions)                    |
| <b>Assets</b>  |                                  |
| Securities borrowed (includes \$21,991 at fair value) .....  | \$ 38,873                        |
| Financial instruments purchased under agreements to resell, at fair value .....                        | 21,077                           |
| Receivables from brokers, dealers and clearing organizations .....                                     | 4,672                            |
| Receivables from customers and counterparties .....  | 237                              |
| Financial instruments owned, at fair value .....   | 3,891 <sup>(1)</sup>             |
| Other assets .....   | 1,010                            |
| <b>Liabilities</b>   |                                  |
| Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings ..... | \$ 15,052                        |
| Securities loaned (includes \$26,006 at fair value) .....  | 56,561                           |
| Financial instruments sold under agreements to repurchase, at fair value .....                         | 41,684                           |
| Other secured financings .....   | 61,254                           |
| Payables to brokers, dealers and clearing organizations .....  | 11,025                           |
| Payables to customers and counterparties .....   | 9,526                            |
| Financial instruments sold, but not yet purchased, at fair value .....                                 | 720 <sup>(2)</sup>               |
| Unsecured long-term borrowings .....   | 214                              |
| Subordinated borrowings .....  | 18,250                           |

<sup>(1)</sup> The firm, from time to time, makes markets in debt issued by Group Inc. and certain affiliates. Included in Financial instruments owned, at fair value are \$2.05 billion of such issuances and \$1.84 billion of intercompany derivative contracts.

<sup>(2)</sup> Consists of intercompany derivative contracts.

**GOLDMAN, SACHS & CO. and SUBSIDIARIES**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)**  
**(UNAUDITED)**

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**Note 12. Net Capital Requirements**

GS&Co. is a registered U.S. broker-dealer and futures commission merchant subject to Rule 15c3-1 of the Securities and Exchange Commission (SEC) and Rule 1.17 of the Commodity Futures Trading Commission, which specify uniform minimum net capital requirements, as defined, for their registrants, and also effectively require that a significant part of the registrants' assets be kept in relatively liquid form. GS&Co. has elected to compute net capital in accordance with the "Alternative Net Capital Requirement," as permitted by Rule 15c3-1. As of June 2010, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$10.37 billion, which exceeded the amount required by \$8.51 billion.

Certain other subsidiaries of GS&Co. are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of June 2010, these subsidiaries were in compliance with their local capital adequacy requirements.

As of June 2010, GS&Co. made a computation related to the reserve requirement for Proprietary Accounts of Introducing Brokers (PAIB) that indicated the Company's PAIB credits exceeded its PAIB debits. The amount held on deposit in the Reserve Bank at June 2010 was \$752 million.