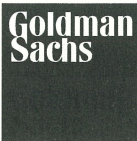


Goldman Sachs Bank USA and Subsidiaries

**Consolidated Financial Statements
For the years ended December 31, 2010
and December 31, 2009**



Management Report

March 25, 2011

To the Federal Deposit Insurance Corporation, Federal Reserve Bank of New York, New York State Banking Department and the Audit Committee of the Board of Directors of Goldman Sachs Bank USA (the "Bank")

Management's Assessment of Internal Control over Financial Reporting

The management of the Bank is responsible for (i) preparing the Bank's annual financial statements in accordance with generally accepted accounting principles, and (ii) establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Call Report.

The Bank's internal control over financial reporting is a process designed under the supervision of the Bank's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles and the instructions for the Call Report, and financial statements for regulatory reporting purposes.

The Bank's internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Bank; (ii) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and directors of the Bank; and (iii) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Bank's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with U.S. generally accepted accounting principles and the instructions

for the Call Report, as of December 31, 2010, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*.

Based upon its assessment, management has concluded that, as of December 31, 2010, the Bank's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with U.S. generally accepted accounting principles and the instructions for the Call Report, is effective based on the criteria established in *Internal Control – Integrated Framework*.

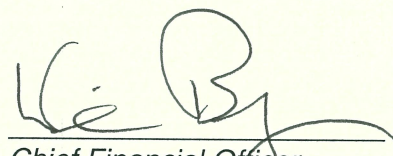
Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Call Report, as of December 31, 2010, has been audited by PricewaterhouseCoopers LLP, an independent public accounting firm, as stated in their report dated March 25, 2011.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Bank is responsible for complying with Federal laws and regulations pertaining to insider loans and Federal and State laws and regulations pertaining to dividend restrictions.

The management of the Bank has assessed the Bank's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2010, and has discussed with its supervisory authority a question regarding the coverage of one of those regulations. Based upon such assessment and discussion, management has concluded that the Bank has complied, in all material respects, with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2010.



Chief Executive Officer
Peter O'Hagan
Goldman Sachs Bank USA

Chief Financial Officer
Kevin Byrne
Goldman Sachs Bank USA



Report of Independent Auditors

To the Board of Directors and Shareholder of Goldman Sachs Bank USA:

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of earnings, shareholder's equity and cash flows present fairly, in all material respects, the financial position of Goldman Sachs Bank USA and its subsidiaries (the Company) at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included under the heading "Management's Assessment of Internal Control over Financial Reporting" in the accompanying Management Report. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the Federal Financial Institutions Examination Council *Instructions for Consolidated Reports of Condition and Income*. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect



the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We have not examined management's assertion regarding its compliance with laws and regulations concerning loans to insiders and federal and state laws and regulations concerning dividend restrictions.

PricewaterhouseCoopers LLP

March 25, 2011

GOLDMAN SACHS BANK USA and SUBSIDIARIES

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GOLDMAN SACHS BANK USA and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended	
	December 2010	December 2009
<i>in millions</i>		
Revenues		
Interest income	\$ 766	\$1,311
Interest expense	1,143	1,189
Net interest income/(expense)	(377)	122
Gains and losses from financial instruments, net	2,798	5,366
Other revenues	339	358
Total non-interest revenues	3,137	5,724
Net revenues, including net interest income/(expense)	2,760	5,846
Operating expenses		
Compensation and benefits	233	226
Management charges	580	989
Other expenses	297	284
Total operating expenses	1,110	1,499
Pre-tax earnings	1,650	4,347
Provision for taxes	450	670
Net earnings	\$1,200	\$3,677

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

GOLDMAN SACHS BANK USA and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	As of December	
<i>in millions, except share and per share amounts</i>	2010	2009
Assets		
Cash	\$29,202	\$28,677
Collateralized agreements:		
Securities purchased under agreements to resell, at fair value	7,927	7,429
Loans receivable, net	2,405	1,398
Receivables from customers and counterparties, brokers, dealers and clearing organizations	3,620	4,515
Financial instruments owned, at fair value (includes \$6,810 and \$10,037 pledged as collateral as of December 2010 and December 2009, respectively)	41,688	43,980
Servicing advances receivable, net	2,650	2,730
Other assets	1,937	2,140
Total assets	\$89,429	\$90,869
Liabilities and shareholder's equity		
Deposits (includes \$850 and \$1,217 at fair value as of December 2010 and December 2009, respectively)	\$32,373	\$32,802
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	9,180	4,521
Other secured financings (includes \$3,158 and \$3,691 at fair value as of December 2010 and December 2009, respectively)	3,259	3,694
Payables to customers and counterparties, brokers, dealers and clearing organizations	3,387	2,895
Financial instruments sold, but not yet purchased, at fair value	16,147	21,933
Subordinated borrowings	5,000	5,000
Other liabilities and accrued expenses (includes \$298 and \$805 at fair value as of December 2010 and December 2009, respectively)	1,350	2,692
Total liabilities	70,696	73,537
Commitments, contingencies and guarantees		
Shareholder's equity		
Shareholder's equity (includes common stock, par value \$100 per share; 80,000,000 shares authorized, issued and outstanding as of December 2010 and December 2009)	18,733	17,332
Total liabilities and shareholder's equity	\$89,429	\$90,869

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

GOLDMAN SACHS BANK USA and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

	Year Ended	
	December 2010	December 2009
<i>in millions</i>		
Shareholder's equity		
Shareholder's equity, beginning of year	\$17,332	\$13,629
Net earnings	1,200	3,677
Capital contributions from The Goldman Sachs Group Inc. ¹	201	26
Shareholder's equity, end of year	\$18,733	\$17,332

1. Capital contributions for the year ended December 2010 were non-cash.

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

GOLDMAN SACHS BANK USA and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW

	Year Ended	
	December 2010	December 2009
<i>in millions</i>		
Cash flows from operating activities		
Net earnings	\$1,200	\$3,677
Non-cash items included in net earnings		
Interest expense	194	–
Depreciation and amortization	16	15
Deferred income taxes	(109)	(340)
Changes in operating assets and liabilities		
Net receivables from customers and counterparties, brokers, dealers and clearing organizations	1,389	2,648
Securities purchased under agreements to repurchase, net of securities sold under agreements to resell	4,161	45,321
Financial instruments owned, at fair value	2,076	25,567
Financial instruments sold, but not yet purchased, at fair value	(5,786)	(39,424)
Servicing advances receivable, net	80	(107)
Other, net	221	3,183
Net cash provided by operating activities	3,442	40,540
Cash flows from investing activities		
Change in loans receivable, net	(1,007)	(160)
Purchase of servicing advances receivable	–	(301)
Net cash used for investing activities	(1,007)	(461)
Cash flows from financing activities		
Capital contributions from The Goldman Sachs Group Inc.	–	26
Deposits, net	(613)	(12,046)
Repayment of secured financings	(258)	(7,934)
Other, net	(1,039)	(3,818)
Net cash used for financing activities	(1,910)	(23,772)
Net increase in cash	525	16,307
Cash, beginning of year	28,677	12,370
Cash, end of year	\$29,202	\$28,677

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest were \$1.10 billion and \$1.66 billion for the years ended December 2010 and December 2009, respectively.

Cash payments (receipts) for income taxes, net, were \$1.14 billion and \$(511) million for the years ended December 2010 and December 2009, respectively.

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

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

Goldman Sachs Bank USA (GSB) is a New York State-chartered bank that is a member of the Federal Reserve System and the deposits of which are insured by the Federal Deposit Insurance Corporation (FDIC), to the extent provided by law. GSB, together with its consolidated subsidiaries (collectively, the Bank), is a wholly-owned subsidiary of The Goldman Sachs Group Inc. (Group Inc.), a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956. The Bank is regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board) and the New York State Banking Department (NYSBD).

The Bank is the resulting entity from the reorganization which took place during November 2008 involving Group Inc.'s existing Utah industrial bank and various other Group Inc. subsidiaries.

As a prescribed condition of the Bank's reorganization, Group Inc. agreed to guarantee certain losses, including credit-related losses, relating to assets contributed by Group Inc. on the date of the reorganization (the Guarantee). Group Inc. also agreed to pledge to the Bank certain collateral, including interests in subsidiaries and other illiquid assets. See Note 21 for further discussion of this Guarantee and other balances with affiliates.

GSB accepts client and brokered deposits and lends to high-net-worth individuals, institutional and corporate clients and other counterparties. GSB deals in over-the-counter derivatives, including cash-settled swap agreements, caps, collars, floors, options on swaps and forward settlement contracts in the interest rate, credit and foreign currency markets. GSB engages in agency lending, custody, and hedge fund administration services.

GSB facilitates client transactions and makes markets in fixed income and currency products, with clients which include corporations, financial institutions, investment funds, governments and individuals.

The following activities are conducted in GSB's significant operating subsidiaries:

Goldman Sachs Credit Partners L.P., a Bermuda limited partnership, primarily originates and syndicates commercial purpose senior bank loans to institutional borrowers and also purchases bank loans for its own investment purposes, for securitization and for resale.

Goldman Sachs Mitsui Marine Derivative Products, L.P. (MMDP), a Delaware limited partnership, acts as an intermediary in transactions involving derivative contracts. MMDP is able to provide credit rating enhancement to derivative products due to its partnership with an external party, Mitsui Sumitomo Insurance Co., Ltd. (Mitsui Sumitomo).

Goldman Sachs Mortgage Company, L.P., a New York limited partnership, purchases residential and commercial mortgage loans and other consumer loan assets for its own investment, securitization or resale and provides warehouse and repurchase financing to third parties.

Litton Loan Servicing L.P. (Litton), a Delaware limited partnership, services primarily sub-prime residential mortgage loans.

William Street Commitment Corporation (Commitment Corp.) and William Street Credit Corporation (Credit Corp.), both Delaware corporations, provide unsecured syndicated loan facilities primarily to investment-grade corporate borrowers. Commitments provided by Commitment Corp. generally are nonrecourse to the Bank and can be funded with William Street Funding Corporation whereas commitments provided by Credit Corp. are generally with recourse.

William Street Funding Corporation (Funding Corp.), a Delaware corporation, acts as the funding vehicle for a substantial portion of the draws on loan commitments entered into by Commitment Corp. Funding Corp. funds itself primarily with long-term AAA debt issued to third parties. Until needed, these funds are invested in short-term money market funds.

All subsidiaries of the Bank are wholly-owned by the Bank, with the exception of MMDP, in which Mitsui Sumitomo has a 50% interest.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of the Bank and all other entities in which the Bank has a controlling financial interest. Intercompany transactions and balances have been eliminated.

In 2009, the Bank changed its fiscal year-end from the last Friday of December to December 31. Fiscal 2009

began on December 27, 2008 and ended on December 31, 2009.

All references to 2010 and 2009, unless specifically stated otherwise, refer to December 31, 2010 and December 31, 2009 respectively. Any reference to a future year refers to a fiscal year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Significant Accounting Policies

The Bank's significant accounting policies include when and how to measure the fair value of assets and liabilities and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements and Note 11 for policies on consolidation accounting. All other significant accounting policies are either discussed below or included in the following footnotes:

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Collateralized Agreements and Financings	Note 9
Securitization Activities	Note 10
Variable Interest Entities	Note 11
Loans	Note 12
Servicing Advances Receivable, net	Note 13
Other Assets	Note 14
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Employee Incentive Plans and Employee Benefit Plans	Note 23
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Subsequent Events	Note 26

Consolidation

The Bank consolidates entities in which the Bank has a controlling financial interest. The Bank 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.

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 ownership of a majority voting interest. If the Bank has a majority voting interest in a voting interest entity it is consolidated.

Variable Interest Entities (VIE). A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The Bank has a controlling financial interest in a VIE when the Bank has a variable interest or interests that provide it 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. See Note 11 for further information about VIEs.

Use of Estimates

Preparation of these consolidated financial statements requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, accounting for goodwill and identifiable intangible assets and the provision for losses that may arise from litigation, regulatory proceedings and tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the Bank has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. 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. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are included in "Gains and losses from financial instruments, net". See Notes 5 through 8 for further information about fair value measurements.

Transfers of Assets

Transfers of assets are accounted for as sales when the Bank has relinquished control over the assets transferred. For transfers of assets accounted for as sales, any related gains or losses are recognized in net revenues. Assets or liabilities that arise from the Bank's continuing involvement with transferred assets are measured at fair value. For transfers of assets that are not accounted for as sales, the assets remain in "Financial instruments owned, at fair value" and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Note 9 for further information about transfers of assets accounted for as collateralized financings and Notes 10 and 11 for further information about transfers of assets accounted for as sales.

Receivables from Customers and Counterparties, Brokers, Dealers and Clearing Organizations

Within "Receivables from customers, counterparties, brokers, dealers and clearing organizations",

receivables from customers and counterparties generally consist of collateralized receivables related to client transactions. Receivables from customers and counterparties are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Interest on receivables from customers and counterparties is recognized over the life of the transaction and included in "Interest income".

Goodwill

Goodwill relates primarily to the cost of acquiring Litton in excess of the fair value of identifiable net assets at acquisition date. Goodwill is tested at least annually for impairment. An impairment loss is recognized if the estimated fair value of a reporting unit 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.

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 statements of financial condition and revenues and expenses are translated at average rates of exchange for the period. Foreign currency remeasurement gains or losses are recognized in earnings.

Cash

Cash includes funds held at the Federal Reserve Bank (\$28.12 billion and \$27.43 billion as of December 2010 and 2009, respectively) and cash deposits held with other financial institutions.

Within the cash balance held at the Federal Reserve Bank, \$670 million and \$1.57 billion are maintained to meet regulatory reserve requirements, as of December 2010 and December 2009, respectively.

As of December 2010 and December 2009, cash included \$28.99 billion and \$27.89 billion, respectively, of interest-bearing deposits with banks.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Developments

Transfers of Financial Assets and Interests in Variable Interest Entities (Accounting Standards Codification (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. ASU No. 2009-17 also requires entities previously classified as QSPEs to be evaluated for consolidation and disclosure as VIEs.

ASU Nos. 2009-16 and 2009-17 were effective for fiscal years beginning after November 15, 2009. In February 2010, the FASB issued ASU No. 2010-10, "Consolidations (Topic 810) – Amendments For Certain Investment Funds", which defers the requirements of ASU No. 2009-17 for certain interests in investment funds and certain similar entities.

The Bank adopted these amendments 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 did not materially affect the Bank's financial condition, results of operations or cash flows.

Improving Disclosures about Fair Value Measurements (ASC 820). In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements". ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. These disclosure requirements were 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 affect the Bank's financial condition, results of operations or cash flows.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about the fair value

option. The table below presents the Bank's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value.

<i>in millions</i>	As of December 2010		As of December 2009	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Money market instruments	\$ 4,060 ³	\$ –	\$ 4,305 ³	\$ –
U.S. government and federal agency obligations	3,081	2,958	1,845	1,937
Non-U.S. government obligations	3,330	2,711	7,830	7,090
Mortgage and other asset-backed loans:				
Loans backed by commercial real estate	629	1	194	12
Loans backed by residential real estate	1,139	–	943	–
Bank loans and bridge loans	3,268	812 ⁴	3,540	770 ⁴
Corporate debt securities	199	51	1,176	63
Other ¹	122	–	19	–
Derivatives ²	25,860	9,614	24,128	12,061
Total	\$41,688	\$16,147	\$43,980	\$21,933

1. Primarily consists of equity investments.
2. Net of cash collateral received or posted under credit support agreements and reported on a net-by-counterparty basis when a legal right of setoff exists under an enforceable netting agreement.
3. Money market instruments held by Funding Corp. to support the William Street credit extension program. See Note 18 for further information about the William Street credit extension program.
4. Includes the fair value of unfunded commitments to extend credit. The fair value of partially funded commitments is primarily included in "Financial instruments owned, at fair value".

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gains and Losses from Financial Instruments, net

The table below presents, by major product type, gains/(losses) related to the Bank's financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value in both derivative and nonderivative financial instruments. The gains/(losses) presented below are included in "Gains and losses from financial instruments, net" and exclude related interest income and interest expense. See Note 22 for further information about interest income and interest expense.

The gains/(losses) in the table are not representative of the results of individual businesses because many of the Bank's trading strategies utilize financial instruments across various product types. Accordingly,

gains or losses in one product type frequently offset gains or losses in other product types.

For example, most of the Bank's longer-term derivatives are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the Bank's cash and derivatives inventory has exposure to foreign currencies and may be economically hedged with foreign currency contracts.

<i>in millions</i>	Year Ended December	
	2010	2009
Interest rates	\$ 204	\$ 4,904
Currencies	950	(3,489)
Credit	1,644	3,951
Total	\$2,798	\$ 5,366

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. 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. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market-based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates, commodities prices and credit curves.

U.S. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in the hierarchy is based on the lowest level of any input that is significant to its fair value measurement.

The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the Bank had access at the measurement date for identical, unrestricted assets or liabilities.

Level 2. Inputs to valuation techniques are observable, either directly or indirectly.

Level 3. One or more inputs to valuation techniques that are significant and unobservable.

See Notes 6 and 7 for further information about fair value measurements of cash instruments and derivatives, respectively.

The fair values of level 2 and level 3 financial assets and liabilities may include valuation adjustments for counterparty and the Bank's credit quality, transfer restrictions, large and/or concentrated positions, illiquidity and unobservable inputs. See Notes 6 and 7 for further information about valuation adjustments.

Level 3 financial assets are summarized below.

<i>in millions</i>	As of December	
	2010	2009
Total level 3 assets	\$ 6,834	\$ 5,090
Total assets	\$89,429	\$90,869
Total financial assets at fair value	\$49,615	\$51,409
Total level 3 assets as a percentage of Total assets	7.6%	5.6%
Total level 3 assets as a percentage of Total financial assets at fair value	13.8%	9.9%

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial Assets and Financial Liabilities by Level

The tables below present, by level, financial instruments owned, at fair value and 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.

See Notes 6 and 7 for further information on the classes of assets and liabilities included in total cash instruments and total derivatives and their valuation methodologies and inputs, respectively. See Note 8 for the valuation methodologies and inputs for other financial assets and financial liabilities accounted for at fair value under the fair value option.

<i>in millions</i>	Financial Assets at Fair Value as of December 2010				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
Total cash instruments	\$10,300	\$ 2,574	\$ 2,954	\$ –	\$15,828
Total derivatives	–	82,843	3,780	(60,763) ¹	25,860
Financial instruments owned, at fair value	10,300	85,417	6,734	(60,763)	41,688
Securities purchased under agreements to resell	–	7,827	100	–	7,927
Total	\$10,300	\$93,244	\$6,834	\$(60,763)	\$49,615

<i>in millions</i>	Financial Liabilities at Fair Value as of December 2010				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
Total cash instruments	\$5,597	\$ 698	\$ 238	\$ –	\$ 6,533
Total derivatives	–	38,082	1,522	(29,990) ¹	9,614
Financial instruments sold, but not yet purchased, at fair value	5,597	38,780	1,760	(29,990)	16,147
Deposits ²	–	850	–	–	850
Securities sold under agreements to repurchase	–	9,180	–	–	9,180
Other secured financings ³	–	261	2,897	–	3,158
Other liabilities and accrued expenses ⁴	–	111	187	–	298
Total	\$5,597	\$49,182	\$4,844 ⁵	\$(29,990)	\$29,633

1. Represents cash collateral and the impact of netting across levels. Netting among positions classified in the same level is included in that level.
2. Consists of certain certificates of deposit.
3. Includes transfers accounted for as financings rather than sales and debt raised through the Bank's William Street program.
4. Consists of unsecured borrowings.
5. Level 3 liabilities were 16.3% of total financial liabilities at fair value.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<i>in millions</i>	Financial Assets at Fair Value as of December 2009				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
Total cash instruments	\$13,735	\$ 3,902	\$2,215	\$ –	\$19,852
Total derivatives	–	96,863	2,875	(75,610) ¹	24,128
Financial instruments sold, but not yet purchased, at fair value	13,735	100,765	5,090	(75,610)	43,980
Securities purchased under agreements to resell	–	7,429	–	–	7,429
Total	\$13,735	\$108,194	\$5,090	\$(75,610)	\$51,409

<i>in millions</i>	Financial Liabilities at Fair Value as of December 2009				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
Total cash instruments	\$9,002	\$ 610	\$ 260	\$ –	\$ 9,872
Total derivatives	–	35,345	828	(24,112) ¹	12,061
Financial instruments sold, but not yet purchased, at fair value	9,002	35,955	1,088	(24,112)	21,933
Deposits ²	–	1,217	–	–	1,217
Securities sold under agreements to repurchase	–	4,521	–	–	4,521
Other secured financings ³	–	584	3,107	–	3,691
Other liabilities and accrued expenses ⁴	–	805	–	–	805
Total	\$9,002	\$43,082	\$4,195 ⁵	\$(24,112)	\$32,167

1. Represents cash collateral and the impact of netting across levels. Netting among positions classified in the same level is included in that level.
2. Consists of certain certificates of deposit.
3. Includes transfers accounted for as financings rather than sales and debt raised through the Bank's William Street program.
4. Consists of unsecured borrowings.
5. Level 3 liabilities were 13.0% of total financial liabilities at fair value.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Level 3 Unrealized Gains/(Losses)

Cash Instruments. Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, 2 or 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash and/or derivative instruments or level 3 derivatives.

Derivatives. Gains and losses on level 3 derivatives should be considered in the context of the following:

- A derivative with level 1 and/or level 2 inputs is classified in level 3 in its entirety if it has at least one significant level 3 input.
- If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified as level 3.

- Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to level 1 or level 2 derivatives and/or level 1, level 2, and level 3 cash instruments.

The table below presents the unrealized gains/(losses) on level 3 financial assets and financial liabilities at fair value still held at period end. See Notes 6 and 7 for further information about level 3 cash instruments and derivatives, respectively. See Note 8 for other financial assets and liabilities at fair value under the fair value option.

<i>in millions</i>	Level 3 Unrealized Gains/(Losses)	
	Year Ended	
	December 2010	December 2009
Cash instruments – assets	\$102	\$ 46
Cash instruments – liabilities	(8)	74
Net unrealized gains on level 3 cash instruments	94	120
Derivatives – net	292	(1,553)
Other secured financings	(16)	(765)
Total	\$370	\$(2,198)

Gains and losses in the table above include:

Year Ended December 2010

- A net unrealized gain on cash instruments of \$94 million primarily consists of gains on certain bank loans and loans backed by residential real estate.
- A net unrealized gain on derivatives of \$292 million primarily is attributable to changes in foreign exchange rates, which is a Level 2 input, underlying certain currency derivatives.

Year Ended December 2009

- A net unrealized gain on cash instruments of \$120 million primarily consists of gains on certain bank loans and loans backed by residential real estate.
- A net unrealized loss on level 3 derivative contracts of \$1.55 billion primarily is attributable to tighter credit spreads on the underlying instruments (all of which are level 2 observable inputs).
- A net unrealized loss on other secured financings of \$765 million primarily relating to losses on long-term William Street debt.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Level 3 Rollforward

If a financial asset or liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are recognized at the beginning of the reporting period in which they occur.

See Notes 6 and 7 for further information about cash instruments and derivatives included in level 3,

respectively. See Note 8 for other financial assets and liabilities at fair value under the fair value option.

The tables below present changes in fair value for all financial assets and financial liabilities categorized as level 3 as of the end of the year.

<i>in millions</i>	Level 3 Financial Assets at Fair Value for the Year Ended December 2010					
	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains relating to instruments still held at end of year	Net purchases, issuances and settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Total cash instruments – assets ¹	\$2,215	\$ 121	\$102	\$287 ²	\$229 ²	\$2,954
Total derivatives – net	2,047	(251)	292	176	(6)	2,258
Securities purchased under agreements to resell	–	3	–	97	–	100

<i>in millions</i>	Level 3 Financial Liabilities at Fair Value for the Year Ended December 2010					
	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized losses relating to instruments still held at end of year	Net purchases, issuances and settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Total cash instruments – liabilities	\$ 260	\$(16)	\$ 8	\$ 6	\$ (20)	\$ 238
Other secured financings	3,107	–	16	(226) ⁴	–	2,897
Other liabilities and accrued expenses ³	–	–	–	7	180	187

1. Components of the rollforward are concentrated within certain asset classes (as described below), therefore the cash instrument rollforward is not presented by asset class.
2. Issuances and transfers relate to bank loan activity. Transfers of bank loans into level 3 were due to certain unobservable inputs.
3. Consists of unsecured borrowings.
4. Primarily related to principal repayments of secured debt issued by William Street.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<i>in millions</i>	Level 3 Financial Assets at Fair Value for the Year Ended December 2009					
	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at end of year	Net purchases, issuances and settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Total cash instruments – assets ¹	\$5,071	\$124	\$ 46	\$(2,931) ²	\$ (95)	\$2,215
Total derivatives – net	4,213	641	(1,553)	(310)	(944)	2,047

<i>in millions</i>	Level 3 Financial Liabilities at Fair Value for the Year Ended December 2009					
	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at end of year	Net purchases, issuances and settlements	Net transfers in and/or (out) of level 3	Balance, end of year
Total cash instruments – liabilities	\$ 539	\$(6)	\$(74)	\$ (42)	\$ (157)	\$ 260
Other secured financings	2,833	–	765	(491) ³	–	3,107

1. Components of the rollforward are concentrated within certain asset classes (as described below), therefore the cash instrument rollforward is not presented by asset class.
2. Primarily the transfer of assets to affiliates where such assets are of a credit quality disqualifying them from retention by the Bank. Such assets consisted mainly of bank loans. See Note 21 for further information.
3. Primarily related to principal repayments of secured debt issued by William Street.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Cash Instruments

Cash instruments include securities, which are typically readily transferable and exhibit reasonable levels of price transparency, and other cash instruments, such as loans. See below for the types of cash instruments included in each level of the fair value hierarchy and the valuation techniques and significant inputs used to determine their fair values. See Note 5 for an overview of the Bank's fair value measurement policies and the fair value hierarchy.

Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and most non-U.S. government obligations, and money market instruments.

Level 1 cash instruments are valued using quoted prices for identical unrestricted instruments in active markets.

The fair value of a level 1 instrument is calculated as quantity held multiplied by quoted market price. U.S. GAAP prohibits valuation adjustments being applied to level 1 instruments even in situations where the Bank holds a large position and a sale could reasonably impact the quoted price.

Level 2 Cash Instruments

Level 2 cash instruments include most government agency obligations, most corporate debt securities, certain mortgage-backed loans and securities, certain bank loans and bridge loans and lending commitments.

Valuations of level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions, and/or (ii) for other premiums and discounts that a market participant would require to arrive at fair value. Valuation adjustments are based on market evidence.

Level 3 Cash Instruments

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used to value a level 3 cash instrument, the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, the Bank uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realized on sales of level 3 assets.

The table below presents the valuation techniques and significant inputs used to determine the fair values of each class of level 3 cash instrument.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Level 3 Cash Instrument	Valuation Techniques and Significant Inputs
<p>Loans backed by commercial real estate</p> <ul style="list-style-type: none"> • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination 	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs for these valuations include:</p> <ul style="list-style-type: none"> • Transaction prices in both the underlying collateral and instruments with the same or substantially the same underlying collateral • Current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds) • Market yields implied by transactions of similar or related assets • Current performance of the underlying collateral • Capitalization rates and multiples
<p>Loans backed by residential real estate</p> <ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination 	<p>Valuation techniques vary by instrument, but are generally based on relative value analyses, discounted cash flow techniques or a combination thereof. 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 (an index that tracks the performance of subprime residential mortgage bonds). Significant inputs include:</p> <ul style="list-style-type: none"> • Home price projections, residential property liquidation timelines and related costs • Underlying loan prepayment, default and cumulative loss expectations • Transaction prices in both the underlying collateral and instruments with the same or substantially the same underlying collateral • Market yields implied by transactions of similar or related assets
<p>Bank loans and bridge loans</p> <p>Corporate debt securities</p>	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying credit risk and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:</p> <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Current levels and trends of market indices such as CDX, LCDX and MCDX (indices that track the performance of corporate credit, loans and municipal obligations, respectively) • Market yields implied by transactions of similar or related assets • Current performance and recovery assumptions and, where we use credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash Instruments by Level

The tables below present, by level within the fair value hierarchy, cash instrument assets and liabilities, at fair value.

Cash instrument assets and liabilities are included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value", respectively.

<i>in millions</i>	Cash Instrument Assets at Fair Value as of December 2010			
	Level 1	Level 2	Level 3	Total
Money market instruments	\$ 4,060	\$ —	\$ —	\$ 4,060
U.S. government and federal agency obligations	2,935	146	—	3,081
Non-U.S. government obligations	3,300	30	—	3,330
Mortgage and other asset-backed loans:				
Loans backed by commercial real estate	—	589	40	629
Loans backed by residential real estate	—	13	1,126	1,139
Bank loans and bridge loans	—	1,563	1,705	3,268
Corporate debt securities		198	1	199
Other ¹	5	35	82	122
Total	\$10,300	\$2,574	\$2,954	\$15,828

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of December 2010			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$2,956	\$ 2	—	\$2,958
Non-U.S. government obligations	2,641	70	—	2,711
Mortgage and other asset-backed loans:				
Loans backed by commercial real estate	—	1	—	1
Bank loans and bridge loans	—	586	226	812
Corporate debt securities	—	39	12	51
Total	\$5,597	\$698	\$238	\$6,533

1. Primarily consists of equity investments.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<i>in millions</i>	Cash Instrument Assets at Fair Value as of December 2009			
	Level 1	Level 2	Level 3	Total
Money market instruments	\$ 4,305	\$ –	\$ –	\$ 4,305
U.S. government and federal agency obligations	1,688	157	–	1,845
Non-U.S. government obligations	7,742	88	–	7,830
Mortgage and other asset-backed loans:				
Loans backed by commercial real estate	–	63	131	194
Loans backed by residential real estate	–	–	943	943
Bank loans and bridge loans	–	2,407	1,133	3,540
Corporate debt securities	–	1,171	5	1,176
Other ¹	–	16	3	19
Total	\$13,735	\$3,902	\$2,215	\$19,852

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of December 2009			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$1,935	\$ 2	–	\$1,937
Non-U.S. government obligations	7,067	23	–	7,090
Mortgage and other asset-backed loans:				
Loans backed by commercial real estate	–	12	–	12
Bank loans and bridge loans	–	511	259	770
Corporate debt securities	–	62	1	63
Total	\$9,002	\$610	\$260	\$9,872

1. Primarily consists of equity investments.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Derivatives and Hedging Activities

Derivative Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives.

The Bank enters into derivative transactions with clients and other market participants to provide liquidity and to facilitate the transfer and hedging of risk. Clients enter into derivatives to mitigate or modify interest rate, credit, foreign exchange, equity, commodity and other risks. In order to manage the risk from derivative transactions with clients, the Bank may enter into offsetting positions in other derivatives or purchase or sell cash instruments.

Risk management. The Bank also enters into derivatives to actively manage risk exposures that arise from market-making and investing and lending activities in derivative and cash instruments. In addition, the Bank may enter into derivatives to manage currency exposure, and to manage interest rate exposure in certain of the Bank's certificates of deposit. See "Hedge Accounting" below for further information.

The Bank enters into various types of derivatives, including:

- **Futures and forwards:** Contracts that commit counterparties to purchase or sell financial instruments, commodities or currencies in the future.

- **Swaps:** Contracts that require counterparties to exchange cash flows such as currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, commodities, currencies or indices.

- **Options:** Contracts in which the option purchaser has the right but not the obligation to purchase from or sell to the option writer financial instruments, commodities or currencies within a defined time period for a specified price.

Derivatives are accounted for at fair value, net of cash collateral received or posted under credit support agreements. Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement. Derivative assets and liabilities are included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value", respectively.

Gains and losses on derivatives not designated as hedges under U.S. GAAP are included in "Gains and losses from financial instruments, net".

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below presents the fair value and the number of derivative contracts by major product type on a gross basis as of December 2010 and December 2009. Gross fair values in the table below exclude the

effects of both netting under enforceable netting agreements and netting of cash received or posted under credit support agreements, and therefore are not representative of the Bank's exposure.

<i>in millions, except number of contracts</i>	As of December 2010			As of December 2009		
	Derivative Assets	Derivative Liabilities	Number of Contracts	Derivative Assets	Derivative Liabilities	Number of Contracts
Derivatives not accounted for as hedges						
Interest rates	\$569,188	\$537,207	298,979	\$549,160	\$504,029	314,126
Credit	13,373	12,833	23,811	49,260	42,799	49,323
Currencies	63,825	49,795	23,234	55,527	43,932	20,658
Commodities	191	252	178	72	107	86
Equities	20	30	45	12	36	40
Subtotal	\$646,597	\$600,117	346,247	\$654,031	\$590,903	384,233
Derivatives accounted for as hedges						
Interest rates	\$ 539	\$ —	402	\$ 437	\$ —	401
Gross fair value of derivatives	\$647,136	\$600,117	346,649	\$654,468	\$590,903	384,634
Counterparty netting ¹	(561,833)	(561,833)		(555,196)	(555,196)	
Cash collateral netting ²	(59,443)	(28,670)		(75,144)	(23,646)	
Fair value included in financial instruments owned	\$ 25,860			\$ 24,128		
Fair value included in financial instruments sold, but not yet purchased		\$ 9,614			\$ 12,061	

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Valuation Techniques for Derivatives

See Note 5 for an overview of the Bank's fair value measurement policies and the fair value hierarchy.

Level 1 Derivatives

Derivatives that are exchange traded fall within level 1 if they are actively traded and are valued at their quoted market price. However, the Bank does not generally deal in exchange-traded derivatives.

Level 2 Derivatives

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence.

Inputs to the valuations of level 2 OTC derivatives can be verified to market-clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgment because outputs of models can be calibrated to market clearing levels.

Price transparency of OTC derivatives can generally be characterized by product type.

Interest Rate. In general the prices and inputs used to value interest rate derivatives are transparent, even for long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialized nations are characterized by high trading volumes and tight bid offer spreads. Interest rate

derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10 year swap rate vs. 2 year swap rate), are more complex and are therefore less transparent, but are generally observable.

Credit. Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps which reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps which reference loans, asset-backed securities and emerging market debt instruments tend to be less transparent than those which reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.

Currency. Prices for currency derivatives based on the exchange rates of leading industrialized nations including those with longer tenors, are highly transparent. The primary difference between the transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

Commodity. Commodity derivatives include transactions referenced to metals (e.g., precious and base). Price transparency varies based on the underlying commodity.

Equity. The price transparency of equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency.

Liquidity is essential to observability of all product types. If transaction volumes decline, previously transparent prices and other inputs may become unobservable. Conversely, even highly structured products may at times have trading volumes large enough to provide observability of prices and other inputs.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Level 3 Derivatives

Level 3 OTC derivatives are valued using models which utilize observable level 1 and/or level 2 inputs as well as unobservable level 3 inputs.

- For the majority of the Bank's interest rate and currency derivatives classified within level 3, the significant unobservable inputs are correlations of certain currencies and interest rates (e.g., the correlation of Euro foreign exchange rates to U.S. dollar interest rates).
- For credit derivatives classified within level 3, significant level 3 inputs include long-dated credit and funding spreads as well as certain correlation inputs required to value certain credit derivatives (e.g., the likelihood of default of the underlying reference obligations relative to one another).

Subsequent to the initial valuation of a level 3 OTC derivative, the Bank updates the level 1 and level 2 inputs to reflect observable market changes and any resulting gains and losses are recorded in 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 Bank cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivatives and are used to adjust the mid-market valuations, produced by derivative pricing models, to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity on large or illiquid positions and credit valuation adjustments (CVA) which account for the credit risk inherent in derivative portfolios. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

In addition, for derivatives that include significant unobservable inputs the Bank makes model or exit

price adjustments to account for the valuation uncertainty present in the transaction.

Fair Value of Derivatives by Level

The tables below present the fair value of derivatives on a gross basis by level and major product. Gross fair values in the tables below exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted under credit support agreements both in and across levels of the fair value hierarchy, and therefore are not representative of the Bank's exposure.

<i>in millions</i>	Derivative Assets at Fair Value as of December 2010				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$ –	\$ 569,340	\$ 387	\$ –	\$ 569,727
Credit	–	10,246	3,127	–	13,373
Currencies	–	62,149	1,676	–	63,825
Commodities	–	191	–	–	191
Equities	–	17	3	–	20
Gross fair value of derivative assets	\$ –	\$ 641,943	\$ 5,193	–	\$ 647,136
Counterparty netting ¹	–	(559,100)	(1,413)	\$(1,320) ³	(561,833)
Subtotal	\$ –	\$ 82,843	\$ 3,780	\$(1,320)	\$ 85,303
Cash collateral netting ²					(59,443)
Fair value included in financial instruments owned					\$ 25,860

<i>in millions</i>	Derivative Liabilities at Fair Value as of December 2010				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$ –	\$ 536,842	\$ 365	\$ –	\$ 537,207
Credit	–	11,168	1,665	–	12,833
Currencies	–	48,893	902	–	49,795
Commodities	–	252	–	–	252
Equities	–	27	3	–	30
Gross fair value of derivative liabilities	\$ –	\$ 597,182	\$ 2,935	–	\$ 600,117
Counterparty netting ¹	–	(559,100)	(1,413)	\$(1,320) ³	(561,833)
Subtotal	\$ –	\$ 38,082	\$ 1,522	\$(1,320)	\$ 38,284
Cash collateral netting ²					(28,670)
Fair value included in financial instruments sold, but not yet purchased					\$ 9,614

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.
2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.
3. Represents the netting of receivable balances with payable balances for the same counterparty across levels under enforceable netting agreements.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<i>in millions</i>	Derivative Assets at Fair Value as of December 2009				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$ —	\$ 549,416	\$ 181	\$ —	\$ 549,597
Credit	—	43,339	5,921	—	49,260
Currencies	—	55,340	187	—	55,527
Commodities	—	63	9	—	72
Equities	—	10	2	—	12
Gross fair value of derivative assets	\$ —	\$ 648,168	\$ 6,300	—	\$ 654,468
Counterparty netting ¹	—	(551,305)	(3,425)	\$(466) ³	(555,196)
Subtotal	\$ —	\$ 96,863	\$ 2,875	\$(466)	\$ 99,272
Cash collateral netting ²					(75,144)
Fair value included in financial instruments owned					\$ 24,128

<i>in millions</i>	Derivative Liabilities at Fair Value as of December 2009				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$ —	\$ 503,770	\$ 259	\$ —	\$ 504,029
Credit	—	39,011	3,788	—	42,799
Currencies	—	43,737	195	—	43,932
Commodities	—	98	9	—	107
Equities	—	34	2	—	36
Gross fair value of derivative liabilities	\$ —	\$ 586,650	\$ 4,253	—	\$ 590,903
Counterparty netting ¹	—	(551,305)	(3,425)	\$(466) ³	(555,196)
Subtotal	\$ —	\$ 35,345	\$ 828	\$(466)	\$ 35,707
Cash collateral netting ²					(23,646)
Fair value included in financial instruments sold, but not yet purchased					\$ 12,061

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.
2. Represents the netting of cash collateral received and posted on a counterparty basis under credit support agreements.
3. Represents the netting of receivable balances with payable balances for the same counterparty across levels under enforceable netting agreements.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Level 3 Rollforward

The table below presents changes in fair value for all derivatives categorized as level 3.

If a derivative was transferred to level 3 during a reporting period, its entire gain or loss for the period is

included in level 3. Transfers between levels are reported at the beginning of the reporting period in which they occur.

<i>in millions</i>	Level 3 Derivative Assets and Liabilities at Fair Value					
	Asset/ (liability) balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at end of year	Net purchases, issuances and settlements	Net transfers in and/or (out) of level 3	Asset/ (liability) balance, end of year
Year Ended December 2010						
Interest rates – net	\$ (79)	\$ (67)	\$ 13	\$ 71	\$ 85	\$ 23
Credit – net	2,134	(104)	127	25	(721)	1,461
Currencies – net	(8)	(80)	152	80	630 ¹	774
Total derivatives – net	\$2,047	\$(251)	\$292	\$176	\$ (6)	\$2,258
Year Ended December 2009						
Total derivatives – net	\$4,213	\$ 641	\$(1,553)	\$(310)	\$(944)	\$2,047

1. Net transfer into level 3 principally due to reduced transparency of the correlation inputs used to value these financial instruments.

Impact of Credit Spreads on Derivatives

On an ongoing basis, the Bank realizes gains or losses relating to changes in credit risk on derivatives through changes in credit mitigants (e.g., collateral posted to or by the Bank, the effect of netting agreements) or the sale or unwind of the contracts.

The net gain attributable to the impact of changes in credit exposure and credit spreads on derivatives were \$63 million and \$99 million for the years ended December 2010 and December 2009, respectively.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Derivatives with Credit-related
Contingent Features**

Certain of the Bank's derivatives have been transacted under bilateral agreements with counterparties who may require the Bank to post collateral or terminate the transactions based on changes in the credit ratings of the Bank or its affiliates. Typically, such requirements are based on the credit ratings of Group Inc. The table below presents the aggregate fair value of net derivative liabilities under such agreements (excluding application of collateral posted to reduce these liabilities), the related aggregate fair value of the assets posted as collateral, and the additional collateral or termination payments that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in the credit ratings of the Bank or its affiliates.

<i>in millions</i>	As of	
	December 2010	December 2009
Net derivative liabilities under bilateral agreements	\$6,275	\$6,610
Collateral posted	4,615	4,740
Additional collateral or termination payments for a one-notch downgrade	182	236
Additional collateral or termination payments for a two-notch downgrade	514	455

Credit Derivatives

The Bank enters into a broad array of credit derivatives in locations around the world primarily to facilitate client transactions and to manage risk. Credit derivatives are actively managed based on the Bank's net risk position.

Credit derivatives are individually negotiated contracts and can have various settlement and payment conventions (e.g., credit events). Credit events include failure to pay, bankruptcy, acceleration of indebtedness, restructuring, repudiation and dissolution of the reference 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 the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium

to the seller and receives protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment, which is calculated in accordance with the terms of the contract, to the buyer of protection.

Credit indices, baskets and tranches. Credit derivatives may reference a basket of single-name credit default swaps or a broad-based index. If a credit event occurs in one of the underlying reference obligations, the protection seller pays the protection buyer. The payment is typically a pro-rata portion of the transaction's total notional amount based on the underlying defaulted reference obligation. In certain transactions, the credit risk of a basket or index is separated into various portions (tranches) each having different levels of subordination. The most junior tranches cover initial defaults and once losses exceed the notional amount of these junior tranches, any excess loss 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 but not the obligation 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.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Bank economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underlyings. Substantially all of the Bank's purchased credit derivative transactions are with financial institutions and are subject to stringent collateral thresholds. 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 December 2010, written and purchased credit derivatives had total gross notional amounts of \$195.66 billion and \$289.67 billion, respectively, for total net notional purchased protection of \$94.01 billion. As of December 2009, written and purchased credit derivatives had total gross notional amounts of \$346.24 billion and \$462.77 billion, respectively, for

total net notional purchased protection of \$116.53 billion.

The table below presents certain information about credit derivatives. In the table below:

- Fair values exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted under credit support agreements, and therefore are not representative of the Bank's exposure.
- Tenor is based on expected duration for mortgage-related credit derivatives and on remaining contractual maturity for other credit derivatives.
- The credit spread on the underlying, together with the tenor of the contract are indicators of payment/performance risk. The Bank is less likely to pay or otherwise be required to perform where the credit spread and the tenor are lower.

\$ in millions

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor			Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives		Net Asset/ Liability
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives ¹	Other Purchased Credit Derivatives ²	Asset	Liability
As of December 2010								
Credit spread on underlying (basis points)								
0-250	\$27,032	\$102,587	\$10,720	\$140,339	\$135,646	\$76,383	\$4,550	\$1,019
251-500	2,138	22,069	4,425	28,632	26,413	14,752	906	590
501-1,000	3,008	15,145	918	19,071	18,865	6,551	352	448
Greater than 1,000	1,330	5,920	367	7,617	6,862	4,201	67	3,715
Total³	\$33,508	\$145,721	\$16,430	\$195,659	\$187,786	\$101,887	\$5,875	\$5,772
As of December 2009								
Credit spread on underlying (basis points)								
0-250	\$33,234	\$152,893	\$43,255	\$229,382	\$196,097	\$115,057	\$3,783	\$ 3,388
251-500	2,678	30,218	5,204	38,100	30,397	16,174	560	967
501-1,000	1,507	20,523	4,418	26,448	29,598	1,461	281	3,451
Greater than 1,000	12,311	35,930	4,071	52,312	36,019	37,971	68	29,202
Total³	\$49,730	\$239,564	\$56,948	\$346,242	\$292,111	\$170,663	\$4,692	\$37,008

1. Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they economically hedge written credit derivatives with identical underlyings.
2. Comprised of purchased protection in excess of the amount of written protection on identical underlyings and purchased protection on other underlyings on which the Bank has not written protection.
3. The decreases in the maximum payout/notional amount and total fair value were driven by transfers of mortgage derivative risk from the Bank to an affiliate as well as certain novations of credit derivatives.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Hedge Accounting

The Bank applies hedge accounting for interest rate swaps used to manage the interest rate exposure of certain certificates of deposit.

To qualify for hedge accounting, the derivative hedge must be highly effective at reducing the risk from the exposure being hedged. Additionally, the Bank must formally document the hedging relationship at inception and test the hedging relationship at least on a quarterly basis to ensure the derivative hedge continues to be highly effective over the life of the hedging relationship.

Interest Rate Hedges

The Bank designates certain interest rate swaps as fair value hedges. These interest rate swaps hedge changes in the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting a certain portion of fixed rate obligations into floating rate obligations.

The Bank applies the “long-haul method” in assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and the risk being hedged (i.e., interest rate risk).

During the year ended December 2010, the Bank changed its method of prospectively and retrospectively assessing the effectiveness of all of its fair value hedging relationships from a dollar-offset method, which is a non-statistical method, to regression analysis, which is a statistical method.

An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

The dollar-offset method compared the change in the fair value of the hedging instrument to the change in the fair value of the hedged item, excluding the effect of the passage of time. The prospective dollar-offset assessment utilized scenario analyses to test hedge effectiveness via simulations of numerous parallel and slope shifts of the relevant yield curve. Parallel shifts changed the interest rate of all maturities by identical amounts. Slope shifts changed the curvature of the yield curve. For both the prospective assessment, in response to each of the simulated yield curve shifts, and the retrospective assessment, a hedging relationship was considered effective if the fair value of the hedging instrument and the hedged item changed inversely within a range of 80% to 125%.

For qualifying fair value hedges, gains or losses on derivatives are included in “Interest expense”. The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses resulting from hedge ineffectiveness are included in “Interest expense”. See Note 22 for further information about interest income and interest expense.

For the years ended December 2010 and December 2009, the gain/(loss) recognized on interest rate derivatives accounted for as hedges was \$74 million and \$(288) million, respectively, and the related gain/(loss) recognized on the hedged bank deposits was \$(177) million and \$268 million, respectively. The hedge ineffectiveness recognized on these derivatives for the years ended December 2010 and December 2009 was a loss of \$105 million and \$15 million, respectively. The gain/(loss) excluded from the assessment of hedge effectiveness was not material for the year ended December 2010 and was a loss of \$33 million for the year ended December 2009.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

In addition to all cash and derivative instruments included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value", the Bank has elected to account for certain of its other financial assets and financial liabilities at fair value under the fair value option.

The primary reasons for electing the fair value option are to:

- reflect economic events in earnings on a timely basis;
- mitigate volatility in earnings from using different measurement attributes (e.g., the financial instruments in transfers accounted for as financings are recorded at fair value whereas the related secured financing would be recorded on an accrual basis absent electing the fair value option); and
- address simplification and cost-benefit considerations.

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

- resale and repurchase agreements;
- certain other secured financings, primarily transfers of financial assets accounted for as financings rather than sales, debt issued through the Bank's William Street credit extension program and certain other non-recourse financings;
- certain deposits; and
- certain other liabilities and accrued expenses.

These 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 as level 2 because the inputs are observable. Valuation adjustments may be made for counterparty and the Bank's credit quality.

Significant inputs for each category of other financial asset and financial liability at fair value are as follows:

Resale and Repurchase Agreements. The significant inputs to the valuation of resale and repurchase agreements are the amount and timing of expected future cash flows, interest rates and collateral funding spreads. See Note 9 for further information.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value, are the amount and timing of expected future cash flows, interest rates, the fair value of the collateral delivered by the Bank (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 Bank. See Note 9 for further information.

Deposits. The significant inputs to the valuation of time deposits are interest rates. See Note 15 for further information.

Certain Other Liabilities and Accrued Expenses. The significant inputs to the valuation of other liabilities that are recorded at fair value are the amount and timing of expected future cash flows, interest rates, and the credit spreads of the Bank.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gains and Losses on Financial Assets and Financial Liabilities at Fair Value

The “Fair Value Option” columns in the table below present the gains/(losses) recognized as a result of the Bank electing to apply the fair value option to certain financial assets and financial liabilities. These gains and losses are included in “Gains and losses from financial instruments, net”.

The amounts in the table exclude contractual interest, which is included in “Interest income” and “Interest expense”. See Note 22 for further information about

interest income and interest expense. The table also excludes gains/(losses) related to financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value.

Included in “Other” in the table below are gains and losses on certain letters of credit.

	Gains/(Losses) on Financial Assets and Financial Liabilities at Fair Value	
	Year Ended	
	December 2010	December 2009
Other secured financings ¹	\$(16)	\$ (765) ³
Deposits	(8)	10
Other ²	48	23
Total	\$ 24	\$(732)

1. Excludes gains of \$40 million and \$21 million related to financings recorded as a result of transactions that were accounted for as secured financings rather than sales. Changes in the fair value of these secured financings are offset by changes in the fair value of the related financial instruments included in “Financial instruments owned, at fair value”.
2. Primarily consists of gains on certain letters of credit.
3. Relates primarily to losses on long-term William Street debt.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Collateralized Agreements and Financings

Collateralized agreements are securities purchased under agreements to resell (resale agreements). Collateralized financings are securities sold under agreements to repurchase (repurchase agreements) and other secured financings. The Bank enters into these transactions in order to, among other things, facilitate client activities, acquire securities to cover short positions, and finance certain Bank activities.

Collateralized agreements and financings are presented on a net-by-counterparty basis when a right of setoff exists.

Interest on collateralized agreements and collateralized financings is recognized over the life of the transaction and included in "Interest income" and "Interest expense", respectively. See Note 22 for further information about interest income and interest expense.

Resale and Repurchase Agreements

A resale agreement is a transaction in which the Bank legally purchases financial instruments from a seller, typically in exchange for cash, and simultaneously enters into an agreement to resell the same or substantially the same financial instruments to the seller at a stated price plus accrued interest at a future date.

A repurchase agreement is a transaction in which the Bank legally sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date.

The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government, federal agency and investment grade sovereign obligations.

The Bank receives financial instruments purchased under resale agreements, makes delivery of financial instruments sold under repurchase agreements, monitors the market value of these financial instruments on a daily basis, and, delivers or obtains

additional collateral due to changes in the market value of the financial instruments, as appropriate. For resale agreements, the Bank typically requires delivery of collateral with a fair value approximately equal to the carrying value of the relevant assets.

Other Secured Financings

In addition to repurchase agreements, the Bank funds certain assets through the use of other secured financings and pledges financial instruments and other assets as collateral in these transactions. These other secured financings consist of:

- liabilities related to the Bank's William Street credit extension program; and
- transfers of financial assets accounted for as financings rather than sales (primarily pledged bank loans and mortgage whole loans).

The Bank has elected to apply the fair value option to transfers of financial assets accounted for as financings rather than sales, debt raised through the Bank's William Street credit extension program, and certain other nonrecourse financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. See Note 8 for further information about other secured financings that are accounted for at fair value. Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest.

Other secured financings include arrangements that are non-recourse, that is, only the subsidiary that executed the arrangement or a subsidiary guaranteeing the arrangement is obligated to repay the financing. As of December 2010 and December 2009, all secured financings were non-recourse.

Substantially all of the Bank's secured financings are carried at fair value. As of December 2010 and December 2009, other secured financings included \$393 million and \$584 million, respectively, related to transfers of financial assets accounted for as financings rather than sales. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value".

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other secured financings as of December 2010 by maturity are presented in the table below.

<i>in millions</i>	As of December 2010
Other secured financings (short-term)	\$1,157
Other secured financings (long-term):	
2012	594
2013	1,506
2014	—
2015	—
2016-thereafter	2
Total other secured financings (long-term)	2,102
Total other secured financings	\$3,259

The aggregate contractual principal amount of other secured financings (long-term) for which the fair value option was elected exceeded the related fair value by \$14 million and \$32 million as of December 2010 and December 2009, respectively.

Collateral Received and Pledged

The Bank receives financial instruments (e.g., U.S. government, federal agency, other sovereign and corporate obligations, as well as equities and convertible debentures) as collateral, primarily in connection with resale agreements, derivative transactions and customer margin loans.

In many cases, the Bank is permitted to deliver or repledge these financial instruments when entering into repurchase agreements, securities lending agreements and other secured financings, collateralizing derivative transactions and meeting Bank or customer settlement requirements.

The table below presents financial instruments at fair value received as collateral that were available to be delivered or repledged and were delivered or repledged.

<i>in millions</i>	As of December	
	2010	2009
Collateral available to be delivered or repledged	\$22,890	\$24,250
Collateral that was delivered or repledged	22,110	24,250

The Bank also pledges certain financial instruments owned, at fair value in connection with repurchase agreements and other secured financings to counterparties who may or may not have the right to sell or repledge them. The table below presents details of assets pledged by the Bank.

<i>in millions</i>	As of December	
	2010	2009
Financial instruments owned, at fair value, pledged to counterparties that:		
Had the right to deliver or repledge	\$6,810	\$10,037
Did not have the right to deliver or repledge	4,420	5,080
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	180	90

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10. Securitization Activities

The Bank transfers portfolios of residential and commercial mortgages to its affiliates for purposes of securitization. The Bank records a transfer as a sale provided it has relinquished control over the transferred assets. Transferred assets are accounted for at fair value prior to the transfer and securitization; therefore, generally there is no gain or loss upon the transfer of assets. For transfers of financial assets that are not accounted for as sales, the financial assets remain in "Financial instruments owned, at fair value" and the transfer is accounted for as a collateralized financing with the related interest expense recognized in net revenues over the life of the transaction. See Notes 9 and 22 for further information about collateralized financings and interest expense, respectively.

The Bank generally receives cash in exchange for the transferred assets but may also have continuing involvement with transferred assets, including retaining interests in securitized financial assets in the form of loan servicing rights. These securitization entities are VIEs. Beneficial interests and other interests from the Bank's continuing involvement are accounted for at fair value and are included in "Financial instruments owned, at fair value" and are generally classified in

level 2 of the fair value hierarchy. See Notes 5 through 8 for further information about fair value measurements.

During the years ended December 2010 and December 2009, the Bank did not transfer any assets in which it had continuing involvement. Cash flows received on retained interests were \$26 million and \$18 million for the years ended December 2010 and December 2009.

The table below presents the Bank's continuing involvement in nonconsolidated securitization entities to which the Bank sold assets, as well as the total outstanding principal amount of transferred assets in which the Bank has continuing involvement. In this table:

- the outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities in which the Bank has continuing involvement and is not representative of the Bank's risk of loss; and
- for retained interests, the Bank's risk of loss is limited to the fair value of these interests.

<i>in millions</i>	As of December 2010		As of December 2009	
	Outstanding Principal Amount	Fair Value of Retained Interests	Outstanding Principal Amount	Fair Value of Retained Interests
Residential mortgage-backed	\$7,163	\$ 17	\$7,640	\$24
Other asset-backed	125	—	392	—
Total¹	\$7,288	\$ 17	\$8,032	\$24

1. The Bank's only continuing involvement in these entities is retained servicing which is not a variable interest.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Mortgage Servicing Rights

As of December 2010 and December 2009, the Bank held mortgage servicing rights (MSRs) with a fair value of \$55 million and \$88 million, respectively. These servicing assets represent the Bank's right to receive a future stream of cash flows (i.e. servicing fees) in excess of the Bank's obligation to service residential mortgages. The fair value of MSRs fluctuates in response to changes in certain economic variables, such as discount rates, projected delinquencies, and loan prepayment rates.

The Bank estimates the fair value of mortgage servicing rights using valuation models that incorporate these variables in quantifying anticipated cash flows related to servicing activities. MSRs are included in "Financial instruments owned, at fair value" and are classified within level 3 of the fair value hierarchy. The following table sets forth changes in the Bank's MSRs, as well as servicing fees earned:

<i>in millions</i>	Mortgage Servicing Rights	
	Year Ended	
	December 2010	December 2009
Balance, beginning of year	\$88	\$153
Servicing assets that resulted from transfers of financial assets	—	1
Changes in fair value	(33)	(66)
Balance, end of year ¹	\$55	\$88

1. As of December 2010, fair value was estimated using a weighted average discount rate of approximately 16% and prepayment rates ranging from 10% to 31% (including voluntary prepayments initiated by the borrower and a conditional default rate or rate of involuntary loan liquidation).

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Variable Interest Entities

See Note 3 for the Bank's consolidation policies, including the definition of a VIE.

The enterprise with a controlling financial interest in a VIE is known as the primary beneficiary and consolidates the VIE. The Bank determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers:

- which variable interest holders have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance;
- 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;
- the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders;
- the VIE's capital structure;
- the terms between the VIE and its variable interest holders and other parties involved with the VIE; and
- related party relationships.

The Bank reassesses its initial evaluation of whether an entity is a VIE when certain reconsideration events occur. The Bank reassesses its determination of whether it is the primary beneficiary of a VIE on an ongoing basis based on current facts and circumstances.

As described in Note 10, the Bank retains interests, in the form of servicing rights, in financial assets sold to VIEs in connection with securitization activities. In addition, the Bank makes investments in and loans to VIEs that hold real estate, distressed loans, and power-related assets.

In addition, the Bank utilizes VIEs to provide investors with principal-protected, credit-linked and asset-repackaged notes designed to meet their objectives.

VIEs generally finance the purchase of assets by issuing debt and equity instruments which are either collateralized by or indexed to the assets held by the VIE. VIEs are generally "bankruptcy remote" entities which means the debt and equity holders in a VIE do not have recourse to the general credit of the Bank.

The Bank's variable interests in VIEs include loan commitments; interest rate, foreign currency, and credit derivatives; and guarantees.

Nonconsolidated VIEs

The Bank's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the Bank provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs.

Substantially all assets and liabilities held by the Bank related to mortgage-backed CDOs, as well as certain assets and liabilities held in real estate VIEs, are included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value".

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tables below present information about nonconsolidated VIEs in which the Bank holds variable interests. Nonconsolidated VIEs are aggregated based on principal business activity. The nature of the Bank's variable interests can take different forms, as described in the rows under maximum exposure to loss. In the tables below:

- the maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.
- for loans and investments, the maximum exposure to loss is the carrying value of these interests.

- for commitments, guarantees, and derivatives the maximum exposure to loss is the notional amount which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded. As a result, the maximum exposure to loss exceeds liabilities recorded for derivatives and guarantees provided to VIEs.

For December 2010, the table includes nonconsolidated VIEs with which the Bank had continuing involvement as of December 2010 that were formerly considered to be QSPEs prior to the changes in U.S. GAAP on January 1, 2010. See "Recent Accounting Developments" in Note 3 for further information.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<i>in millions</i>	Nonconsolidated VIEs				
	As of December 2010				
	Mortgage and other asset-backed	Corporate Bonds	Real estate, credit-related and other investing	Power- related	Total
Assets in VIE	\$3,388 ¹	\$411	\$271	\$70	\$4,140
Carrying Value of the Bank's Variable Interests					
Assets	\$ 258	22	\$ 70	\$ –	\$ 350
Liabilities	–	–	–	1	1
Maximum Exposure to Loss					
Beneficial and purchased interests	13	–	–	–	13
Commitments and guarantees	–	–	62	37	99
Derivatives	2,307 ²	437	–	–	2,744
Loans and investments	–	–	70	–	70
Total	\$2,320	\$437	\$132	\$37	\$2,926

<i>in millions</i>	Nonconsolidated VIEs			
	As of December 2009			
	Mortgage and other asset-backed	Real estate, credit- related and other investing	Power-related	Total
Assets in VIE	\$3,580 ¹	\$117	\$136	\$3,833
Carrying Value of the Bank's Variable Interests				
Assets	\$ 51	\$ 37	\$ –	\$ 88
Liabilities	–	–	3	3
Maximum Exposure to Loss				
Beneficial and purchased interests	–	–	–	–
Commitments and guarantees	–	20	37	57
Derivatives	3,580 ²	–	–	3,580
Loans and investments	–	74	–	74
Total	\$3,580	\$ 94	\$ 37	\$3,711

1. Relates to CDOs backed by mortgage obligations.

2. Primarily consists of written protection on investment-grade, short-term collateral held by VIEs that have issued CDOs.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Loans

Loans at Fair Value

Loans for which the Bank has elected the fair value option and which are managed on a fair value basis are included in "Financial instruments owned, at fair value". See Note 6 for a discussion of the techniques

and significant inputs used in the valuation of loans. The following table sets forth in further detail the components of loans held at fair value:

<i>in millions</i>	As of December	
	2010	2009
Consumer loans	\$ 31	\$ 31
Commercial loans	3,236	3,518
Mortgage loans	1,769	1,128
Total	\$5,036	\$4,677

The aggregate contractual principal amount of loans for which the fair value option was elected exceeded the related fair value by \$508 million and \$832 million as of December 2010 and December 2009. Included in these amounts are loans in non-accrual status (including loans more than 90 days past due) with a principal balance of \$426 million and \$512 million and

a fair value of \$29 million and \$97 million as of December 2010 and December 2009, respectively. The aggregate contractual principal exceeds the related fair value primarily due to current adverse conditions in credit markets.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Loans Receivable, net

Loans carried at principal less an allowance for loan losses are classified as "Loans receivable, net". Such loans are placed on non-accrual status if principal or interest is past due on a contractual basis of 90 days or more. At that time, all accrued but unpaid interest will be reversed against interest income. All loans greater than 90 days past due and other loans exhibiting credit quality weakness are evaluated individually for impairment. A loan is determined to be impaired when it is probable that the Bank will not be able to collect all principal and interest due under the contractual terms of the loan. The Bank writes off those loan amounts it considers uncollectible.

For loans receivable carried at principal net of allowance, the allowance for loan losses has been recorded based on various assumptions including industry experience and delinquency and loss trends.

The allowance is an amount which management believes is adequate to absorb losses inherent in the portfolio that can be reasonably estimated. Management's estimate of loan losses entails considerable judgment about loan collection ability based on available information at the reporting dates, and the uncertainties inherent in those assumptions. While management uses the best information available to determine this estimate, future adjustments to the allowance may be necessary based on changes in the economic environment or variances between actual results and the original assumptions used. The allowance for loan losses is reported as a reduction to the loans receivable balance to arrive at loans receivable, net of allowance for loan losses.

The following table sets forth the components of loans carried at principal net of allowance for loan losses:

<i>in millions</i>	As of December	
	2010	2009
Consumer loans	\$ 189	\$ 139
Commercial loans	873	236
Mortgage loans	218	97
Loans to purchase or carry securities	233	389
Other loans	896	539
	2,409	1,400
Allowance for loan losses	(4)	(2)
Total	\$2,405	\$1,398

The carrying amount of loans receivable, net approximates fair value as these are primarily variable rate loans that re-set frequently and have no material change in credit quality. Such loans are typically fully

collateralized by tangible assets, financials instruments, or a combination thereof. There were no loans receivable, net in non-accrual status at December 2010 or December 2009.

Impact of Credit Spreads on Borrowings and Loans and Loan Commitments

The impact of changes in instrument-specific credit spreads on loans and loan commitments for which the fair value option was elected was a gain of \$222 million and \$150 million for the years ended December 2010 and December 2009, respectively. The Bank attributes changes in the fair value of floating rate loans and loan commitments to changes in instrument-

specific credit spreads. For fixed rate loans and loan commitments, the Bank allocates changes in fair value between interest rate-related changes and credit spread-related changes based on changes in interest rates.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Servicing Advances Receivable, net

Servicing advances receivable, net consist of escrow, principal and interest, and foreclosure advances. Escrow advances are payments made by Litton to custodial escrow accounts to avoid overdrafts in these accounts when tax or insurance payments are made on behalf of borrowers. Principal and interest (P&I) advances are payments to the custodial P&I accounts to ensure that available funds are sufficient for the monthly remittance to the securitization trusts. Foreclosure advances represent foreclosure costs which are advanced by Litton as part of the mortgage loan foreclosure process. Advances may be recovered from (a) future mortgage payments, (b) the sale of the property, (c) investor reimbursements if the mortgagor

defaults or (d) claims filed with the government agencies or companies that insure the loans.

Management evaluates servicing advances for credit losses and records an allowance. The allowance is an amount which management believes will be adequate to absorb losses inherent in servicing receivables that can be reasonably estimated.

The table below presents information about the Bank's servicing advances receivable, net as of December 2010 and December 2009.

<i>in millions</i>	As of December	
	2010	2009
Principal and interest advances	\$1,446	\$1,534
Escrow advances	887	854
Foreclosure advances	338	347
Less: Allowance for losses	(21)	(5)
Total	\$2,650	\$2,730

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. Other Assets

Other assets are generally less liquid in nature. The table below presents other assets by type.

<i>in millions</i>	As of December	
	2010	2009
Receivable from affiliates ¹	\$ 864	\$1,119
Federal Reserve Board shares	399	397
Income tax-related assets ²	229	106
Prepaid FDIC fees	196	257
Goodwill and identifiable intangibles ³	163	164
Other	86	97
Total	\$1,937	\$2,140

1. See Note 21 for further information about related party transactions.
2. See Note 24 for further information about income taxes.
3. Includes goodwill of \$154 million related to the acquisition of Litton as of December 2010 and December 2009.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15. Deposits

The table below presents the Bank's deposits by type:

<i>in millions</i>	As of December	
	2010	2009
Demand	\$ 15	\$ 87
Savings	24,838	24,155
Time	7,520	8,560
Total	\$32,373	\$32,802

Demand deposit accounts (DDA) are non-interest bearing accounts that have no maturity or expiration date and are not subject to restrictions with respect to the timing and number of transactions that deposit holders may execute. Savings accounts are comprised of money market deposit accounts (MMDA) and negotiable order of withdrawal accounts (NOW). MMDA and NOW are interest-bearing accounts that have no maturity or expiration date. The depositor may be required by the Bank to give written notice of intended withdrawals not less than seven days before such withdrawals are made. Time deposits consist primarily of brokered certificates of deposits (CDs) which have stipulated maturity dates and rates of interest. Early withdrawals of time deposits are generally prohibited.

The Bank's time deposits by contractual maturity are as follows:

<i>in millions</i>	As of December
	2010
2011	\$1,791
2012	1,018
2013	1,982
2014	497
2015	795
2016 – thereafter	1,437
Total¹	\$7,520

1. Includes \$106 million greater than \$100,000, of which \$13 million matures within three months, \$4 million matures within three to six months, \$32 million matures within six to twelve months, and \$57 million matures after twelve months.

The interest rate on deposits due to affiliates was equal to or lower than rates which were paid to non-affiliated deposit-holders.

The carrying amount of savings deposits approximates fair value due to frequent re-pricing of these deposits. The fair value of DDA accounts is the amount payable on demand at the reporting date.

The following table presents the balances of time deposits accounted for under a fair value option:

<i>in millions</i>	As of December			
	2010		2009	
	Principal	Fair Value	Principal	Fair Value
Maturity				
< 1 year	\$221	\$222	\$ 585	\$ 589
Maturity >				
1 year	632	628	581	628
Total	\$853	\$850	\$1,166	\$1,217

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Subordinated Borrowings

Subordinated borrowings consist of \$5.00 billion payable to Group Inc., maturing in 2018 and with a floating rate of interest based on the Federal funds rate plus 3.5% per annum. The carrying value of the term loan as of December 2010 and December 2009 approximates its fair value. The amount payable is

subordinate to the claims of certain other creditors of the Bank, including depositors and regulatory agencies. See Note 26 for information about repayment of subordinated borrowings made subsequent to year end.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Other Liabilities and Accrued Expenses

The table below presents other liabilities and accrued expenses by type.

<i>in millions</i>	As of December	
	2010	2009
Income tax-related liabilities ¹	\$ 563	\$1,098
Unsecured borrowings ^{2 3}	335	1,350
Accrued expenses and other	452	244
Total	\$1,350	\$2,692

1. See Note 24 for further information about income taxes.
2. Consists primarily of derivatives with a financing component and unsecured borrowings from affiliates.
3. Includes long-term balances of \$91 million and \$1.13 billion as of December 2010 and December 2009, respectively.

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18. Commitments, Contingencies and Guarantees

Commitments to Extend Credit

The table below presents the Bank's outstanding commitments to extend credit in connection with its lending activities. Balances are net of amounts syndicated to third parties:

<i>in millions</i>	As of December	
	2010	2009
Commercial lending		
Investment grade	\$ 9,858	\$ 9,443
Non-investment grade	6,096	4,590
William Street credit extension program	25,544	24,180
Other	394	12
Total commitments	\$41,892	\$38,225
Total commitments at fair value	\$41,400	\$37,860

The fair value of commitments accounted for at fair value was a liability of \$754 million and \$672 million as of December 2010 and December 2009, respectively. To the extent that the Bank recognizes losses on these commitments, such losses are recorded within "Gains and losses from financial instruments, net", net of any related underwriting fees. There was no allowance for off-balance sheet commitments as of December 2010 or December 2009.

The Bank's commitments to extend credit are agreements to lend with fixed termination dates and are contingent on the satisfaction of all contractual conditions to borrowing. The total commitment amount does not necessarily reflect actual future cash flows because the Bank may syndicate all or a substantial portion of a given commitment, commitments can expire unused or be reduced or cancelled at the counterparty's request.

Commercial Lending Commitments. The Bank's commercial lending commitments are generally extended in connection with contingent acquisition financing and other types of corporate lending as well as commercial real estate financing. Commitments that are extended for contingent acquisition financing are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources.

William Street Credit Extension Program. Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are principally extended by Commitment Corp. The commitments extended by Commitment Corp. are supported, in part, by funding raised by Funding Corp.

The assets and liabilities of Commitment Corp. and Funding Corp. are legally separated from other assets and liabilities of the Bank. The assets of Commitment Corp. and of Funding Corp. will not be available to their respective shareholders until the claims of their respective creditors have been paid. In addition, no affiliate of either Commitment Corp. or Funding Corp., except in limited cases as expressly agreed in writing, is responsible for any obligation of either entity.

Sumitomo Mitsui Financial Group Inc. (SMFG) provides the Bank with credit loss protection that is generally limited to 95% of the first loss the Bank realizes on approved loan commitments, up to a maximum of approximately \$950 million, with respect to most of the William Street commitments. In addition, subject to the satisfaction of certain conditions, on the Bank's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$1.13 billion, of which \$375 million of protection had been provided as of both December 2010 and December 2009. The Bank also uses other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.

Other. The Bank provides financing to clients who warehouse financial assets. These arrangements are secured by the warehoused assets, primarily consisting of residential and commercial mortgages.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contingencies

Legal Proceedings. See Note 19 for information on legal proceedings.

Certain Mortgage-Related Contingencies. There are multiple areas of focus by regulators, governmental agencies and others within the mortgage market that may impact originators, issuers, servicers and investors. There remains significant uncertainty surrounding the nature and extent of any potential exposure for participants in this market.

- **Representation and Warranties.** Substantially all of the activity described below, with respect to representations and warranties, occurred prior to the reorganization of the Bank. Any losses incurred within the entities contributed during the reorganization are thus indemnified under the Guarantee (see Notes 1 and 21 for additional information as to the Guarantee). As such there will not be any impact to the continuing operations or results of the Bank with respect to these matters.

The Bank was not a significant originator of residential mortgage loans. The Bank did purchase loans originated by others and generally received loan level representations of the type described below from the originators. During the period 2005 through 2008, the Bank sold approximately \$10 billion of loans to government sponsored enterprises and approximately \$11 billion of loans to other third parties. In addition, the Bank transferred loans to trusts and other mortgage securitization vehicles. As of December 2010, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately \$49 billion. This amount reflects paydowns and cumulative losses of approximately \$76 billion (\$14 billion of which are cumulative losses). A small number of these Goldman Sachs-issued securitizations (with an outstanding principal balance of \$739 million and total paydowns and cumulative losses of \$1.32 billion (\$410 million of which are cumulative losses) were structured with credit protection obtained from monoline insurers. In connection with both sales of loans and securitizations, the Bank provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the Bank purchased the loans.

The loan level representations made in connection with the sale or securitization of mortgage loans varied among transactions but were generally detailed representations applicable to each loan in

the portfolio and addressed matters relating to the property, the borrower and the note. These representations generally included, but were not limited to, the following: (i) certain attributes of the borrower's financial status; (ii) loan-to-value ratios, owner occupancy status and certain other characteristics of the property; (iii) the lien position; (iv) the fact that the loan was originated in compliance with law; and (v) completeness of the loan documentation.

To date, repurchase claims and actual repurchases of residential mortgage loans based upon alleged breaches of representations have not been significant and have mainly involved government sponsored enterprises. During the year ended December 2010, the Bank incurred an immaterial loss on the repurchase of less than \$50 million of loans, which was reimbursed under the Guarantee. As of December 2010, outstanding repurchase claims are insignificant.

Ultimately, the Bank's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors including the following: (i) the extent to which these claims are actually made; (ii) the extent to which there are underlying breaches of representations that give rise to valid claims for repurchase; (iii) in the case of loans originated by others, the extent to which the Bank could be held liable and, if it is, the Bank's ability to pursue and collect on any claims against the parties who made representations to the Bank; (iv) macro-economic factors, including developments in the residential real estate market; and (v) legal and regulatory developments.

Based upon the large number of defaults in residential mortgages, including those sold or securitized by the Bank, there is a potential for increasing claims for repurchases. However, the Bank is not in a position to make a meaningful estimate of that exposure at this time.

- **Foreclosure and Other Mortgage Loan Servicing Practices and Procedures.** The Bank has received a number of requests for information from regulators and other agencies, including state attorneys general and banking regulators, as part of an industry-wide focus on the practices of lenders and servicers in connection with foreclosure proceedings and other aspects of mortgage loan servicing practices and procedures. The requests seek

GOLDMAN SACHS BANK USA and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

information about the foreclosure and servicing protocols and activities of Litton, and any deviations therefrom. The Bank is cooperating with the requests and is reviewing Litton's practices in this area. These inquiries may result in the imposition of fines or other regulatory action. Litton temporarily suspended evictions and foreclosure and real estate owned sales in a number of states, including those with judicial foreclosure procedures. Litton has recently resumed some of these activities. As of the date of this filing, the Bank is not aware of foreclosures where the underlying foreclosure decision was not warranted. As of December 2010, the value of the Bank's mortgage servicing rights was \$55 million. Similarly, at this time the Bank does not expect the suspension of evictions and foreclosure and real estate owned sales to lead to a material increase in its mortgage servicing-related advances.

Guarantees

The Bank enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written currency contracts, and interest rate caps, floors and swaptions. Disclosures about derivatives are not required if they may be cash settled and the Bank has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract. The Bank has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties and certain other counterparties. Accordingly, the Bank has not included such contracts in the tables below.

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

In the ordinary course of business, the Bank provides other financial guarantees of the obligations of third parties (e.g., standby letters of credit and other guarantees to enable clients to complete transactions). 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 table below presents certain information about derivatives that meet the definition of a guarantee and certain other guarantees as of December 2010. The maximum payout in the table below is based on the notional amount of the contract and therefore does not represent anticipated losses. See Note 7 for further information about credit derivatives that meet the definition of a guarantee which are not included below.

Because derivatives are accounted for at fair value, carrying value is considered the best indication of payment/performance risk for individual contracts. However, the carrying values below exclude the effect of a legal right of setoff that may exist under an enforceable netting agreement and the effect of netting of cash collateral posted under credit support agreements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<i>in millions</i>	Maximum Payout/Notional Amount by Period of Expiration					
	As of December 2010					
	Carrying Value of Net Liability	2011	2012- 2013	2014- 2015	2016- Thereafter	Total
Derivatives ¹	\$1,227	\$16,420	\$23,396	\$2,533	\$10,760	\$53,109
Securities lending indemnifications ²	—	33,974	—	—	—	33,974
Other financial guarantees ³	10	179	1,229	350	780	2,538

1. These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee under U.S. GAAP and, therefore, these amounts do not reflect the Bank's overall risk related to its derivative activities. As of December 2009, the carrying value of the net liability related to derivative guarantees was \$1.33 billion.
2. Collateral held by the lenders in connection with securities lending indemnifications was \$34.88 billion as of December 2010. Because the contractual nature of these arrangements requires the Bank to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.
3. As of December 2009, the carrying value of the net liability related to other financial guarantees was \$8 million. Other financial guarantees excludes certain commitments to issue standby letters of credit that are included in "Commitments to extend credit". See table in "Commitments" above for a summary of the Bank's commitments.

Other Representations, Warranties and Indemnifications. The Bank 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 Bank 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 borrowings or derivatives.

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 Bank is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the Bank will have to make any material payments under these arrangements, and no liabilities related to these arrangements have been recognized as of December 2010 and December 2009.

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Note 19. Legal Proceedings

The Bank is involved in a number of judicial, regulatory and other proceedings concerning matters arising in connection with the conduct of the Bank's businesses. Many of these proceedings are at preliminary stages, and many of these cases seek an indeterminate amount of damages.

For certain of these matters, management is able to estimate a range of reasonably possible loss. In particular, management would estimate the upper end of the range of reasonably possible loss as being equal to (i) the amount of money damages claimed, where applicable, (ii) the amount of securities that the firm sold in cases involving underwritings where the firm is being sued by purchasers and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) in cases where the purchasers are demanding that the firm repurchase securities, the price that purchasers paid for the securities less the estimated value, if any, as of December 2010 of the relevant securities. For these cases, however, the Bank expects that it would receive indemnification from Group Inc. under the Guarantee agreement (see Notes 1 and 21).

Under U.S. GAAP an event is "reasonably possible" if "the chance of the future event or events occurring is

more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight". Thus, references to the upper end of the range of reasonably possible loss for cases in which management is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which management believes the risk of loss is more than slight.

Management is unable to estimate a range of reasonably possible loss for cases in which damages have not been specified and (i) the proceedings are in early stages, (ii) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (iii) there is uncertainty as to the outcome of pending appeals or motions, (iv) there are significant factual issues to be resolved, and/or (v) there are novel legal issues presented. However, for these cases, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on the Bank's financial condition, though the outcomes could be material to the Bank's operating results for any particular period, depending, in part, upon the operating results for such period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 20. Regulation and Capital Adequacy

The Bank, a New York State-chartered bank and a member of the Federal Reserve System and the FDIC, is regulated by the Federal Reserve Board and the New York State Banking Department (NYSBD) and is subject to minimum capital requirements. Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action (PCA) that is applicable to the Bank, the Bank must meet specific capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory reporting practices. The Bank's capital amounts, as well as the Bank's PCA classification, are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank computes its capital ratios in accordance with the regulatory capital guidelines currently applicable to state member banks, which are based on Basel 1 as implemented by the Federal Reserve Board, for purposes of assessing the adequacy of its capital. In order to be considered a "well capitalized" depository institution under the Federal Reserve Board guidelines, the Bank must maintain a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. In November 2008, Group Inc. contributed subsidiaries into the Bank. In connection with this contribution, the Bank agreed with the Federal Reserve Board to minimum capital ratios in excess of "well capitalized" levels. Accordingly, for a period of time, the Bank is expected to maintain a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 11% and a Tier 1 leverage ratio of at least 6%.

Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

As of December 2010 and December 2009, the Bank was in compliance with all regulatory capital requirements.

The table below presents information about the Bank's capital ratios under Basel 1 as implemented by the Federal Reserve Board.

	As of December	
	2010	2009
Tier 1 capital ratio	18.8%	14.9%
Total capital ratio	23.9%	19.3%
Tier 1 leverage ratio	19.5%	15.4%

The deposits of the Bank are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The amount deposited by the Bank at the Federal Reserve Bank was approximately \$28.12 billion and \$27.43 billion as of December 2010 and December 2009, respectively, which exceeded required reserve amounts by \$27.45 billion and \$25.86 billion as of December 2010 and December 2009, respectively.

Net assets of the Bank are restricted as to the payment of dividends to Group Inc. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board and the FDIC have authority to prohibit or limit the payment of dividends by the banking organizations they supervise if in their opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization. As of December 2010 and December 2009, the Bank could have declared dividends of \$4.63 billion and \$3.30 billion, respectively, to Group Inc. See Note 26 for discussion of actual dividend payments made subsequent to year end.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Regulatory Reform

The Bank is currently working to implement the requirements set out in the Federal Reserve Board's Capital Adequacy Guidelines for Bank Holding Companies: Internal-Ratings-Based and Advanced Measurement Approaches, which are based on the advanced approaches under the Revised Framework for the International Convergence of Capital Measurement and Capital Standards (Basel 2) issued by the Basel Committee on Banking Supervision (Basel Committee). U.S. banking regulators have incorporated the Basel 2 framework into the existing risk-based capital requirements and as a result the Bank is required to transition to Basel 2 following the successful completion of a parallel run.

In addition, the Basel Committee has undertaken a program of substantial revisions to its capital guidelines. In particular, the changes in the "Basel 2.5" guidelines will result in increased capital requirements for market risk; additionally, the Basel 3 guidelines issued by the Basel Committee in December 2010 revise the definition of Tier 1 capital, introduce Tier 1 common equity as a regulatory metric, set new minimum capital ratios (including a new "capital conservation buffer" which must be composed exclusively of Tier 1 common equity and will be in addition to the other capital ratios), introduce a Tier 1 leverage ratio within international guidelines for the first time, and make substantial revisions to the computation of risk-weighted assets for credit exposures. Implementation of the new requirements is expected to take place over an extended transition period, starting at the end of 2011 (for Basel 2.5) and end of 2012 (for Basel 3). Although the U.S. federal banking agencies have now issued proposed rules that are intended to implement certain aspects of the Basel 2.5 guidelines, they have not yet addressed all

aspects of those guidelines or the Basel 3 changes. In addition, both the Basel Committee and U.S. banking regulators implementing the Dodd-Frank Act have indicated that they will impose more stringent capital standards on systemically important financial institutions. Although the criteria for treatment as a systemically important financial institution have not yet been determined, it is probable that they will apply to the Bank. Therefore, the regulations ultimately applicable to the Bank may be substantially different from those that have been published to date.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) directs banking regulators, among other things, to impose additional capital requirements. The Federal Reserve Board will be required to implement the new leverage and risk-based capital regulation by January 2012. The interaction between the Dodd-Frank Act and the Basel Committee's proposed changes adds further uncertainty to the Bank's future capital requirements.

A number of other governmental entities and regulators have also proposed or announced changes which will result in increased capital requirements for financial institutions.

As a consequence of these developments, the Bank expects minimum capital ratios required to be maintained under Federal Reserve Board regulations will be increased and changes in the prescribed calculation methodology are expected to result in higher risk weighted assets and lower capital ratios than those currently computed.

The capital requirements of several of the Bank's subsidiaries will also be impacted in the future by the various proposals from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 21. Affiliated Transactions

Transactions between the Bank and Group Inc. and its subsidiaries and affiliates are regulated by the Federal Reserve Board. These regulations limit the types and amounts of transactions (including loans to and credit extensions from the Bank) that may take place and generally require those transactions to be on terms

that are at least as favorable to the Bank as prevailing terms for comparable transactions with non-affiliates. These regulations generally do not apply to transactions between the Bank and its subsidiaries.

Amounts outstanding to/from such affiliates are reflected as set forth below:

<i>in millions</i>	As of December	
	2010	2009
Assets		
Cash	\$ 61	\$ 416
Securities purchased under agreements to resell, at fair value	7,827	7,429
Receivables from customers and counterparties, brokers, dealers, and clearing organizations	704	1,125
Financial instruments owned, at fair value	1,341	1,471
Other assets	864	1,119
Liabilities		
Securities sold under agreements to repurchase, at fair value	\$9,180	\$4,521
Payables to customers and counterparties, brokers, dealers, and clearing organizations	284	93
Financial instruments sold, but not yet purchased, at fair value	920	946
Subordinated borrowings	5,000	5,000
Other liabilities and accrued expenses	412	743

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Group Inc. Guarantee Agreement

As discussed in Note 1, in November 2008, Group Inc. executed a reorganization of the Bank which involved the transfer of assets and operations to the Bank. In connection with this transfer, Group Inc. entered into a guarantee agreement (see Note 1) with the Bank whereby Group Inc. agreed to (i) purchase from the Bank certain transferred assets or reimburse the Bank for certain losses relating to those assets; (ii) reimburse the Bank for credit-related losses from assets transferred to the Bank; and (iii) protect the Bank or reimburse it for certain losses arising from derivatives and mortgage servicing rights transferred to the Bank. Group Inc. has also agreed to reimburse the Bank for William Street note losses at prices exceeding those at the time of transfer of such notes. In accordance with the Guarantee, as of December 2010 and December 2009, Group Inc. was also required to pledge approximately \$3.10 billion and \$3.60 billion, respectively, of collateral to the Bank.

The Bank accounts for most components of the Guarantee as a derivative contract under U.S. GAAP. Certain components are accounted for as a receivable from affiliate.

At December 2010 and December 2009, the Bank recorded \$789 million and \$867 million, respectively, as derivative receivables in "Financial instruments owned, at fair value" with respect to the Guarantee.

As of December 2010, \$152 million was recorded in "Other assets" with respect to the Guarantee. This represents indemnification under the Guarantee associated with representations and warranties made by the Bank prior to the date of the Bank's reorganization. See Note 18 for further discussion of contingencies associated with such representations and warranties.

For the years ended December 2010 and December 2009, the Bank recorded \$272 million and \$1.44 billion, respectively, in "Gains and losses from financial instruments, net" with respect to the Guarantee. For the year ended December 2010, the Bank also recorded \$152 million in "Other revenues" related to the Guarantee.

Interest Income and Expense

The Bank recognizes interest income and interest expense in connection with various affiliated transactions. These transactions include financial instruments purchased under agreements to resell, financial instruments sold under agreements to

repurchase, other liabilities and accrued expenses, and subordinated borrowings. For the years ended December 2010 and December 2009, the Bank recognized interest income of \$112 million and \$201 million, respectively. For the years ended December 2010 and December 2009, the Bank recognized interest expense of \$388 million and \$3 million, respectively.

Of the affiliate interest expense recorded for the year ended December 2010, \$194 million relates to repurchase agreements with affiliates on which the Bank is prohibited, due to regulatory restrictions, from paying interest. As a result, such interest payments are made on the Bank's behalf by Group Inc. and have been recorded as interest expense and capital contribution.

Other Transactions

The Bank enters into various trading activities with affiliated entities and participates in an allocation process related to the revenues generated by particular businesses within those entities. For the year ended December 2010, the Bank transferred \$(3) million, net, and for the year ended December 2009, the Bank received a net reimbursement of \$681 million. These are recorded in "Gains and losses from financial instruments, net".

The Bank receives operational and administrative support and management services from affiliates. For the years ended December 2010 and December 2009, the Bank reimbursed U.S. affiliates \$580 million and \$989 million, respectively, for services rendered which are included in "Management charges".

The Bank enters into derivative contracts with Group Inc. and its affiliates in the normal course of business. At December 2010 and 2009, outstanding derivative contracts with Group Inc. and affiliates totaled \$1.34 billion and \$1.47 billion, respectively, in "Financial instruments owned, at fair value", and \$920 million and \$946 million, respectively, in "Financial instruments sold, but not yet purchased, at fair value".

During the year ended December 2010, the Bank entered into an agreement designed to mitigate the exposure of Mitsui Sumitomo to potential liquidity requirements resulting from its partnership interest in MMDP. This arrangement required the Bank to enter into total return swaps ("TRS") with Signum Vanguard Limited ("Signum VIEs") upon which Signum VIEs issued \$800 million of liquidity notes. Signum VIEs invests the note proceeds via the purchase of liquid

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assets or eligible reference obligations ("EROs"), the performance of which is referenced by the TRS.

In the event of a default on the part of the Bank or Group Inc., the TRS will terminate and the EROs held by Signum VIEs will be liquidated with the proceeds used to provide Mitsui Sumitomo with access to secured funding. The Bank holds variable interests in Signum VIEs but does not consolidate the Signum VIEs as it has determined it is not the primary beneficiary in accordance with the criteria described in Note 11. Accordingly, the balances related to the Bank's exposure to the Signum VIEs are included in the nonconsolidated VIE disclosures in Note 11.

Equity Transactions

For the years ended December 2010 and December 2009, the Bank recorded \$201 million and \$26 million, respectively, in capital contributions.

The contributions recorded for the year ended December 2010 were related primarily to interest expense paid by Group Inc. on behalf of the Bank to certain Bank affiliates in connection with repurchase agreements, as described above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 22. Interest Income and Interest Expense

The table below presents information about interest income and interest expense.

<i>in millions</i>	Year Ended	
	December 2010	December 2009
Interest income ¹		
Deposits with banks	\$ 57	\$ 42
Securities purchased under agreements to resell	70	121
Financial instruments owned, at fair value	522	1,024
Other interest ²	117	124
Total interest income	\$ 766	\$1,311
Interest expense		
Deposits	\$ 279	\$ 221
Securities sold under agreements to repurchase	207	—
Financial instruments sold, but not yet purchased, at fair value	243	408
Long-term borrowings ³	200	87
Other interest ⁴	214	473
Total interest expense	\$1,143	\$1,189
Net interest income/(expense)	\$ (377)	\$ 122

1. Interest income is recorded on an accrual basis based on contractual interest rates.
2. Primarily includes interest income on loans to customers, collateral, and other interest-earning assets.
3. Consists primarily of interest on subordinated borrowings, other secured financings, and other long-term borrowings from affiliates.
4. Primarily includes interest expense on collateral balances and other interest-bearing liabilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 23. Employee Incentive Plans and Employee Benefit Plans

Stock Incentive Plan

Group Inc. sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (SIP), which provides for grants of incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units (RSUs), awards with performance conditions and other share-based awards. In the second quarter of 2003, the SIP was approved by Group Inc.'s shareholders, effective for grants after April 1, 2003. The SIP was further amended and restated, effective December 31, 2008.

Restricted Stock Units and Stock Options

Group Inc. issues RSUs to employees of the Bank under the SIP primarily in connection with year-end compensation. RSUs are valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting transfer restrictions. Year-end RSUs generally vest and deliver as outlined in the applicable RSU agreements. Employee RSU agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. The subsequent amortization

of the cost of these RSUs is allocated to the Bank by Group Inc. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. No stock options were granted for the years ended December 2010 and December 2009.

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. Group Inc. also maintains unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs. These plans do not have a material impact on the Bank's consolidated results of operations.

Defined Contribution Plans

The Bank contributes to Group Inc. employer-sponsored defined contribution plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 24. Income Taxes

Provision for Income Taxes

Income taxes are provided for using the asset and liability method. The Bank reports interest expense related to income tax matters in "Provision for taxes" and income tax penalties in "Other expenses".

The Bank's results of operations are included in the consolidated federal and certain state tax returns of Group Inc. The Bank computes its tax liability as if it was 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 Bank generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to the tax sharing agreement at such time as Group Inc. would have been able to utilize such losses. As of December 2010 and December 2009, the Bank recorded a net tax payable of \$431 million and \$976 million, respectively, recorded in "Other assets" and "Other liabilities and accrued expenses".

The components of the provision/(benefit) for taxes are presented below.

<i>in millions</i>	Year Ended	
	December 2010	December 2009
Current taxes		
U.S. federal	\$ 426	\$ 982
State and local	133	28
Total current tax expense	559	1,010
Deferred taxes		
U.S. federal	(92)	(211)
State and local	(17)	(129)
Total deferred tax (benefit)/expense	(109)	(340)
Provision for taxes	\$ 450	\$ 670

A reconciliation of the U.S. federal statutory income tax rate to the Bank's effective income tax rate is presented below.

	Year Ended	
	December 2010	December 2009
U.S. federal statutory income tax rate	35.0%	35.0%
Group Inc. guarantee agreement	(9.8)	(20.4)
State and local taxes, net of U.S. income tax effects	4.6	(1.1)
Other	(2.5)	1.9
Effective income tax rate	27.3%	15.4%

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Deferred Income Taxes

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. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses", respectively.

At December 2010, the Bank recorded a net deferred tax asset of \$97 million and a net deferred tax liability of \$16 million at December 2009. The Bank's net deferred tax asset at December 2010 relates primarily to amortization of mortgage servicing rights, offset by unrealized gains on certain financial instruments.

Unrecognized Tax Positions

The Bank recognizes tax positions in the financial statements only when it is more likely than not that the position will be sustained on 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 on settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the financial statements. As of December 31, 2010, the Bank recorded a liability for uncertain tax positions of \$63 million.

The table below presents the changes in the liability for unrecognized tax benefits, which is recorded in "Other liabilities and accrued expenses".

<i>in millions</i>	As of December
	2010
Balance, beginning of year	\$ –
Increases based on tax positions related to the current year	29
Increases based on tax positions related to prior years	68
Balance, end of year	\$97
Related deferred income tax asset	34
Net unrecognized tax benefit ¹	\$63

1. If recognized, the net tax benefit would reduce the Bank's effective income tax rate.

Regulatory Tax Examinations

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 authorities. The

Bank believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

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Note 25. Credit Concentrations

Credit concentrations may arise from trading, investing, lending, and other activities and may be impacted by changes in economic, industry or political factors. The Bank seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the Bank's activities expose it to many different industries and counterparties, the Bank routinely executes a high volume of transactions with asset managers, investment funds, commercial banks, brokers and dealers, clearing houses and exchanges, which results in significant credit concentrations.

In the ordinary course of business, the Bank 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 December 2010 and December 2009, the Bank held \$3.29 billion and \$7.69 billion (4% and 8% of total assets, respectively) of other sovereign obligations, principally consisting of securities issued by the governments of the United Kingdom, Germany, Czech Republic, Poland, and Italy. In addition, as of December 2010 and December 2009, \$10.27 billion and \$8.59 billion, respectively, of the Bank's securities purchased under agreements to resell were collateralized by U.S. government and federal agency obligations. As of December 2010 and December 2009, the Bank did not have credit exposure to any other third-party counterparty that exceeded 1% and 2%, respectively, of the Bank's total assets. See Note 21 for further discussion of exposures to affiliates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 26. Subsequent Events

Dividend and Subordinated Debt Repayment

Effective January 18, 2011, upon receiving regulatory approval, the Bank declared a dividend of \$1.00 billion to Group Inc. In conjunction with this dividend, the Bank also received regulatory approval to repay \$4.00 billion in subordinated debt to Group Inc. The dividend and subordinated debt repayments took place on February 1, 2011.

These payments would have reduced the Bank's Tier 1 and total capital ratios as of December 2010 by approximately 1.0% and 5.1%, respectively.

Held-for-Sale Accounting

Prior to the issuance of the financial statements, based on events that occurred subsequent to the balance sheet date, the Bank determined that Litton met the U.S. GAAP criteria to be designated as a held-for-sale business. The carrying value of Litton's net assets as of December 31, 2010 was \$467 million. The major assets of Litton consist of advance receivables of \$2.65 billion and goodwill and other intangibles of \$170 million. The goodwill as part of the assets held for sale is expected to be wholly impaired.