

Consolidated Statements of Earnings

| (in millions, except per share amounts) | Year Ended November | | |
|---|---------------------|----------|----------|
| | 2007 | 2006 | 2005 |
| Revenues | | | |
| Investment banking | \$ 7,555 | \$ 5,613 | \$ 3,599 |
| Trading and principal investments | 29,714 | 24,027 | 15,452 |
| Asset management and securities services | 4,731 | 4,527 | 3,090 |
| Interest income | 45,968 | 35,186 | 21,250 |
| Total revenues | 87,968 | 69,353 | 43,391 |
| Interest expense | 41,981 | 31,688 | 18,153 |
| Revenues, net of interest expense | 45,987 | 37,665 | 25,238 |
| Operating expenses | | | |
| Compensation and benefits | 20,190 | 16,457 | 11,758 |
| Brokerage, clearing, exchange and distribution fees | 2,758 | 1,985 | 1,416 |
| Market development | 601 | 492 | 378 |
| Communications and technology | 665 | 544 | 490 |
| Depreciation and amortization | 624 | 521 | 501 |
| Amortization of identifiable intangible assets | 195 | 173 | 124 |
| Occupancy | 975 | 850 | 728 |
| Professional fees | 714 | 545 | 475 |
| Cost of power generation | 335 | 406 | 386 |
| Other expenses | 1,326 | 1,132 | 709 |
| Total non-compensation expenses | 8,193 | 6,648 | 5,207 |
| Total operating expenses | 28,383 | 23,105 | 16,965 |
| Pre-tax earnings | 17,604 | 14,560 | 8,273 |
| Provision for taxes | 6,005 | 5,023 | 2,647 |
| Net earnings | 11,599 | 9,537 | 5,626 |
| Preferred stock dividends | 192 | 139 | 17 |
| Net earnings applicable to common shareholders | \$11,407 | \$ 9,398 | \$ 5,609 |
| Earnings per common share | | | |
| Basic | \$ 26.34 | \$ 20.93 | \$ 11.73 |
| Diluted | 24.73 | 19.69 | 11.21 |
| Average common shares outstanding | | | |
| Basic | 433.0 | 449.0 | 478.1 |
| Diluted | 461.2 | 477.4 | 500.2 |

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

Consolidated Statements of Financial Condition

| (in millions, except share and per share amounts) | As of November | |
|--|--------------------|------------------|
| | 2007 | 2006 |
| Assets | | |
| Cash and cash equivalents | \$ 11,882 | \$ 6,293 |
| Cash and securities segregated for regulatory and other purposes (includes \$94,018 and \$20,723 at fair value as of November 2007 and November 2006, respectively) | 119,939 | 80,990 |
| Receivables from brokers, dealers and clearing organizations | 19,078 | 13,223 |
| Receivables from customers and counterparties (includes \$1,950 at fair value as of November 2007) | 129,105 | 79,790 |
| Collateralized agreements: | | |
| Securities borrowed (includes \$83,277 at fair value as of November 2007) | 277,413 | 219,342 |
| Financial instruments purchased under agreements to resell (includes \$85,717 at fair value as of November 2007) | 85,717 | 82,126 |
| Financial instruments owned, at fair value | 406,457 | 298,563 |
| Financial instruments owned and pledged as collateral, at fair value | 46,138 | 35,998 |
| Total financial instruments owned, at fair value | 452,595 | 334,561 |
| Other assets | 24,067 | 21,876 |
| Total assets | \$1,119,796 | \$838,201 |
| Liabilities and shareholders' equity | | |
| Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$48,331 and \$10,220 at fair value as of November 2007 and November 2006, respectively) | \$ 71,557 | \$ 47,904 |
| Bank deposits (includes \$463 at fair value as of November 2007) | 15,370 | 10,697 |
| Payables to brokers, dealers and clearing organizations | 8,335 | 6,293 |
| Payables to customers and counterparties | 310,118 | 206,884 |
| Collateralized financings: | | |
| Securities loaned (includes \$5,449 at fair value as of November 2007) | 28,624 | 22,208 |
| Financial instruments sold under agreements to repurchase (includes \$159,178 at fair value as of November 2007) | 159,178 | 147,492 |
| Other secured financings (includes \$33,581 and \$3,300 at fair value as of November 2007 and November 2006, respectively) | 65,710 | 50,424 |
| Financial instruments sold, but not yet purchased, at fair value | 215,023 | 155,805 |
| Other liabilities and accrued expenses | 38,907 | 31,866 |
| Unsecured long-term borrowings (includes \$15,928 and \$7,250 at fair value as of November 2007 and November 2006, respectively) | 164,174 | 122,842 |
| Total liabilities | 1,076,996 | 802,415 |
| Commitments, contingencies and guarantees | | |
| Shareholders' equity | | |
| Preferred stock, par value \$0.01 per share; 150,000,000 shares authorized, 124,000 shares issued and outstanding as of both November 2007 and November 2006, with liquidation preference of \$25,000 per share | 3,100 | 3,100 |
| Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 618,707,032 and 599,697,200 shares issued as of November 2007 and November 2006, respectively, and 390,682,013 and 412,666,084 shares outstanding as of November 2007 and November 2006, respectively | 6 | 6 |
| Restricted stock units and employee stock options | 9,302 | 6,290 |
| Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding | — | — |
| Additional paid-in capital | 22,027 | 19,731 |
| Retained earnings | 38,642 | 27,868 |
| Accumulated other comprehensive income/(loss) | (118) | 21 |
| Common stock held in treasury, at cost, par value \$0.01 per share; 228,025,019 and 187,031,116 shares as of November 2007 and November 2006, respectively | (30,159) | (21,230) |
| Total shareholders' equity | 42,800 | 35,786 |
| Total liabilities and shareholders' equity | \$1,119,796 | \$838,201 |

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

Consolidated Statements of Changes in Shareholders' Equity

| (in millions, except per share amounts) | Year Ended November | | |
|---|---------------------|------------------|------------------|
| | 2007 | 2006 | 2005 |
| Preferred stock | | | |
| Balance, beginning of year | \$ 3,100 | \$ 1,750 | \$ — |
| Issued | — | 1,350 | 1,750 |
| Balance, end of year | 3,100 | 3,100 | 1,750 |
| Common stock, par value \$0.01 per share | | | |
| Balance, beginning of year | 6 | 6 | 6 |
| Issued | — | — | — |
| Balance, end of year | 6 | 6 | 6 |
| Restricted stock units and employee stock options | | | |
| Balance, beginning of year | 6,290 | 3,415 | 2,013 |
| Issuance and amortization of restricted stock units and employee stock options | 4,684 | 3,787 | 1,871 |
| Delivery of common stock underlying restricted stock units | (1,548) | (781) | (423) |
| Forfeiture of restricted stock units and employee stock options | (113) | (129) | (37) |
| Exercise of employee stock options | (11) | (2) | (9) |
| Balance, end of year | 9,302 | 6,290 | 3,415 |
| Additional paid-in capital | | | |
| Balance, beginning of year | 19,731 | 17,159 | 15,501 |
| Issuance of common stock, including the delivery of common stock underlying restricted stock units and proceeds from the exercise of employee stock options | 2,338 | 2,432 | 1,580 |
| Cancellation of restricted stock units in satisfaction of withholding tax requirements | (929) | (375) | (163) |
| Stock purchase contract fee related to automatic preferred enhanced capital securities | (20) | — | — |
| Preferred stock issuance costs | — | (1) | (31) |
| Excess net tax benefit related to share-based compensation | 908 | 653 | 272 |
| Cash settlement of share-based compensation | (1) | (137) | — |
| Balance, end of year | 22,027 | 19,731 | 17,159 |
| Retained earnings | | | |
| Balance, beginning of year, as previously reported | 27,868 | 19,085 | 13,970 |
| Cumulative effect of adjustment from adoption of SFAS No. 157, net of tax | 51 | — | — |
| Cumulative effect of adjustment from adoption of SFAS No. 159, net of tax | (45) | — | — |
| Balance, beginning of year, after cumulative effect of adjustments | 27,874 | 19,085 | 13,970 |
| Net earnings | 11,599 | 9,537 | 5,626 |
| Dividends and dividend equivalents declared on common stock and restricted stock units | (639) | (615) | (494) |
| Dividends declared on preferred stock | (192) | (139) | (17) |
| Balance, end of year | 38,642 | 27,868 | 19,085 |
| Unearned compensation | | | |
| Balance, beginning of year | — | — | (117) |
| Amortization of restricted stock units | — | — | 117 |
| Balance, end of year | — | — | — |
| Accumulated other comprehensive income/(loss) | | | |
| Balance, beginning of year | 21 | — | 11 |
| Adjustment from adoption of SFAS No. 158, net of tax | (194) | — | — |
| Currency translation adjustment, net of tax | 39 | 45 | (27) |
| Minimum pension liability adjustment, net of tax | 38 | (27) | (11) |
| Net gains/(losses) on cash flow hedges, net of tax | (2) | (7) | 9 |
| Net unrealized gains/(losses) on available-for-sale securities, net of tax | (12) | 10 | 18 |
| Reclassification to retained earnings from adoption of SFAS No. 159, net of tax | (8) | — | — |
| Balance, end of year | (118) | 21 | — |
| Common stock held in treasury, at cost | | | |
| Balance, beginning of year | (21,230) | (13,413) | (6,305) |
| Repurchased | (8,956) | (7,817) | (7,108) |
| Reissued | 27 | — | — |
| Balance, end of year | (30,159) | (21,230) | (13,413) |
| Total shareholders' equity | \$ 42,800 | \$ 35,786 | \$ 28,002 |

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

Consolidated Statements of Cash Flows

| (in millions) | Year Ended November | | |
|---|---------------------|----------|-----------|
| | 2007 | 2006 | 2005 |
| Cash flows from operating activities | | | |
| Net earnings | \$ 11,599 | \$ 9,537 | \$ 5,626 |
| Non-cash items included in net earnings | | | |
| Depreciation and amortization | 916 | 749 | 689 |
| Amortization of identifiable intangible assets | 251 | 246 | 165 |
| Deferred income taxes | 129 | (1,505) | (450) |
| Share-based compensation | 4,465 | 3,654 | 1,756 |
| Changes in operating assets and liabilities | | | |
| Cash and securities segregated for regulatory and other purposes | (39,079) | (21,044) | (3,226) |
| Net receivables from brokers, dealers and clearing organizations | (3,811) | (1,794) | 1,322 |
| Net payables to customers and counterparties | 53,857 | 9,823 | 2,953 |
| Securities borrowed, net of securities loaned | (51,655) | (28,666) | (32,777) |
| Financial instruments sold under agreements to repurchase, net of financial instruments purchased under agreements to resell | 8,095 | (42) | 62,269 |
| Financial instruments owned, at fair value | (118,864) | (48,479) | (66,899) |
| Financial instruments sold, but not yet purchased, at fair value | 57,938 | 6,384 | 16,974 |
| Other, net | 7,962 | 12,823 | (815) |
| Net cash used for operating activities | (68,197) | (58,314) | (12,413) |
| Cash flows from investing activities | | | |
| Purchase of property, leasehold improvements and equipment | (2,130) | (1,744) | (1,421) |
| Proceeds from sales of property, leasehold improvements and equipment | 93 | 69 | 639 |
| Business acquisitions, net of cash acquired | (1,900) | (1,661) | (556) |
| Proceeds from sales of investments | 4,294 | 2,114 | 274 |
| Purchase of available-for-sale securities | (872) | (12,922) | — |
| Proceeds from sales of available-for-sale securities | 911 | 4,396 | — |
| Net cash provided by/(used for) investing activities | 396 | (9,748) | (1,064) |
| Cash flows from financing activities | | | |
| Unsecured short-term borrowings, net | 12,262 | (4,031) | (5) |
| Other secured financings (short-term), net | 2,780 | 16,856 | 2,238 |
| Proceeds from issuance of other secured financings (long-term) | 21,703 | 14,451 | 7,279 |
| Repayment of other secured financings (long-term), including the current portion | (7,355) | (7,420) | (5,941) |
| Proceeds from issuance of unsecured long-term borrowings | 57,516 | 48,839 | 35,898 |
| Repayment of unsecured long-term borrowings, including the current portion | (14,823) | (13,510) | (16,399) |
| Derivative contracts with a financing element, net | 4,814 | 3,494 | 1,060 |
| Bank deposits, net | 4,673 | 10,697 | — |
| Common stock repurchased | (8,956) | (7,817) | (7,108) |
| Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units | (831) | (754) | (511) |
| Proceeds from issuance of common stock | 791 | 1,613 | 1,143 |
| Proceeds from issuance of preferred stock, net of issuance costs | — | 1,349 | 1,719 |
| Excess tax benefit related to share-based compensation | 817 | 464 | — |
| Cash settlement of share-based compensation | (1) | (137) | — |
| Net cash provided by financing activities | 73,390 | 64,094 | 19,373 |
| Net increase/(decrease) in cash and cash equivalents | 5,589 | (3,968) | 5,896 |
| Cash and cash equivalents, beginning of year | 6,293 | 10,261 | 4,365 |
| Cash and cash equivalents, end of year | \$ 11,882 | \$ 6,293 | \$ 10,261 |

Supplemental Disclosures:

Cash payments for interest, net of capitalized interest, were \$40.74 billion, \$30.98 billion and \$17.49 billion for the years ended November 2007, November 2006 and November 2005, respectively.

Cash payments for income taxes, net of refunds, were \$5.78 billion, \$4.56 billion and \$2.47 billion for the years ended November 2007, November 2006 and November 2005, respectively.

Non-cash activities:

The firm assumed \$409 million, \$498 million and \$1.15 billion of debt in connection with business acquisitions for the years ended November 2007, November 2006 and November 2005, respectively. For the year ended November 2007, the firm issued \$17 million of common stock in connection with business acquisitions.

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

Consolidated Statements of Comprehensive Income

| (in millions) | Year Ended November | | |
|--|---------------------|---------|---------|
| | 2007 | 2006 | 2005 |
| Net earnings | \$11,599 | \$9,537 | \$5,626 |
| Currency translation adjustment, net of tax | 39 | 45 | (27) |
| Minimum pension liability adjustment, net of tax | 38 | (27) | (11) |
| Net gains/(losses) on cash flow hedges, net of tax | (2) | (7) | 9 |
| Net unrealized gains/(losses) on available-for-sale securities, net of tax | (12) | 10 | 18 |
| Comprehensive income | \$11,662 | \$9,558 | \$5,615 |

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

NOTE 1

Description of Business

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

The firm's activities are divided into three segments:

- **INVESTMENT BANKING.** The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.
- **TRADING AND PRINCIPAL INVESTMENTS.** The firm facilitates client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, the firm engages in market-making and specialist activities on equities and options exchanges and clears client transactions on major stock, options and futures exchanges worldwide. In connection with the firm's merchant banking and other investing activities, the firm makes principal investments directly and through funds that the firm raises and manages.
- **ASSET MANAGEMENT AND SECURITIES SERVICES.** The firm provides investment advisory and financial planning services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse group of institutions and individuals worldwide and provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

NOTE 2

Significant Accounting Policies**Basis of Presentation**

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

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

▪ **VOTING INTEREST ENTITIES.** Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. Voting interest entities are consolidated in accordance with Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," as amended. ARB No. 51 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the firm consolidates voting interest entities in which it has a majority voting interest.

▪ **VARIABLE INTEREST ENTITIES.** VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46-R, "Consolidation of Variable Interest Entities," the firm consolidates VIEs for which it is the primary beneficiary. The firm determines whether it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, the firm performs a quantitative analysis. For purposes of allocating a VIE's expected losses and expected residual returns to its variable interest holders, the firm utilizes the "top down" method. Under that method, the firm calculates its share of the VIE's expected losses and expected residual returns using the specific cash flows that would be allocated to it, based on contractual arrangements and/or the firm's position in the capital structure of the VIE, under various probability-weighted scenarios.

▪ **QSPES.** QSPEs are passive entities that are commonly used in mortgage and other securitization transactions. Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," sets forth the criteria an entity must satisfy to be a QSPE. These criteria include the

types of assets a QSPE may hold, limits on asset sales, the use of derivatives and financial guarantees, and the level of discretion a servicer may exercise in attempting to collect receivables. These criteria may require management to make judgments about complex matters, including whether a derivative is considered passive and the degree of discretion a servicer may exercise. In accordance with SFAS No. 140 and FIN No. 46-R, the firm does not consolidate QSPEs.

▪ **EQUITY-METHOD INVESTMENTS.** When the firm does not have a controlling financial interest in an entity but exerts significant influence over the entity’s operating and financial policies (generally defined as owning a voting interest of 20% to 50%) and has an investment in common stock or in-substance common stock, the firm accounts for its investment in accordance with the equity method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock.” For investments acquired subsequent to the adoption of SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” the firm generally has elected to apply the fair value option in accounting for such investments. See “— Recent Accounting Developments” for a discussion of the firm’s adoption of SFAS No. 159.

▪ **OTHER.** If the firm does not consolidate an entity or apply the equity method of accounting, the firm accounts for its investment at fair value. The firm also has formed numerous nonconsolidated investment funds with third-party investors that are typically organized as limited partnerships. The firm acts as general partner for these funds and generally does not hold a majority of the economic interests in these funds. The firm has generally provided the third-party investors with rights to terminate the funds or to remove the firm as the general partner. These fund investments are included in “Financial instruments owned, at fair value” in the consolidated statements of financial condition.

Unless otherwise stated herein, all references to November 2007, November 2006 and November 2005 refer to the firm’s fiscal years ended, or the dates, as the context requires, November 30, 2007, November 24, 2006 and November 25, 2005, respectively. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Use of Estimates

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make certain estimates and assumptions. The most important of these estimates and assumptions relate to fair value measurements, the accounting for goodwill and identifiable intangible assets and the provision for potential losses that may arise from litigation and regulatory proceedings

and tax audits. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Revenue Recognition

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

FINANCIAL INSTRUMENTS. “Total financial instruments owned, at fair value” and “Financial instruments sold, but not yet purchased, at fair value” are reflected in the consolidated statements of financial condition on a trade-date basis. Related unrealized gains or losses are generally recognized in “Trading and principal investments” in the consolidated statements of earnings. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that the firm owns (long positions) are marked to bid prices, and instruments that the firm has sold, but not yet purchased (short positions), are marked to offer prices. Fair value measurements are not adjusted for transaction costs.

The firm adopted SFAS No. 157, “Fair Value Measurements,” as of the beginning of 2007. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Basis of Fair Value Measurement

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

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

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

▪ **CASH INSTRUMENTS.** The firm's cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, active listed equities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy. The firm does not adjust the quoted price for such instruments, even in situations where the firm holds a large position and a sale could reasonably impact the quoted price.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, most mortgage products, certain corporate bank and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments. Such instruments are generally classified within level 2 of the fair value hierarchy.

Certain cash instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity and real estate fund investments, certain corporate bank and bridge loans, less liquid mortgage whole loans, distressed debt instruments and certain loan commitments. The transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

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

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

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The firm generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment. Such instruments are typically classified within level 2 of the fair value hierarchy.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within level 3 of the fair value hierarchy. Where the firm does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. The valuations of these less liquid OTC derivatives are typically based on level 1 and/or level 2 inputs that can be observed in the market, as well as unobservable level 3 inputs. Subsequent to initial recognition, the firm updates the level 1 and level 2 inputs to reflect observable market changes, with resulting gains and losses reflected within level 3. Level 3 inputs are only changed when corroborated by evidence such as similar market transactions,

third-party pricing services and/or broker or dealer quotations, or other empirical market data. In circumstances where the firm cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

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

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

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

▪ **SECURITIES BORROWED AND LOANED.** Securities borrowed and loaned are generally collateralized by cash, securities or letters of credit. The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate. Securities borrowed and loaned within Securities Services, relating to both customer activities and, to a lesser extent, certain firm financing activities, are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements are generally transacted on-demand, they exhibit little, if any, sensitivity to changes in interest rates.

Securities borrowed and loaned within Trading and Principal Investments, which are related to the firm's matched book and certain firm financing activities, are recorded at fair value as allowed by SFAS No. 159. Prior to the adoption of SFAS No. 159, these transactions were recorded based on the amount of cash collateral advanced or received plus accrued interest. These securities borrowed and loaned transactions are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy.

▪ **OTHER SECURED FINANCINGS.** In addition to repurchase agreements and securities loaned, the firm funds assets through the use of other secured financing arrangements and pledges financial instruments and other assets as collateral in these transactions. SFAS No. 159 has been adopted for those financings for which the use of fair value would eliminate non-economic volatility in earnings from using different measurement attributes (i.e., assets recorded at fair value with related nonrecourse financings recorded based on the amount of cash received plus accrued interest), primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through the firm's William Street program. These other secured financing transactions are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy. Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest. See Note 3 for further information regarding other secured financings.

HYBRID FINANCIAL INSTRUMENTS. Hybrid financial instruments are instruments that contain bifurcated embedded derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and do not require settlement by physical delivery of non-financial assets (e.g., physical commodities). If the firm elects to bifurcate the embedded derivative, it is accounted for at fair value and the host contract is accounted for at amortized cost, adjusted for the effective portion of any fair value hedge accounting relationships. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140." The primary reasons for electing the fair value option for hybrid financial instruments are mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations. See Notes 3 and 4 for additional information about hybrid financial instruments.

TRANSFERS OF FINANCIAL ASSETS. In general, transfers of financial assets are accounted for as sales under SFAS No. 140 when the firm has relinquished control over the transferred assets. For transfers accounted for as sales, any related gains or losses are recognized in net revenues. Transfers that are not

accounted for as sales are accounted for as collateralized financings, with the related interest expense recognized in net revenues over the life of the transaction.

POWER GENERATION. Power generation revenues associated with the firm's consolidated power generation facilities are included in "Trading and principal investments" in the consolidated statements of earnings when power is delivered. These revenues were \$421 million, \$553 million and \$496 million for the years ended November 2007, November 2006 and November 2005, respectively. Direct employee costs associated with the firm's consolidated power generation facilities of \$97 million, \$78 million and \$70 million for the years ended November 2007, November 2006 and November 2005, respectively, are included in "Compensation and benefits." The other direct costs associated with these power generation facilities and related contractual assets are included in "Cost of power generation."

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

INSURANCE ACTIVITIES. Revenues from variable annuity and life insurance contracts, and from providing reinsurance of such contracts, generally consist of fees assessed on contract holder account balances for mortality charges, policy administration and surrender charges. These fees are recognized within "Trading and principal investments" in the consolidated statements of earnings in the period that services are provided.

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

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

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

ASSET MANAGEMENT. Management fees are recognized over the period that the related service is provided based upon average net asset values. In certain circumstances, the firm is also entitled to receive incentive fees based on a percentage of a fund's return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are generally based on investment performance over a 12-month period and are subject to adjustment prior to the end of the measurement period. Accordingly, incentive fees are recognized in the consolidated statements of earnings when the measurement period ends. Asset management fees and incentive fees are included in "Asset management and securities services" in the consolidated statements of earnings.

Share-Based Compensation

In the first quarter of 2006, the firm adopted SFAS No. 123-R, "Share-Based Payment," which is a revision to SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123-R focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. Under SFAS No. 123-R, the cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Under SFAS No. 123-R, share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement-eligible employees) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period. The firm adopted SFAS No. 123-R under the modified prospective adoption method. Under that method of adoption, the provisions of SFAS No. 123-R are generally applied only to share-based awards granted subsequent to adoption. Share-based awards held by employees that were retirement-eligible on the date of adoption of SFAS No. 123-R must continue to be amortized over the stated service period of the award (and accelerated if the employee actually retires). SFAS No. 123-R requires expected forfeitures to be included in determining share-based employee compensation expense.

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

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

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of an operating segment, which is a component one level below the firm's three business segments, is less than its estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Identifiable Intangible Assets

Identifiable intangible assets, which consist primarily of customer lists, specialist rights and the value of business acquired (VOBA) and deferred acquisition costs (DAC) in the firm's insurance subsidiaries, are amortized over their estimated useful lives in accordance with SFAS No. 142. Identifiable intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

Property, Leasehold Improvements and Equipment

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

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

Property, leasehold improvements and equipment are tested for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS

No. 144. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

The firm's operating leases include space held in excess of current requirements. Rent expense relating to space held for growth is included in "Occupancy" in the consolidated statements of earnings. In accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," the firm records a liability, based on the fair value of the remaining lease rentals reduced by any potential or existing sublease rentals, for leases where the firm has ceased using the space and management has concluded that the firm will not derive any future economic benefits. Costs to terminate a lease before the end of its term are recognized and measured at fair value upon termination.

Foreign Currency Translation

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

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the firm's assets and liabilities. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. The firm's tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively, in the consolidated statements of financial condition. Tax provisions are computed in accordance with SFAS No. 109, "Accounting for Income Taxes." Contingent liabilities related to income taxes are recorded when the criteria for loss recognition under

SFAS No. 5, "Accounting for Contingencies," as amended, have been met (see "—Recent Accounting Developments" below for a discussion of the impact of FIN No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109," on SFAS No. 109).

Earnings Per Common Share (EPS)

Basic EPS is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and restricted stock units for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock units for which future service is required as a condition to the delivery of the underlying common stock.

Cash and Cash Equivalents

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

Recent Accounting Developments

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

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

SFAS No. 157 nullifies the guidance included in EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," that prohibited the recognition of a day one gain or loss on derivative contracts (and hybrid financial instruments measured at fair value under SFAS No. 155) where the firm was unable to verify all of the significant model inputs to observable market data and/or verify the model to market transactions. However, SFAS

No. 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model.

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

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

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

SFAS NO. 158. In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132-R." SFAS No. 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS No. 158 also requires an entity to recognize changes in the funded status of a defined benefit pension and postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006. The firm adopted SFAS No. 158 as of the end of 2007. The adjustment to accumulated other comprehensive loss for the initial application of SFAS No. 158 was \$194 million, net of tax.

SFAS NO. 159. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not accounted for at fair value under other accounting standards. The election to use the

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fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

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

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

The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of \$45 million, net of tax, substantially all of which related to applying the fair value option to prepaid physical commodity transactions.

Subsequent to the adoption of SFAS No. 159, the firm has elected to apply the fair value option (i) to new positions within the above categories, (ii) to corporate loans, corporate loan commitments and certificates of deposit issued by GS Bank USA and (iii) generally to investments where the firm would otherwise apply the equity method of accounting. In certain cases, the firm may continue to apply the equity method of accounting to those investments which are strategic in nature or closely related to the firm's principal business activities, where the firm has a significant degree of involvement in the cash flows or operations of the investee, and/or where cost-benefit considerations are less significant.

The primary reasons for electing the fair value option are mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations.

SOP NO. 07-1 AND FSP FIN NO. 46-R-7. In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 07-1, "Clarification of the Scope of the Audit and Accounting Guide 'Audits of Investment Companies' and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies." SOP No. 07-1 clarifies when an entity may apply the provisions of the Audit and Accounting Guide for Investment Companies (the Guide). In May 2007, the FASB issued FSP FIN No. 46-R-7, "Application of FIN 46-R to Investment Companies," which amends FIN No. 46-R to make permanent the temporary deferral of the application of FIN No. 46-R to entities within the scope of the revised Guide under SOP No. 07-1. FSP FIN No. 46-R-7 is effective upon adoption of SOP No. 07-1. In November 2007, the FASB issued Proposed FSP SOP No. 07-1-a, "The Effective Date of AICPA Statement of Position 07-1," which proposes to indefinitely defer the effective date for SOP No. 07-01 and, consequently, FSP FIN No. 46-R-7.

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

NOTE 3

Financial Instruments**Fair Value of Financial Instruments**

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

| (in millions) | As of November | | | |
|---|--------------------------------|-----------------------|--------------------------------|-----------------------|
| | 2007 | | 2006 | |
| | Assets | Liabilities | Assets | Liabilities |
| Commercial paper, certificates of deposit, time deposits and other money market instruments | \$ 8,985 ⁽¹⁾ | \$ — | \$ 14,723 ⁽¹⁾ | \$ — |
| U.S. government, federal agency and sovereign obligations | 70,774 | 58,637 | 68,071 | 51,200 |
| Mortgage and other asset-backed loans and securities | 54,073 ⁽²⁾ | — | 41,017 | 253 |
| Bank loans | 49,154 | 3,563 | 28,196 | 1,154 |
| Corporate debt securities and other debt obligations | 39,219 | 8,280 | 29,806 | 7,050 |
| Equities and convertible debentures | 122,205 | 45,130 | 83,282 | 30,441 |
| Physical commodities | 2,571 | 35 | 1,923 | 211 |
| Derivative contracts | 105,614 ⁽³⁾ | 99,378 ⁽⁵⁾ | 67,543 ⁽³⁾ | 65,496 ⁽⁵⁾ |
| Total | \$452,595⁽⁴⁾ | \$215,023 | \$334,561⁽⁴⁾ | \$155,805 |

⁽¹⁾ Includes \$6.17 billion and \$6.93 billion as of November 2007 and November 2006, respectively, of money market instruments held by William Street Funding Corporation to support the William Street credit extension program (see Note 6 for further information regarding the William Street program).

⁽²⁾ Includes \$7.64 billion of mortgage whole loans that were transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS No. 140. The firm distributed to investors the securities that were issued by the securitization vehicles and therefore does not bear economic exposure to the underlying mortgage whole loans.

⁽³⁾ Net of cash received pursuant to credit support agreements of \$59.05 billion and \$24.06 billion as of November 2007 and November 2006, respectively.

⁽⁴⁾ Includes \$1.17 billion of securities held within the firm's insurance subsidiaries which are accounted for as available-for-sale under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" as of November 2007. Includes \$9.95 billion of securities held within GS Bank USA and the firm's insurance subsidiaries which were accounted for as available-for-sale as of November 2006.

⁽⁵⁾ Net of cash paid pursuant to credit support agreements of \$27.76 billion and \$16.00 billion as of November 2007 and November 2006, respectively.

Fair Value Hierarchy

The following tables set forth by level within the fair value hierarchy "Financial instruments owned, at fair value," "Financial instruments sold, but not yet purchased, at fair value" and financial assets and liabilities accounted for at fair value under SFAS No. 155 and SFAS No. 159 as of November 2007 (see Note 2 for further information on the fair value hierarchy). As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Total financial assets at fair value classified within level 3 were \$69.15 billion or 6% of "Total assets" on the consolidated statement of financial condition as of November 2007. This includes \$14.44 billion of financial assets at fair value classified within level 3 for which the firm does not bear economic exposure. Excluding assets for which the firm does not bear economic exposure, level 3 assets were 5% of "Total assets" as of November 2007.

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| (in millions) | Assets at Fair Value as of November 2007 | | | | |
|---|--|-----------------------|-----------------------|-------------------------|-----------|
| | Level 1 | Level 2 | Level 3 | Netting and Collateral | Total |
| Commercial paper, certificates of deposit, time deposits and other money market instruments | \$ 6,237 | \$ 2,748 | \$ — | \$ — | \$ 8,985 |
| U.S. government, federal agency and sovereign obligations | 37,966 | 32,808 | — | — | 70,774 |
| Mortgage and other asset-backed loans and securities | — | 38,073 | 16,000 | — | 54,073 |
| Bank loans | — | 35,820 | 13,334 | — | 49,154 |
| Corporate debt securities and other debt obligations | 915 | 32,193 | 6,111 | — | 39,219 |
| Equities and convertible debentures | 68,727 | 35,472 | 18,006 ⁽⁶⁾ | — | 122,205 |
| Physical commodities | — | 2,571 | — | — | 2,571 |
| Cash instruments | 113,845 | 179,685 | 53,451 | — | 346,981 |
| Derivative contracts | 286 | 153,065 | 15,700 | (63,437) ⁽⁷⁾ | 105,614 |
| Financial instruments owned, at fair value | 114,131 | 332,750 | 69,151 | (63,437) | 452,595 |
| Securities segregated for regulatory and other purposes | 24,078 ⁽⁴⁾ | 69,940 ⁽⁵⁾ | — | — | 94,018 |
| Receivables from customers and counterparties ⁽¹⁾ | — | 1,950 | — | — | 1,950 |
| Securities borrowed ⁽²⁾ | — | 83,277 | — | — | 83,277 |
| Financial instruments purchased under agreements to resell, at fair value | — | 85,717 | — | — | 85,717 |
| Total assets at fair value | \$138,209 | \$573,634 | \$ 69,151 | \$(63,437) | \$717,557 |
| Level 3 assets for which the firm does not bear economic exposure ⁽³⁾ | | | (14,437) | | |
| Level 3 assets for which the firm bears economic exposure | | | \$ 54,714 | | |

⁽¹⁾ Consists of transfers accounted for as secured loans rather than purchases under SFAS No. 140 and prepaid variable share forwards.

⁽²⁾ Reflects securities borrowed within Trading and Principal Investments. Excludes securities borrowed within Securities Services, which are accounted for based on the amount of cash collateral advanced plus accrued interest.

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

⁽⁴⁾ Consists of U.S. Treasury securities and money market instruments as well as insurance separate account assets measured at fair value under AICPA SOP 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts."

⁽⁵⁾ Principally consists of securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

⁽⁶⁾ Consists of private equity and real estate fund investments.

⁽⁷⁾ Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

| (in millions) | Liabilities at Fair Value as of November 2007 | | | | |
|--|---|------------------|-----------------|-------------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Netting and Collateral | Total |
| U.S. government, federal agency and sovereign obligations | \$ 57,714 | \$ 923 | \$ — | \$ — | \$ 58,637 |
| Bank loans | — | 3,525 | 38 | — | 3,563 |
| Corporate debt securities and other debt obligations | — | 7,764 | 516 | — | 8,280 |
| Equities and convertible debentures | 44,076 | 1,054 | — | — | 45,130 |
| Physical commodities | — | 35 | — | — | 35 |
| Cash instruments | 101,790 | 13,301 | 554 | — | 115,645 |
| Derivative contracts | 212 | 117,794 | 13,644 | (32,272) ⁽⁶⁾ | 99,378 |
| Financial instruments sold, but not yet purchased, at fair value | 102,002 | 131,095 | 14,198 | (32,272) | 215,023 |
| Unsecured short-term borrowings ⁽¹⁾ | — | 44,060 | 4,271 | — | 48,331 |
| Bank deposits ⁽²⁾ | — | 463 | — | — | 463 |
| Securities loaned ⁽³⁾ | — | 5,449 | — | — | 5,449 |
| Financial instruments sold under agreements to repurchase, at fair value | — | 159,178 | — | — | 159,178 |
| Other secured financings ⁽⁴⁾ | — | 33,581 | — | — | 33,581 |
| Unsecured long-term borrowings ⁽⁵⁾ | — | 15,161 | 767 | — | 15,928 |
| Total liabilities at fair value | \$102,002 | \$388,987 | \$19,236 | \$(32,272) | \$477,953 |

⁽¹⁾ Consists of promissory notes, commercial paper and hybrid financial instruments.

⁽²⁾ Consists of certificates of deposit issued by GS Bank USA.

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

⁽⁴⁾ Primarily includes transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through the firm's William Street program.

⁽⁵⁾ Primarily includes hybrid financial instruments and prepaid physical commodity transactions.

⁽⁶⁾ Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the firm's level 3 financial assets and liabilities for the year ended November 2007. The table reflects gains and losses for the full year for all financial assets and liabilities categorized as level 3 as of November 2007. The table does not include gains or losses that were reported in level 3 in prior periods for financial assets and liabilities that were transferred out of level 3 prior to November 2007. As reflected in the table below, the net unrealized gain on level 3 financial assets and liabilities was \$1.31 billion for the year ended November 2007. This net unrealized gain should be considered in the context of the factors discussed below.

Cash Instruments

The net unrealized loss on level 3 cash instruments was \$2.59 billion for the year ended November 2007 (which included \$2.29 billion of unrealized losses on assets and \$294 million of unrealized losses on liabilities), primarily consisting of unrealized losses on subprime residential mortgage loans and securities as well as non-investment-grade loan commitments, partially offset by unrealized gains on principal investments. Level 3 cash instruments are frequently hedged with instruments classified in level 1 and level 2, and accordingly, gains or losses that have been reported in level 3 are frequently offset by gains or losses attributable to instruments classified in level 1 or level 2 or by gains or losses on derivative contracts classified in level 3 of the fair value hierarchy.

Derivative Contracts

The net unrealized gain on level 3 derivative contracts was \$4.54 billion for the year ended November 2007. Level 3 gains and losses on derivative contracts should be considered in the context of the following factors:

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

- Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to instruments classified in level 1 or level 2 or by cash instruments reported in level 3 of the fair value hierarchy.

The unrealized gains referenced above principally resulted from changes in level 2 inputs, as opposed to changes in level 3 inputs.

Level 3 Financial Assets and Liabilities
Year Ended November 2007

| (in millions) | Cash Instruments –Assets | Cash Instruments –Liabilities | Derivative Contracts –Net | Unsecured Short-Term Borrowings | Unsecured Long-Term Borrowings | Total Gains |
|--|--------------------------------|-------------------------------------|---------------------------------|---------------------------------------|--------------------------------------|----------------|
| Balance, beginning of year | \$29,905 | \$(223) | \$ 580 | \$(3,253) | \$(135) | N/A |
| Realized gains/(losses) | 2,232 ⁽¹⁾ | (9) ⁽²⁾ | 1,713 ⁽²⁾ | 167 ⁽²⁾ | (7) ⁽²⁾ | \$4,096 |
| Unrealized gains/(losses) relating to instruments still held at the reporting date | (2,292) ⁽¹⁾ | (294) ⁽²⁾ | 4,543 ⁽²⁾⁽³⁾ | (666) ⁽²⁾ | 22 ⁽²⁾ | \$1,313 |
| Purchases, issuances and settlements | 22,561 | (30) | (1,365) | (1,559) | (567) | N/A |
| Transfers in and/or out of level 3 | 1,045 | 2 | (3,415) | 1,040 | (80) | N/A |
| Balance, end of period | \$53,451 | \$(554) | \$ 2,056 | \$(4,271) | \$(767) | N/A |

⁽¹⁾The aggregate amounts include approximately \$(1.77) billion and \$1.71 billion reported in "Trading and principal investments" and "Interest income," respectively, in the consolidated statements of earnings.

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

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

As of November 2007, the changes in the fair value of receivables (including securities borrowed and resale agreements) for which the fair value option was elected that were attributable to changes in instrument-specific credit spreads were not material. During 2007, the firm recognized gains of \$216 million attributable to the observable impact of the market's widening of the firm's own credit spread on liabilities for which the fair value option was elected. The firm calculates the impact of its

own credit spread on liabilities carried at fair value by discounting future cash flows at a rate which incorporates the firm's observable credit spreads. As of November 2007, the difference between the fair value and the aggregate contractual principal amount of both long-term receivables and long-term debt instruments (principal and non-principal protected) for which the fair value option was elected was not material.

The following table sets forth the gains and (losses) included in earnings for the year ended November 2007 related to financial assets and liabilities for which the firm has elected to apply the fair value option under SFAS No. 155 and SFAS No. 159. The table does not reflect the impact to the firm's earnings of adopting SFAS No. 159 because a significant amount of these gains and losses would have also been recognized under previously issued generally accepted accounting principles. In addition, instruments for which the firm has elected the fair value option are economically hedged with instruments accounted for at fair value under other generally accepted accounting principles that are not reflected in the table below.

| (in millions) | Year Ended November 2007 |
|---|--------------------------|
| Unsecured long-term borrowings | \$(1,979) |
| Other secured financings ⁽¹⁾ | 1,896 |
| Unsecured short-term borrowings | (1,064) |
| Financial instruments owned, at fair value ⁽²⁾ | (43) |
| Other ⁽³⁾ | 18 |
| Total⁽⁴⁾ | \$(1,172) |

⁽¹⁾ Includes gains of \$2.08 billion related to financings recorded as a result of certain mortgage securitizations that are accounted for as secured financings rather than sales under SFAS No. 140. Changes in the fair value of the secured financings are equally offset by changes in the fair value of the related mortgage whole loans, which are included within the firm's "Financial instruments owned, at fair value" in the consolidated statement of financial condition.

⁽²⁾ Consists of investments where the firm would otherwise have applied the equity method of accounting as well as securities held in GS Bank USA (previously accounted for as available-for-sale).

⁽³⁾ Consists of resale and repurchase agreements and securities borrowed and loaned within Trading and Principal Investments and certificates of deposit issued by GS Bank USA.

⁽⁴⁾ Reported within "Trading and principal investments" within the consolidated statements of earnings. The amounts exclude contractual interest, which is included in "Interest Income" and "Interest Expense," for all instruments other than hybrid financial instruments.

Credit Concentrations

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

As of November 2007 and November 2006, the firm held \$45.75 billion (4% of total assets) and \$46.20 billion (6% of total assets), respectively, of U.S. government and federal agency obligations (including securities guaranteed by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation) included in "Financial instruments owned, at fair value" and "Cash and securities segregated for regulatory and other purposes" in the consolidated statements of financial condition. As of November 2007 and November 2006, the firm held \$31.65 billion (3% of total assets) and \$23.64 billion (3% of total assets), respectively, of other sovereign obligations, principally consisting of securities issued by the governments of Japan and the United Kingdom. In addition, as of November 2007 and November 2006, \$144.92 billion and \$104.76 billion of the firm's financial instruments purchased under agreements to resell and securities borrowed, respectively, were collateralized by U.S. government and federal agency obligations. As of November 2007 and 2006, \$41.26 billion and \$38.22 billion of the firm's financial instruments purchased under agreements to resell and securities borrowed, respectively, were collateralized by other sovereign obligations. As of November 2007 and November 2006, the firm did not have credit exposure to any other counterparty that exceeded 2% of the firm's total assets.

Derivative Activities

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

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

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

Notes to Consolidated Financial Statements

The firm applies hedge accounting under SFAS No. 133 to certain derivative contracts. The firm uses these derivatives to manage certain interest rate and currency exposures, including the firm's net investment in non-U.S. operations. The firm designates certain interest rate swap contracts as fair value hedges. These interest rate swap contracts hedge changes in the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting a substantial portion of the firm's unsecured long-term and certain unsecured short-term borrowings into floating rate obligations. See Note 2 for information regarding the firm's accounting policy for foreign currency forward contracts used to hedge its net investment in non-U.S. operations.

The firm applies a long-haul method to substantially all of its hedge accounting relationships to perform an ongoing assessment of the effectiveness of these relationships in achieving offsetting changes in fair value or offsetting cash flows attributable to the risk being hedged. The firm utilizes a dollar-offset method, which compares the change in the fair value of the hedging instrument to the change in the fair value of the hedged item, excluding the effect of the passage of time, to prospectively and retrospectively assess hedge effectiveness. The firm's prospective dollar-offset assessment utilizes scenario analyses to test hedge effectiveness via simulations of numerous parallel and slope

shifts of the relevant yield curve. Parallel shifts change the interest rate of all maturities by identical amounts. Slope shifts change the curvature of the yield curve. For both the prospective assessment, in response to each of the simulated yield curve shifts, and the retrospective assessment, a hedging relationship is deemed to be effective if the fair value of the hedging instrument and the hedged item change inversely within a range of 80% to 125%.

For fair value hedges, gains or losses on derivative transactions are recognized in "Interest expense" in the consolidated statements of earnings. The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses related to hedge ineffectiveness for all hedges are generally included in "Interest expense." These gains or losses and the component of gains or losses on derivative transactions excluded from the assessment of hedge effectiveness (e.g., the effect of the passage of time on fair value hedges of the firm's borrowings) were not material to the firm's results of operations for the years ended November 2007, November 2006 and November 2005. Gains and losses on derivatives used for trading purposes are included in "Trading and principal investments" in the consolidated statements of earnings.

The fair value of the firm's derivative contracts is reflected net of cash paid or received pursuant to credit support agreements and is reported on a net-by-counterparty basis in the firm's consolidated statements of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. The fair value of derivative financial instruments, computed in accordance with the firm's netting policy, is set forth below:

| (in millions) | As of November | | | |
|------------------------------|----------------|-------------|----------|-------------|
| | 2007 | | 2006 | |
| | Assets | Liabilities | Assets | Liabilities |
| Forward settlement contracts | \$ 17,447 | \$20,799 | \$11,751 | \$14,335 |
| Swap agreements | 54,428 | 39,271 | 28,012 | 22,471 |
| Option contracts | 33,739 | 39,308 | 27,780 | 28,690 |
| Total | \$105,614 | \$99,378 | \$67,543 | \$65,496 |

The fair value of derivatives accounted for as qualifying hedges under SFAS No. 133 consisted of \$5.12 billion and \$2.66 billion in assets as of November 2007 and November 2006, respectively, and \$354 million and \$551 million in liabilities as of November 2007 and November 2006, respectively.

The firm also has embedded derivatives that have been bifurcated from related borrowings under SFAS No. 133. Such derivatives, which are classified in unsecured short-term and unsecured long-term borrowings, had a carrying value of \$463 million and \$1.13 billion (excluding the debt host contract) as of November 2007 and November 2006, respectively. See Notes 4 and 5 for further information regarding the firm's unsecured borrowings.

Securitization Activities

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

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

During the year ended November 2007, the firm securitized \$81.40 billion of financial assets (\$24.95 billion of residential mortgages, \$19.50 billion of commercial mortgages and \$36.95 billion of other financial assets, primarily in connection with collateralized debt and loan obligations (CDOs and CLOs)). During the year ended November 2006, the firm securitized \$103.92 billion of financial assets (\$67.73 billion of residential mortgages, \$12.78 billion of commercial mortgages and \$23.41 billion of other financial assets, primarily in connection with CDOs and CLOs). Cash flows received on retained interests were approximately \$705 million and \$801 million for the years ended November 2007 and November 2006, respectively.

As of November 2007 and November 2006, the firm held \$4.57 billion and \$7.08 billion of retained interests, respectively, from these securitization activities, including \$2.72 billion and \$5.18 billion, respectively, held in QSPEs.

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

| (\$ in millions) | As of November 2007 | | | As of November 2006 | | |
|---|----------------------------|------------------------------|----------------|----------------------------|------------------------------|-------------------------------|
| | Type of Retained Interests | | | Type of Retained Interests | | |
| | Mortgage-Backed | CDOs and CLOs ⁽³⁾ | Corporate Debt | Mortgage-Backed | CDOs and CLOs ⁽³⁾ | Corporate Debt ⁽⁴⁾ |
| Fair value of retained interests | \$3,378 | \$1,188 | \$— | \$4,013 | \$1,973 | \$1,097 |
| Weighted average life (years) | 6.6 | 2.7 | — | 6.0 | 7.0 | 2.2 |
| Constant prepayment rate | 15.1% | 11.9% | N/A | 21.2% | 24.5% | N/A |
| Impact of 10% adverse change | \$ (50) | \$ (43) | \$— | \$ (121) | \$ (2) | \$ — |
| Impact of 20% adverse change | (91) | (98) | — | (221) | (6) | — |
| Anticipated credit losses ⁽¹⁾ | 4.3% | N/A | N/A | 2.0% | N/A | N/A |
| Impact of 10% adverse change ⁽²⁾ | \$ (45) | \$ — | \$— | \$ (81) | \$ — | \$ — |
| Impact of 20% adverse change ⁽²⁾ | (72) | — | — | (155) | — | — |
| Discount rate | 8.4% | 23.1% | N/A | 9.4% | 6.9% | 3.9% |
| Impact of 10% adverse change | \$ (89) | \$ (46) | \$— | \$ (136) | \$ (38) | \$ (9) |
| Impact of 20% adverse change | (170) | (92) | — | (266) | (74) | (17) |

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

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

⁽³⁾ Includes \$905 million and \$1.26 billion as of November 2007 and November 2006, respectively, of retained interests related to transfers of securitized assets that were accounted for as secured financings rather than sales under SFAS No. 140.

⁽⁴⁾ Includes retained interests in bonds and other types of financial assets that are not subject to prepayment risk.

The preceding table does not give effect to the offsetting benefit of other financial instruments that are held to mitigate risks inherent in these retained interests. Changes in fair value based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in

assumptions to the change in fair value is not usually linear. In addition, the impact of a change in a particular assumption is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

In addition to the retained interests described above, the firm also held interests in residential mortgage QSPEs purchased in connection with secondary market-making activities. These purchased interests approximated \$6 billion and \$8 billion as of November 2007 and November 2006, respectively.

As of November 2007 and November 2006, the firm held mortgage servicing rights with a fair value of \$93 million and \$62 million, respectively, substantially all of which were retained in connection with residential mortgage securitizations. These servicing assets represent the firm's right to receive a future stream of cash flows associated with the firm's obligation to service residential mortgages. The fair value of mortgage servicing rights will fluctuate in response to changes in certain economic variables, such as interest rates, loan prepayment assumptions and default rates. The firm determines the fair value of mortgage servicing rights by using valuation models that incorporate these variables in quantifying anticipated cash flows related to servicing activities.

Variable Interest Entities (VIEs)

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

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

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

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

These tables do not give effect to the benefit of any offsetting financial instruments that are held to mitigate risks related to the firm's interests in nonconsolidated VIEs.

As of November 2007

| (in millions) | Maximum Exposure to Loss in Nonconsolidated VIEs ⁽¹⁾ | | | | | |
|--|---|----------------------------------|----------------------------|-----------------|-----------------------|-----------------|
| | VIE Assets | Purchased and Retained Interests | Commitments and Guarantees | Derivatives | Loans and Investments | Total |
| Mortgage CDOs ⁽²⁾ | \$18,914 | \$1,011 | \$ — | \$10,089 | \$ — | \$11,100 |
| Corporate CDOs and CLOs ⁽³⁾ | 10,750 | 411 | — | 2,218 | — | 2,629 |
| Real estate, credit-related and other investing ⁽⁴⁾ | 17,272 | — | 107 | 12 | 3,141 | 3,260 |
| Municipal bond securitizations | 1,413 | — | 1,413 | — | — | 1,413 |
| Other mortgage-backed | 3,881 | 719 | — | — | — | 719 |
| Other asset-backed | 3,771 | — | — | 1,579 | — | 1,579 |
| Power-related | 438 | 2 | 37 | — | 16 | 55 |
| Principal-protected notes ⁽⁵⁾ | 5,698 | — | — | 5,186 | — | 5,186 |
| Total | \$62,137 | \$2,143 | \$1,557 | \$19,084 | \$3,157 | \$25,941 |

As of November 2006

| (in millions) | Maximum Exposure to Loss in Nonconsolidated VIEs ⁽¹⁾ | | | | | |
|--|---|----------------------------------|----------------------------|-----------------|-----------------------|-----------------|
| | VIE Assets | Purchased and Retained Interests | Commitments and Guarantees | Derivatives | Loans and Investments | Total |
| Mortgage CDOs ⁽²⁾ | \$26,225 | \$2,172 | \$ — | \$ 7,119 | \$ — | \$ 9,291 |
| Corporate CDOs and CLOs ⁽³⁾ | 11,385 | 234 | — | 2,663 | — | 2,897 |
| Real estate, credit-related and other investing ⁽⁴⁾ | 16,300 | — | 113 | 8 | 2,088 | 2,209 |
| Municipal bond securitizations | 1,182 | — | 1,182 | — | — | 1,182 |
| Other mortgage-backed | 8,143 | 477 | — | — | — | 477 |
| Other asset-backed | 96 | — | — | 66 | — | 66 |
| Power-related | 3,422 | 10 | 73 | — | 597 | 680 |
| Principal-protected notes ⁽⁵⁾ | 4,363 | — | — | 3,437 | — | 3,437 |
| Total | \$71,116 | \$2,893 | \$1,368 | \$13,293 | \$2,685 | \$20,239 |

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

⁽²⁾ Derivatives related to mortgage CDOs primarily consist of written protection on investment-grade, short-term collateral held by VIEs that have issued CDOs.

⁽³⁾ Derivatives related to corporate CDOs and CLOs primarily consist of total return swaps on CDOs and CLOs. The firm has generally transferred the risks related to the underlying securities through derivatives with non-VIEs.

⁽⁴⁾ The firm obtains interests in these VIEs in connection with making proprietary investments in real estate, distressed loans and other types of debt, mezzanine instruments and equities.

⁽⁵⁾ Derivatives related to principal-protected notes consist of out-of-the-money written put options that provide principal protection to clients invested in various fund products, with risk to the firm mitigated through portfolio rebalancing.

Notes to Consolidated Financial Statements

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

The table does not give effect to the benefit of any offsetting financial instruments that are held to mitigate risks related to the firm's interests in consolidated VIEs.

| (in millions) | As of November | | | |
|---|---------------------------|---|---------------------------|---|
| | 2007 | | 2006 | |
| | VIE Assets ⁽¹⁾ | Maximum Exposure to Loss ⁽²⁾ | VIE Assets ⁽¹⁾ | Maximum Exposure to Loss ⁽²⁾ |
| Real estate, credit-related and other investing | \$2,118 | \$ 525 | \$3,077 | \$1,368 |
| Municipal bond securitizations | 1,959 | 1,959 | 2,715 | 2,715 |
| CDOs, mortgage-backed and other asset-backed | 604 | 109 | 1,537 | 20 |
| Foreign exchange and commodities | 300 | 329 | 433 | 340 |
| Principal-protected notes | 1,119 | 1,118 | 894 | 774 |
| Total | \$6,100 | \$4,040 | \$8,656 | \$5,217 |

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

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

Collateralized Transactions

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

In many cases, the firm is permitted to deliver or repledge these financial instruments in connection with entering into repurchase agreements, securities lending agreements and other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements. As of November 2007 and November 2006, the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or repledge was \$891.05 billion and \$746.08 billion, respectively, of which the firm delivered or repledged \$785.62 billion and \$639.87 billion, respectively.

The firm also pledges assets that it owns to counterparties who may or may not have the right to deliver or repledge them. Financial instruments owned and pledged to counterparties that have the right to deliver or repledge are reported as "Financial instruments owned and pledged as collateral, at fair value" in the consolidated statements of financial condition and were \$46.14 billion and \$36.00 billion as of November 2007 and

November 2006, respectively. Financial instruments owned and pledged in connection with repurchase agreements, securities lending agreements and other secured financings to counterparties that did not have the right to sell or repledge are included in "Financial instruments owned, at fair value" in the consolidated statements of financial condition and were \$156.92 billion and \$134.31 billion as of November 2007 and November 2006, respectively. Other assets (primarily real estate and cash) owned and pledged in connection with other secured financings to counterparties that did not have the right to sell or repledge were \$5.86 billion and \$5.34 billion as of November 2007 and November 2006, respectively.

In addition to repurchase agreements and securities lending agreements, the firm obtains secured funding through the use of other arrangements. Other secured financings include arrangements that are nonrecourse, that is, only the subsidiary that executed the arrangement or a subsidiary guaranteeing the arrangement is obligated to repay the financing. Other secured financings consist of liabilities related to the firm's William Street program, consolidated variable interest entities, collateralized central bank financings, transfers of financial assets that are accounted for as financings rather than sales under SFAS No. 140 (primarily pledged bank loans and mortgage whole loans) and other structured financing arrangements.

Other secured financings are set forth in the table below:

| (in millions) | As of November | |
|--|-----------------|----------|
| | 2007 | 2006 |
| Other secured financings (short-term) ⁽¹⁾⁽²⁾ | \$32,410 | \$24,290 |
| Other secured financings (long-term): | | |
| 2008 | — | 5,535 |
| 2009 | 2,903 | 877 |
| 2010 | 2,301 | 1,894 |
| 2011 | 2,427 | 5,105 |
| 2012 | 4,973 | 1,928 |
| 2013–thereafter | 20,696 | 10,795 |
| Total other secured financings (long-term) ⁽³⁾⁽⁴⁾ | 33,300 | 26,134 |
| Total other secured financings ⁽⁵⁾ | \$65,710 | \$50,424 |

⁽¹⁾ As of November 2007, consists of U.S. dollar-denominated financings of \$18.47 billion with a weighted average interest rate of 5.32% and non-U.S. dollar-denominated financings of \$13.94 billion with a weighted average interest rate of 0.91%, after giving effect to hedging activities. As of November 2006, consists of U.S. dollar-denominated financings of \$14.28 billion with a weighted average interest rate of 5.22% and non-U.S. dollar-denominated financings of \$10.01 billion with a weighted average interest rate of 2.00%, after giving effect to hedging activities. The weighted average interest rates as of November 2007 and November 2006 excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

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

⁽³⁾ As of November 2007, consists of U.S. dollar-denominated financings of \$22.13 billion with a weighted average interest rate of 5.73% and non-U.S. dollar-denominated financings of \$11.17 billion with a weighted average interest rate of 4.28%, after giving effect to hedging activities. As of November 2006, consists of U.S. dollar-denominated financings of \$16.97 billion with a weighted average interest rate of 5.61% and non-U.S. dollar-denominated financings of \$9.16 billion with a weighted average interest rate of 3.81%, after giving effect to hedging activities.

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

⁽⁵⁾ As of November 2007, \$61.34 billion of these financings were collateralized by financial instruments and \$4.37 billion by other assets (primarily real estate and cash). As of November 2006, \$47.22 billion of these financings were collateralized by financial instruments and \$3.20 billion by other assets. Other secured financings include \$25.37 billion and \$19.79 billion of nonrecourse obligations as of November 2007 and November 2006, respectively.

NOTE 4

Unsecured Short-Term Borrowings

The firm obtains unsecured short-term borrowings primarily through the issuance of promissory notes, commercial paper and hybrid financial instruments. As of November 2007 and November 2006, these borrowings were \$71.56 billion and \$47.90 billion, respectively. Such amounts include the portion of unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the

financial statement date at the option of the holder. The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under SFAS No. 155 or SFAS No. 159. Short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations.

Unsecured short-term borrowings are set forth below:

| (in millions) | As of November | |
|---|-----------------|----------|
| | 2007 | 2006 |
| Promissory notes | \$13,251 | \$13,811 |
| Commercial paper | 4,343 | 1,489 |
| Current portion of unsecured long-term borrowings | 22,740 | 14,115 |
| Hybrid financial instruments | 22,318 | 14,060 |
| Other short-term borrowings | 8,905 | 4,429 |
| Total⁽¹⁾ | \$71,557 | \$47,904 |

⁽¹⁾The weighted average interest rates for these borrowings, after giving effect to hedging activities, were 5.05% and 5.16% as of November 2007 and November 2006, respectively. The weighted average interest rates as of November 2007 and November 2006 excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

NOTE 5

Unsecured Long-Term Borrowings

The firm's unsecured long-term borrowings extend through 2043 and consist principally of senior borrowings. As of November 2007 and November 2006, these borrowings were \$164.17 billion and \$122.84 billion, respectively.

Unsecured long-term borrowings are set forth below:

| (in millions) | As of November | |
|--|------------------|------------------|
| | 2007 | 2006 |
| Fixed rate obligations ⁽¹⁾ | | |
| U.S. dollar | \$ 55,281 | \$ 41,719 |
| Non-U.S. dollar | 29,139 | 22,854 |
| Floating rate obligations ⁽²⁾ | | |
| U.S. dollar | 47,308 | 38,342 |
| Non-U.S. dollar | 32,446 | 19,927 |
| Total | \$164,174 | \$122,842 |

⁽¹⁾ As of November 2007 and November 2006, interest rates on U.S. dollar fixed rate obligations ranged from 3.88% to 10.04% and from 3.88% to 12.00%, respectively. As of November 2007 and November 2006, interest rates on non-U.S. dollar fixed rate obligations ranged from 0.67% to 8.88% and from 0.31% to 8.88%, respectively.

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

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

| (in millions) | As of November | | | | | |
|-----------------|------------------------|-----------------|------------------|------------------------|-----------------|------------------|
| | 2007 ⁽¹⁾⁽²⁾ | | | 2006 ⁽¹⁾⁽²⁾ | | |
| | U.S. Dollar | Non-U.S. Dollar | Total | U.S. Dollar | Non-U.S. Dollar | Total |
| 2008 | \$ — | \$ — | \$ — | \$14,848 | \$ 3,038 | \$ 17,886 |
| 2009 | 20,204 | 2,978 | 23,182 | 12,398 | 2,978 | 15,376 |
| 2010 | 7,989 | 5,714 | 13,703 | 5,034 | 4,945 | 9,979 |
| 2011 | 5,848 | 4,839 | 10,687 | 5,675 | 4,389 | 10,064 |
| 2012 | 14,913 | 3,695 | 18,608 | 4,500 | 2,098 | 6,598 |
| 2013-thereafter | 53,635 | 44,359 | 97,994 | 37,606 | 25,333 | 62,939 |
| Total | \$102,589 | \$61,585 | \$164,174 | \$80,061 | \$42,781 | \$122,842 |

⁽¹⁾ Unsecured long-term borrowings maturing within one year of the financial statement date and certain unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder are included as unsecured short-term borrowings in the consolidated statements of financial condition.

⁽²⁾ Unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates. Unsecured long-term borrowings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

The firm enters into derivative contracts, such as interest rate futures contracts, interest rate swap agreements, currency swap agreements, commodity contracts and equity-linked and indexed contracts, to effectively convert a substantial portion

of its unsecured long-term borrowings into U.S. dollar-based floating rate obligations. Accordingly, the carrying value of unsecured long-term borrowings approximated fair value as of November 2007 and November 2006.

Notes to Consolidated Financial Statements

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

| (\$ in millions) | As of November | | | |
|---|----------------|-------|-----------|-------|
| | 2007 | | 2006 | |
| | Amount | Rate | Amount | Rate |
| Fixed rate obligations | \$ 3,787 | 5.28% | \$ 1,997 | 6.13% |
| Floating rate obligations ⁽¹⁾⁽²⁾ | 160,387 | 5.68 | 120,845 | 5.75 |
| Total | \$164,174 | 5.67 | \$122,842 | 5.75 |

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

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

Subordinated Borrowings

Unsecured long-term borrowings include subordinated borrowings with outstanding principal amounts of \$16.32 billion and \$7.51 billion as of November 2007 and November 2006, respectively, as set forth below.

SUBORDINATED NOTES. As of November 2007, the firm had \$11.23 billion of subordinated notes outstanding with maturities ranging from fiscal 2009 to 2037. The effective weighted average interest rate on these subordinated notes was 5.75%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. As of November 2006, the firm had \$4.67 billion of subordinated notes outstanding with maturities ranging from 2007 to 2036 and with an effective weighted average interest rate of 6.24%. These notes are junior in right of payment to all of the firm's senior indebtedness.

JUNIOR SUBORDINATED DEBT ISSUED TO A TRUST IN CONNECTION WITH TRUST PREFERRED SECURITIES. The firm issued \$2.84 billion of junior subordinated debentures in its first quarter of 2004 to Goldman Sachs Capital I (the Trust), a Delaware statutory trust that, in turn, issued \$2.75 billion of guaranteed preferred beneficial interests to third parties and \$85 million of common beneficial interests to the firm and invested the proceeds from the sale in junior subordinated debentures issued by the firm. The Trust is a wholly owned finance subsidiary of the firm for regulatory and legal purposes but is not consolidated for accounting purposes.

The firm pays interest semiannually on these debentures at an annual rate of 6.345% and the debentures mature on February 15, 2034. The coupon rate and the payment dates applicable to the beneficial interests are the same as the interest rate and payment dates applicable to the debentures. The firm has the right, from time to time, to defer payment of interest on the debentures, and, therefore, cause payment on the Trust's preferred beneficial interests to be deferred, in each case up to ten consecutive semiannual periods. During any such extension period, the firm will not be permitted to, among other things,

pay dividends on or make certain repurchases of its common stock. The Trust is not permitted to pay any distributions on the common beneficial interests held by the firm unless all dividends payable on the preferred beneficial interests have been paid in full. These debentures are junior in right of payment to all of the firm's senior indebtedness and all of the firm's subordinated borrowings, other than the junior subordinated debt issued in connection with the Normal Automatic Preferred Enhanced Capital Securities (see discussion below).

JUNIOR SUBORDINATED DEBT ISSUED TO TRUSTS IN CONNECTION WITH FIXED-TO-FLOATING AND FLOATING RATE NORMAL AUTOMATIC PREFERRED ENHANCED CAPITAL SECURITIES. In the second quarter of 2007, the firm issued a total of \$2.25 billion of remarketable junior subordinated notes to Goldman Sachs Capital II and Goldman Sachs Capital III (the Trusts), Delaware statutory trusts that, in turn, issued \$2.25 billion of guaranteed perpetual Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to the firm. The firm also entered into contracts with the Trusts to sell \$2.25 billion of perpetual non-cumulative preferred stock to be issued by the firm (the stock purchase contracts). The Trusts are wholly owned finance subsidiaries of the firm for regulatory and legal purposes but are not consolidated for accounting purposes.

The firm pays interest semiannually on \$1.75 billion of junior subordinated notes issued to Goldman Sachs Capital II at a fixed annual rate of 5.59% and the notes mature on June 1, 2043. The firm pays interest quarterly on \$500 million of junior subordinated notes issued to Goldman Sachs Capital III at a rate per annum equal to three-month LIBOR plus .57% and the notes mature on September 1, 2043. In addition, the firm makes contract payments at a rate of .20% per annum on the stock purchase contracts held by the Trusts. The firm has the right to defer payments on the junior subordinated notes and the stock purchase contracts, subject to limitations, and therefore

cause payment on the APEX to be deferred. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. The junior subordinated notes are junior in right of payment to all of the firm's senior indebtedness and all of the firm's other subordinated borrowings.

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

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

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

| (in millions) | Year Ended November | |
|------------------------------------|---------------------|-----------|
| | 2007 | 2006 |
| Commercial lending commitments | | |
| Investment-grade | \$11,719 | \$ 7,604 |
| Non-investment-grade | 41,930 | 57,017 |
| William Street program | 24,488 | 18,831 |
| Warehouse financing | 4,610 | 17,026 |
| Total commitments to extend credit | \$82,747 | \$100,478 |

▪ **COMMERCIAL LENDING COMMITMENTS.** The firm extends commercial lending commitments primarily in connection with contingent acquisition financing and other types of corporate lending as well as commercial real estate financing. The total commitment amount does not necessarily reflect the actual future cash flow requirements, as the firm often syndicates all or substantial portions of these commitments, the commitments may expire unused, or the commitments may be cancelled or reduced at the request of the counterparty. In addition, commitments that are extended for contingent acquisition financing are often intended to be

NOTE 6

Commitments, Contingencies and Guarantees

Commitments

FORWARD STARTING COLLATERALIZED AGREEMENTS AND FINANCINGS.

The firm had forward starting resale agreements and securities borrowing agreements of \$28.14 billion and \$18.29 billion as of November 2007 and November 2006, respectively. The firm had forward starting repurchase agreements and securities lending agreements of \$15.39 billion and \$17.15 billion as of November 2007 and November 2006, respectively.

COMMITMENTS TO EXTEND CREDIT.

In connection with its lending activities, the firm had outstanding commitments to extend credit of \$82.75 billion and \$100.48 billion as of November 2007 and November 2006, respectively. The firm's commitments to extend credit are agreements to lend to counterparties that have fixed termination dates and are contingent on the satisfaction of all conditions to borrowing set forth in the contract. Since these commitments may expire unused or be reduced or cancelled at the counterparty's request, the total commitment amount does not necessarily reflect the actual future cash flow requirements. The firm accounts for these commitments at fair value. To the extent that the firm recognizes losses on these commitments, such losses are recorded within the firm's Trading and Principal Investments segment net of any related underwriting fees.

short-term in nature, as borrowers often seek to replace them with other funding sources. Included within the non-investment-grade amount as of November 2007 was \$26.09 billion of exposure to leveraged lending capital market transactions, \$3.50 billion related to commercial real estate transactions and \$12.34 billion arising from other unfunded credit facilities. Included within the non-investment-grade amount as of November 2006 was \$39.68 billion of exposure to leveraged lending capital market transactions, \$12.11 billion related to commercial real estate transactions and \$5.23 billion arising from other unfunded credit facilities.

▪ **WILLIAM STREET PROGRAM.** Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of the firm, William Street Credit Corporation, GS Bank USA, Goldman Sachs Credit Partners L.P. or other consolidated wholly owned subsidiaries of Group Inc. The commitments extended by Commitment Corp. are supported, in part, by funding raised by William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are also legally separated from other assets and liabilities of the firm. The assets of Commitment Corp. and of Funding Corp. will not be available to their respective shareholders until the claims of their respective creditors have been paid. In addition, no affiliate of either Commitment Corp. or Funding Corp., except in limited cases as expressly agreed in writing, is responsible for any obligation of either entity. With respect to most of the William Street commitments, Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection that is generally limited to 95% of the first loss the firm realizes on approved loan commitments, up to a maximum of \$1.00 billion. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of the second loss on such commitments, up to a maximum of \$1.13 billion. The firm also uses other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.

▪ **WAREHOUSE FINANCING.** The firm provides financing for the warehousing of financial assets to be securitized. These financings are expected to be repaid from the proceeds of the related securitizations for which the firm may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of corporate bank loans and commercial mortgages as of November 2007 and residential mortgages and mortgage-backed securities, corporate bank loans and commercial mortgages as of November 2006. In connection with its warehouse financing activities, the firm had loans of \$44 million collateralized by subprime mortgages as of November 2007.

LETTERS OF CREDIT. The firm provides letters of credit issued by various banks to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements. Letters of credit outstanding were \$8.75 billion and \$5.73 billion as of November 2007 and November 2006, respectively.

INVESTMENT COMMITMENTS. In connection with its merchant banking and other investing activities, the firm invests in private equity, real estate and other assets directly and through funds that it raises and manages. In connection with these activities, the firm had commitments to invest up to \$17.76 billion and \$8.24 billion as of November 2007 and November 2006, respectively, including \$12.32 billion and \$4.41 billion, respectively, of commitments to invest in funds managed by the firm.

CONSTRUCTION-RELATED COMMITMENTS. As of November 2007 and November 2006, the firm had construction-related commitments of \$769 million and \$1.63 billion, respectively, including outstanding commitments of \$642 million and \$500 million as of November 2007 and November 2006, respectively, related to the firm's new world headquarters in New York City, which is expected to cost between \$2.3 billion and \$2.5 billion. The firm is partially financing this construction project with tax-exempt Liberty Bonds. The firm borrowed approximately \$1.40 billion and approximately \$250 million in 2005 and 2007, respectively, through the issuance of Liberty Bonds.

UNDERWRITING COMMITMENTS. As of November 2007 and November 2006, the firm had commitments to purchase \$88 million and \$2.62 billion, respectively, of securities in connection with its underwriting activities.

OTHER. The firm had other purchase commitments of \$420 million and \$393 million as of November 2007 and November 2006, respectively.

In addition, the firm entered into an agreement in 2007 to acquire Litton Loan Servicing LP (Litton), the mortgage servicing unit of Credit-Based Asset Servicing and Securitization LLC (C-BASS). The transaction closed in December 2007 at a purchase price of \$428 million, plus the repayment of \$916 million of outstanding Litton debt obligations.

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

| (in millions) | |
|-------------------------|----------------|
| Minimum rental payments | |
| 2008 | \$ 450 |
| 2009 | 478 |
| 2010 | 372 |
| 2011 | 313 |
| 2012 | 255 |
| 2013–thereafter | 2,022 |
| Total | \$3,890 |

Rent charged to operating expense is set forth below:

| (in millions) | |
|------------------|------------|
| Net rent expense | |
| 2005 | \$359 |
| 2006 | 404 |
| 2007 | 412 |

Contingencies

The firm is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses. Management believes, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on the firm's financial condition, but may be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period. Given the inherent difficulty of predicting the outcome of the firm's litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, the firm cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

In connection with its insurance business, the firm is contingently liable to provide guaranteed minimum death and income benefits to certain contract holders and has established a reserve related to \$10.84 billion and \$8.04 billion of contract holder account balances as of November 2007 and November 2006, respectively, for such benefits. The weighted average attained age of these contract holders was 67 years and 70 years as of November 2007 and November 2006, respectively. The net amount at risk, representing guaranteed minimum death and income benefits in excess of contract holder account balances, was \$1.04 billion and \$1.27 billion as of November 2007 and November 2006, respectively. See Note 10 for more information on the firm's insurance liabilities.

Guarantees

The firm enters into various derivative contracts that meet the definition of a guarantee under FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Such derivative contracts include credit default and total return swaps, written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. FIN No. 45 does not require disclosures about derivative contracts if such contracts may be cash settled and the firm has no basis to conclude it is probable that the counterparties held, at inception, the underlying instruments related to the derivative contracts. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank end users and certain other users. Accordingly, the firm has not included such contracts in the tables below.

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

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

Notes to Consolidated Financial Statements

The following tables set forth certain information about the firm's derivative contracts that meet the definition of a guarantee and certain other guarantees as of November 2007 and November 2006:

| (in millions) | As of November 2007 | | | | |
|--|---|-----------|-----------|-----------------|-------------|
| | Maximum Payout/Notional Amount by Period of Expiration ⁽¹⁾ | | | | |
| | 2008 | 2009–2010 | 2011–2012 | 2013–Thereafter | Total |
| Derivatives ⁽²⁾ | \$580,769 | \$492,563 | \$457,511 | \$514,498 | \$2,045,341 |
| Securities lending indemnifications ⁽³⁾ | 26,673 | — | — | — | 26,673 |
| Performance bonds ⁽⁴⁾ | 2,046 | — | — | — | 2,046 |
| Other financial guarantees ⁽⁵⁾ | 381 | 121 | 258 | 46 | 806 |

| (in millions) | As of November 2006 | | | | |
|--|---|-----------|-----------|-----------------|-------------|
| | Maximum Payout/Notional Amount by Period of Expiration ⁽¹⁾ | | | | |
| | 2007 | 2008–2009 | 2010–2011 | 2012–Thereafter | Total |
| Derivatives ⁽²⁾ | \$379,256 | \$428,258 | \$460,088 | \$399,449 | \$1,667,051 |
| Securities lending indemnifications ⁽³⁾ | 19,023 | — | — | — | 19,023 |
| Performance bonds | — | — | — | — | — |
| Other financial guarantees ⁽⁵⁾ | 592 | 99 | 76 | 86 | 853 |

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

⁽²⁾ The aggregate carrying value of these derivatives as of November 2007 was a liability of \$33.10 billion. The aggregate carrying value of these derivatives as of November 2006 was an asset of \$1.12 billion, consisting of contracts with an asset value of \$11.06 billion and contracts with a liability value of \$9.94 billion. The carrying value excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement. These derivative contracts are risk managed together with derivative contracts that are not considered guarantees under FIN No. 45, and therefore, these amounts do not reflect the firm's overall risk related to its derivative activities.

⁽³⁾ Collateral held by the lenders in connection with securities lending indemnifications was \$27.49 billion and \$19.70 billion as of November 2007 and November 2006, respectively.

⁽⁴⁾ Excludes collateral of \$2.05 billion related to these obligations.

⁽⁵⁾ The carrying value of these guarantees was a liability of \$43 million and \$15 million as of November 2007 and November 2006, respectively.

The firm has established trusts, including Goldman Sachs Capital I, II and III, and other entities for the limited purpose of issuing securities to third parties, lending the proceeds to the firm and entering into contractual arrangements with the firm and third parties related to this purpose. (See Note 5 for information regarding the transactions involving Goldman Sachs Capital I, II and III.) The firm effectively provides for the full and unconditional guarantee of the securities issued by these entities, which are not consolidated for accounting purposes. Timely payment by the firm of amounts due to these entities under the borrowing, preferred stock and related contractual arrangements will be sufficient to cover payments due on the securities issued by these entities. Management believes that it is unlikely that any circumstances will occur, such as nonperformance on the part of paying agents or other service providers, that would make it necessary for the firm to make payments related to these entities other than those required under the terms of the borrowing, preferred stock and related contractual arrangements and in connection with certain expenses incurred by these entities.

In the ordinary course of business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates. The firm also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults. In connection with its prime brokerage and clearing businesses, the firm agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. In connection with joint venture investments, the firm

may issue loan guarantees under which it may be liable in the event of fraud, misappropriation, environmental liabilities and certain other matters involving the borrower. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the consolidated statements of financial condition as of November 2007 and November 2006.

The firm provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The firm may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions such as securities issuances, borrowings or derivatives. In addition, the firm may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws. These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these arrangements have been recognized in the consolidated statements of financial condition as of November 2007 and November 2006.

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

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

NOTE 7

Shareholders' Equity

Dividends declared per common share were \$1.40 in 2007, \$1.30 in 2006, and \$1.00 in 2005. On December 17, 2007, the Board of Directors of Group Inc. (the Board) declared a dividend of \$0.35 per common share to be paid on February 28, 2008, to common shareholders of record on January 29, 2008.

During 2007 and 2006, the firm repurchased 41.2 million and 50.2 million shares of its common stock at a total cost of \$8.96 billion and \$7.82 billion, respectively. The average price paid per share for repurchased shares was \$217.29 and \$155.64 for the years ended November 2007 and November 2006, respectively. In addition, to satisfy minimum statutory employee tax withholding requirements related to the delivery of common stock underlying restricted stock units, the firm cancelled 4.7 million and 3.0 million of restricted stock units with a total value of \$929 million and \$375 million in 2007 and 2006, respectively.

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

Notes to Consolidated Financial Statements

Each share of preferred stock issued and outstanding has a par value of \$0.01, has a liquidation preference of \$25,000, is represented by 1,000 depository shares and is redeemable at the firm's option at a redemption price equal to \$25,000 plus declared and unpaid dividends. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. The firm's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the firm fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period. All series of preferred stock are pari passu and have a preference over the firm's common stock upon liquidation.

In the second quarter of 2007, the Board authorized 17,500.1 shares of perpetual Non-Cumulative Preferred Stock, Series E and 5,000.1 shares of perpetual Non-Cumulative Preferred Stock, Series F in connection with the APEX issuance (see Note 5 for further information on the APEX issuance). Under the stock purchase contracts, the firm will issue on the relevant stock purchase dates (on or before June 1, 2013 and September 1, 2013 for Series E and Series F preferred stock, respectively) one share of Series E and Series F preferred stock to Goldman Sachs Capital II and III, respectively, for each \$100,000 principal amount of subordinated notes held by these trusts. When issued, each share of Series E and Series F preferred stock will have a par value of \$0.01 and a liquidation preference of \$100,000 per share. Dividends on Series E preferred stock, if

declared, will be payable semiannually at a fixed annual rate of 5.79% if the stock is issued prior to June 1, 2012 and quarterly thereafter, at a rate per annum equal to the greater of (i) three-month LIBOR plus .77% and (ii) 4%. Dividends on Series F preferred stock, if declared, will be payable quarterly at a rate per annum equal to three-month LIBOR plus .77% if the stock is issued prior to September 1, 2012 and quarterly thereafter, at a rate per annum equal to the greater of (i) three-month LIBOR plus .77% and (ii) 4%. The preferred stock may be redeemed at the option of the firm on the stock purchase dates or any day thereafter, subject to the approval of the Securities and Exchange Commission (SEC) and certain covenant restrictions governing the firm's ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics.

Dividends declared per preferred share were \$1,563.51, \$1,550.00, \$1,563.51 and \$1,543.06 for Series A, Series B, Series C and Series D preferred stock, respectively, in 2007. Dividends declared per preferred share were \$1,434.79, \$1,593.06, \$1,465.19 and \$709.10 for Series A, Series B, Series C and Series D preferred stock, respectively, in 2006. In addition, on December 17, 2007, the Board declared dividends per preferred share of \$351.84, \$387.50, \$351.84 and \$346.84 for Series A, Series B, Series C and Series D preferred stock, respectively, to be paid on February 11, 2008 to preferred shareholders of record on January 27, 2008.

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

| (in millions) | As of November | |
|---|------------------|-------|
| | 2007 | 2006 |
| Adjustment from adoption of SFAS No. 158, net of tax | \$ (194) | \$ — |
| Currency translation adjustment, net of tax | 68 | 29 |
| Minimum pension liability adjustment, net of tax | — | (38) |
| Net gains on cash flow hedges, net of tax | — | 2 |
| Net unrealized gains on available-for-sale securities, net of tax | 8 ⁽¹⁾ | 28 |
| Total accumulated other comprehensive income, net of tax | \$ (118) | \$ 21 |

⁽¹⁾ Consists of net unrealized gains of \$9 million on available-for-sale securities held by investees accounted for under the equity method and net unrealized losses of \$1 million on available-for-sale securities held by the firm's insurance subsidiaries.

NOTE 8

Earnings Per Common Share

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

| (in millions, except per share amounts) | Year Ended November | | |
|--|---------------------|---------|---------|
| | 2007 | 2006 | 2005 |
| Numerator for basic and diluted EPS—net earnings applicable to common shareholders | \$11,407 | \$9,398 | \$5,609 |
| Denominator for basic EPS—weighted average number of common shares | 433.0 | 449.0 | 478.1 |
| Effect of dilutive securities | | | |
| Restricted stock units | 13.6 | 13.6 | 9.9 |
| Stock options | 14.6 | 14.8 | 12.2 |
| Dilutive potential common shares | 28.2 | 28.4 | 22.1 |
| Denominator for diluted EPS—weighted average number of common shares and dilutive potential common shares ⁽¹⁾ | 461.2 | 477.4 | 500.2 |
| Basic EPS | \$ 26.34 | \$20.93 | \$11.73 |
| Diluted EPS | 24.73 | 19.69 | 11.21 |

⁽¹⁾The diluted EPS computations do not include the anti-dilutive effect of the following options:

| (in millions) | Year Ended November | | |
|--|---------------------|------|------|
| | 2007 | 2006 | 2005 |
| Number of anti-dilutive options, end of period | — | — | 1 |

NOTE 9

Goodwill and Identifiable Intangible Assets**Goodwill**

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

| (in millions) | As of November | |
|--|----------------|---------|
| | 2007 | 2006 |
| Investment Banking | | |
| Financial Advisory | \$ — | \$ — |
| Underwriting | 125 | 125 |
| Trading and Principal Investments | | |
| FICC | 123 | 136 |
| Equities ⁽¹⁾ | 2,381 | 2,381 |
| Principal Investments | 11 | 4 |
| Asset Management and Securities Services | | |
| Asset Management ⁽²⁾ | 564 | 421 |
| Securities Services | 117 | 117 |
| Total | \$3,321 | \$3,184 |

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

⁽²⁾Primarily related to The Ayco Company, L.P. (Ayco). The increase in goodwill from November 2006 relates to the firm's acquisition of Macquarie—IMM Investment Management.

Identifiable Intangible Assets

The following table sets forth the gross carrying amount, accumulated amortization and net carrying amount of the firm's identifiable intangible assets:

| (in millions) | | As of November | |
|--|--------------------------|----------------|---------|
| | | 2007 | 2006 |
| Customer lists ⁽¹⁾ | Gross carrying amount | \$1,086 | \$1,034 |
| | Accumulated amortization | (354) | (297) |
| | Net carrying amount | \$ 732 | \$ 737 |
| New York Stock Exchange (NYSE) specialist rights | Gross carrying amount | \$ 714 | \$ 714 |
| | Accumulated amortization | (212) | (172) |
| | Net carrying amount | \$ 502 | \$ 542 |
| Insurance-related assets ⁽²⁾ | Gross carrying amount | \$ 461 | \$ 396 |
| | Accumulated amortization | (89) | (34) |
| | Net carrying amount | \$ 372 | \$ 362 |
| Exchange-traded fund (ETF) specialist rights | Gross carrying amount | \$ 138 | \$ 138 |
| | Accumulated amortization | (38) | (33) |
| | Net carrying amount | \$ 100 | \$ 105 |
| Power contracts ⁽³⁾ | Gross carrying amount | \$ 33 | \$ 750 |
| | Accumulated amortization | (13) | (83) |
| | Net carrying amount | \$ 20 | \$ 667 |
| Other ⁽⁴⁾ | Gross carrying amount | \$ 327 | \$ 335 |
| | Accumulated amortization | (282) | (246) |
| | Net carrying amount | \$ 45 | \$ 89 |
| Total | Gross carrying amount | \$2,759 | \$3,367 |
| | Accumulated amortization | (988) | (865) |
| | Net carrying amount | \$1,771 | \$2,502 |

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

⁽²⁾ Consists of VOBA and DAC. VOBA represents the present value of estimated future gross profits of the variable annuity and life insurance business. DAC results from commissions paid by the firm to the primary insurer (ceding company) on life and annuity reinsurance agreements as compensation to place the business with the firm and to cover the ceding company's acquisition expenses. VOBA and DAC are amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The weighted average remaining amortization period for VOBA and DAC is seven years as of November 2007.

⁽³⁾ The reduction in power contracts from November 2006 is due to the sale of the majority of the firm's ownership interests in 14 power generation facilities during 2007.

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

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

Amortization expense associated with identifiable intangible assets was \$251 million, \$246 million and \$165 million for the years ended November 2007, November 2006 and November 2005, respectively. Amortization expense associated with the firm's consolidated power generation facilities is reported within "Cost of power generation" in the consolidated statements of earnings.

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

| (in millions) | |
|---------------|-------|
| 2008 | \$186 |
| 2009 | 164 |
| 2010 | 149 |
| 2011 | 140 |
| 2012 | 131 |

NOTE 10

Other Assets and Other Liabilities**Other Assets**

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

| (in millions) | As of November | |
|---|-----------------|-----------------|
| | 2007 | 2006 |
| Property, leasehold improvements and equipment ⁽¹⁾ | \$ 8,975 | \$ 6,990 |
| Goodwill and identifiable intangible assets ⁽²⁾ | 5,092 | 5,686 |
| Income tax-related assets | 4,177 | 3,427 |
| Equity-method investments ⁽³⁾ | 2,014 | 2,764 |
| Miscellaneous receivables and other | 3,809 | 3,009 |
| Total | \$24,067 | \$21,876 |

⁽¹⁾ Net of accumulated depreciation and amortization of \$5.88 billion and \$5.06 billion as of November 2007 and November 2006, respectively.

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

⁽³⁾ Excludes investments of \$2.25 billion accounted for at fair value under SFAS No. 159 as of November 2007, which are included in "Financial instruments owned, at fair value" in the consolidated statements of financial condition.

Other Liabilities

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

| (in millions) | As of November | |
|--|-----------------|-----------------|
| | 2007 | 2006 |
| Compensation and benefits | \$11,816 | \$ 9,165 |
| Insurance-related liabilities ⁽¹⁾ | 10,344 | 11,471 |
| Minority interest ⁽²⁾ | 7,265 | 2,069 |
| Income tax-related liabilities | 2,546 | 2,639 |
| Employee interests in consolidated funds | 2,187 | 2,690 |
| Accrued expenses and other payables | 4,749 | 3,832 |
| Total | \$38,907 | \$31,866 |

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

| (in millions) | As of November | |
|---|-----------------|-----------------|
| | 2007 | 2006 |
| Separate account liabilities | \$ 7,039 | \$ 7,957 |
| Liabilities for future benefits and unpaid claims | 2,142 | 2,123 |
| Contract holder account balances | 937 | 1,134 |
| Reserves for guaranteed minimum death and income benefits | 226 | 257 |
| Total insurance-related liabilities | \$10,344 | \$11,471 |

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

Liabilities for future benefits and unpaid claims include liabilities arising from reinsurance provided by the firm to other insurers. The firm had a receivable for \$1.30 billion and \$1.33 billion as of November 2007 and November 2006, respectively, related to such reinsurance contracts, which is reported in "Receivables from customers and counterparties" in the consolidated statements of financial condition. In addition, the firm has ceded risks to reinsurers related to certain of its liabilities for future benefits and unpaid claims and had a receivable of \$785 million and \$786 million as of November 2007 and November 2006, respectively, related to such reinsurance contracts, which is reported in "Receivables from customers and counterparties" in the consolidated statements of financial condition. Contracts to cede risks to reinsurers do not relieve the firm from its obligations to contract holders.

Reserves for guaranteed minimum death and income benefits represent a liability for the expected value of guaranteed benefits in excess of projected annuity account balances. These reserves are computed in accordance with AICPA SOP 03-1 and are based on total payments expected to be made less total fees expected to be assessed over the life of the contract.

⁽²⁾ Includes \$5.95 billion and \$619 million related to consolidated investment funds as of November 2007 and November 2006, respectively.

NOTE 11

Employee Benefit Plans

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

Defined Benefit Pension Plans and Postretirement Plans

Employees of certain non-U.S. subsidiaries participate in various defined benefit pension plans. These plans generally provide benefits based on years of credited service and a percentage of the employee's eligible compensation. The firm maintains a defined benefit pension plan for substantially all U.K. employees. The firm expects to close the U.K. pension plan to new participants during the first half of 2008, but will continue to accrue benefits for existing participants.

The firm also maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan has been closed to new participants and no further benefits will be accrued to existing participants. In addition, the firm has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs.

On November 30, 2007, the firm adopted SFAS No. 158 which requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. Upon adoption, SFAS No. 158 requires an entity to recognize previously unrecognized actuarial gains and losses, prior service costs, and transition obligations and assets within "Accumulated other comprehensive income/(loss)" in the consolidated statements of changes in shareholders' equity. Additional minimum pension liabilities are derecognized upon adoption of the new standard.

As a result of adopting SFAS No. 158, the firm recorded increases of \$59 million and \$253 million to "Other assets" and "Other liabilities and accrued expenses," respectively, and a \$194 million loss, net of taxes, within "Accumulated other comprehensive income/(loss)."

The accumulated other comprehensive loss at November 30, 2007 includes actuarial losses, prior service costs, and transition assets of \$269 million, \$37 million, and \$(9) million, pre-tax, respectively, of which \$8 million, \$13 million and \$(2) million, pre-tax, respectively, will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2008.

The following table provides a summary of the changes in the plans' benefit obligations and the fair value of assets for November 2007 and November 2006 and a statement of the funded status of the plans as of November 2007 and November 2006:

| (in millions) | As of or for the Year Ended November | | | | | |
|--|--------------------------------------|---------------------|---------------------|-----------------|---------------------|---------------------|
| | 2007 | | | 2006 | | |
| | U.S. Pension | Non-U.S. Pension | Post- retirement | U.S. Pension | Non-U.S. Pension | Post- retirement |
| Benefit obligation | | | | | | |
| Balance, beginning of year | \$395 | \$ 673 | \$ 372 | \$393 | \$ 486 | \$ 277 |
| Service cost | — | 78 | 21 | — | 58 | 19 |
| Interest cost | 22 | 34 | 23 | 21 | 25 | 19 |
| Plan amendments | — | (1) | — | — | 1 | 48 |
| Actuarial loss | (11) | (79) | 36 | (13) | 38 | 17 |
| Benefits paid | (7) | (1) | (7) | (6) | (4) | (8) |
| Effect of foreign exchange rates | — | 44 | — | — | 69 | — |
| Balance, end of year | \$399 | \$ 748 | \$ 445 | \$395 | \$ 673 | \$ 372 |
| Fair value of plan assets | | | | | | |
| Balance, beginning of year | \$423 | \$ 506 | \$ — | \$354 | \$ 392 | \$ — |
| Actual return on plan assets | 34 | 36 | — | 55 | 58 | — |
| Firm contributions | — | 38 | 7 | 20 | 4 | 8 |
| Employee contributions | — | 1 | — | — | 1 | — |
| Benefits paid | (7) | (1) | (7) | (6) | (3) | (8) |
| Effect of foreign exchange rates | — | 34 | — | — | 54 | — |
| Balance, end of year | \$450 | \$ 614 | \$ — | \$423 | \$ 506 | \$ — |
| Prepaid/(accrued) benefit cost | | | | | | |
| Funded status | \$ 51 | \$(134) | \$(445) | \$ 28 | \$(167) | \$(372) |
| Unrecognized loss | — | — | — | 77 | 159 | 101 |
| Unrecognized transition (asset)/obligation | — | — | — | (17) | 5 | 1 |
| Unrecognized prior service cost | — | — | — | — | 5 | 46 |
| Adjustment to recognize additional minimum liability | — | — | — | (10) | (46) | — |
| Prepaid/(accrued) benefit cost | \$ 51 | \$(134) | \$(445) | \$ 78 | \$ (44) | \$(224) |
| Amounts recognized in the Statements of Financial Condition consist of: | | | | | | |
| Other assets | \$ 51 | \$ — | \$ — | \$ 99 | \$ — | \$ — |
| Other liabilities and accrued expenses | — | (134) | (445) | (21) | (44) | (224) |
| Net amounts recognized | \$ 51 | \$(134) | \$(445) | \$ 78 | \$ (44) | \$(224) |

Notes to Consolidated Financial Statements

The accumulated benefit obligation for all defined benefit pension plans was \$1.05 billion and \$944 million as of November 2007 and November 2006, respectively.

For plans in which the accumulated benefit obligation exceeded plan assets, the aggregate projected benefit obligation and accumulated benefit obligation was \$722 million and \$636 million, respectively, as of November 2007, and \$771 million and \$647 million, respectively, as of November 2006. The fair value of plan assets for each of these plans was \$590 million and \$583 million as of November 2007 and November 2006, respectively.

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

| (in millions) | Year Ended November | | |
|--------------------------------|---------------------|--------------|---------------|
| | 2007 | 2006 | 2005 |
| U.S. pension | | | |
| Service cost | \$ — | \$ — | \$ — |
| Interest cost | 22 | 21 | 19 |
| Expected return on plan assets | (32) | (26) | (27) |
| Net amortization | 1 | 7 | 6 |
| Total | \$ (9) | \$ 2 | \$ (2) |
| Non-U.S. pension | | | |
| Service cost | \$ 78 | \$ 58 | \$ 44 |
| Interest cost | 34 | 25 | 20 |
| Expected return on plan assets | (36) | (29) | (23) |
| Net amortization | 10 | 11 | 12 |
| Other ⁽¹⁾ | — | — | (17) |
| Total | \$ 86 | \$ 65 | \$ 36 |
| Postretirement | | | |
| Service cost | \$ 21 | \$ 19 | \$ 23 |
| Interest cost | 23 | 19 | 13 |
| Net amortization | 19 | 18 | 4 |
| Total | \$ 63 | \$ 56 | \$ 40 |

⁽¹⁾ Represents a benefit as a result of the termination of a Japanese pension plan.

The weighted average assumptions used to develop the actuarial present value of the projected benefit obligation and net periodic pension cost are set forth below. These assumptions represent a weighted average of the assumptions used for the U.S. and non-U.S. plans and are based on the economic environment of each applicable country.

| | Year Ended November | | |
|--|---------------------|-------|-------|
| | 2007 | 2006 | 2005 |
| Defined benefit pension plans | | | |
| U.S. pension—projected benefit obligation | | | |
| Discount rate | 6.00% | 5.50% | 5.25% |
| Rate of increase in future compensation levels | N/A | N/A | N/A |
| U.S. pension—net periodic benefit cost | | | |
| Discount rate | 5.50 | 5.25 | 5.50 |
| Rate of increase in future compensation levels | N/A | N/A | N/A |
| Expected long-term rate of return on plan assets | 7.50 | 7.50 | 7.50 |
| Non-U.S. pension—projected benefit obligation | | | |
| Discount rate | 5.91 | 4.85 | 4.81 |
| Rate of increase in future compensation levels | 5.38 | 4.98 | 4.75 |
| Non-U.S. pension—net periodic benefit cost | | | |
| Discount rate | 4.85 | 4.81 | 4.63 |
| Rate of increase in future compensation levels | 4.98 | 4.75 | 4.49 |
| Expected long-term rate of return on plan assets | 6.84 | 6.93 | 6.35 |
| Postretirement plans—benefit obligation | | | |
| Discount rate | 6.00 | 5.50 | 5.25 |
| Rate of increase in future compensation levels | 5.00 | 5.00 | 5.00 |
| Postretirement plans—net periodic benefit cost | | | |
| Discount rate | 5.50 | 5.25 | 5.50 |
| Rate of increase in future compensation levels | 5.00 | 5.00 | 5.00 |

Generally, the firm determined the discount rates for its defined benefit plans by referencing indices for long-term, high-quality bonds and ensuring that the discount rate does not exceed the yield reported for those indices after adjustment for the duration of the plans' liabilities.

The firm's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

For measurement purposes, an annual growth rate in the per capita cost of covered healthcare benefits of 10.02% was assumed for the year ending November 2008. The rate was assumed to decrease ratably to 5.00% for the year ending November 2015 and remain at that level thereafter.

Notes to Consolidated Financial Statements

The assumed cost of healthcare has an effect on the amounts reported for the firm's postretirement plans. A 1% change in the assumed healthcare cost trend rate would have the following effects:

| (in millions) | 1% Increase | | 1% Decrease | |
|-----------------------------|-------------|------|-------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Service plus interest costs | \$12 | \$ 9 | \$ (9) | \$ (7) |
| Obligation | 94 | 79 | (72) | (62) |

The following table sets forth the composition of plan assets for the U.S. and non-U.S. defined benefit pension plans by asset category:

| | As of November | | | |
|-------------------|----------------|------------------|--------------|------------------|
| | 2007 | | 2006 | |
| | U.S. Pension | Non-U.S. Pension | U.S. Pension | Non-U.S. Pension |
| Equity securities | 63% | 45% | 64% | 61% |
| Debt securities | 23 | 8 | 22 | 8 |
| Other | 14 | 47 | 14 | 31 |
| Total | 100% | 100% | 100% | 100% |

The investment approach of the firm's U.S. and major non-U.S. defined benefit pension plans involves employing a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment programs. The plans employ a total return on investment approach, whereby a mix, which is broadly similar to the actual asset allocation as of November 2007, of equity securities, debt securities and other assets, is targeted to maximize the long-term return on assets for a given level of risk. Investment risk is measured and monitored on an ongoing basis by the firm's Retirement Committee through periodic portfolio reviews, meetings with investment managers and annual liability measurements.

The firm expects to contribute a minimum of \$133 million to its pension plans and \$9 million to its postretirement plans in 2008.

The following table sets forth benefits projected to be paid from the firm's U.S. and non-U.S. defined benefit pension and postretirement plans (net of Medicare subsidy receipts) and reflects expected future service costs, where appropriate:

| (in millions) | U.S. Pension | Non-U.S. Pension | Post-retirement |
|---------------|--------------|------------------|-----------------|
| 2008 | \$ 8 | \$ 7 | \$ 9 |
| 2009 | 9 | 7 | 12 |
| 2010 | 9 | 8 | 14 |
| 2011 | 10 | 8 | 15 |
| 2012 | 11 | 8 | 16 |
| 2013–2017 | 74 | 41 | 103 |

Defined Contribution Plans

The firm contributes to employer-sponsored U.S. and non-U.S. defined contribution plans. The firm's contribution to these plans was \$258 million, \$230 million and \$305 million for the years ended November 2007, November 2006 and November 2005, respectively.

NOTE 12

Employee Incentive Plans**Stock Incentive Plan**

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

The total number of shares of common stock that may be issued under the Amended SIP through 2008 may not exceed 250 million shares and, in each year thereafter, may not exceed 5% of the issued and outstanding shares of common stock, determined as of the last day of the immediately preceding year, increased by the number of shares available for awards in previous years but not covered by awards granted in such years. As of November 2007 and November 2006, 160.6 million and 180.0 million shares, respectively, were available for grant under the Amended SIP.

Other Compensation Arrangements

The firm has deferred compensation plans for eligible employees. In general, under the plans, participants are able to defer payment of a portion of their cash year-end compensation. During the deferral period, participants are able to nominally invest their deferrals in certain alternatives available under the plans. Generally, under current tax law, participants are not subject to income tax on amounts deferred or on any notional investment earnings until the returns are distributed, and the firm is not entitled to a corresponding tax deduction until the amounts are distributed. The firm has recognized compensation expense for the amounts deferred under these plans. As of November 2007 and November 2006, \$281 million and \$245 million, respectively, related to these plans was included in "Other liabilities and accrued expenses" in the consolidated statements of financial condition.

The firm has a discount stock program through which eligible senior executives may acquire restricted stock units at an effective 25% discount. The 25% discount is effected by an additional grant of restricted stock units equal to one-third of the number of restricted stock units purchased by qualifying participants. The purchased restricted stock units are 100% vested when granted, but the shares underlying them are not able to be sold or transferred (other than to satisfy tax obligations) before the third anniversary of the grant date. The shares underlying the restricted stock units that are granted in order to effect the 25% discount will generally vest in equal installments on the second and third anniversaries following the grant date and will not be transferable before the third anniversary of the grant date. Compensation expense related to these restricted stock units is recognized over the vesting period. The total value of restricted stock units granted in 2007 and 2006 in order to effect the 25% discount was \$66 million and \$72 million, respectively.

Restricted Stock Units

The firm issued restricted stock units to employees under the Amended SIP, primarily in connection with year-end compensation and acquisitions. Restricted stock units are valued based on the closing price of the underlying shares at the date of grant. Year-end restricted stock units generally vest as outlined in the applicable restricted stock unit agreements and deliver shortly after the third anniversary of the grant date. All employee restricted stock unit agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. Of the total restricted stock units outstanding as of November 2007 and November 2006, (i) 22.0 million

units and 26.4 million units, respectively, required future service as a condition to the delivery of the underlying shares of common stock and (ii) 51.6 million units and 38.9 million units, respectively, did not require future service. In all cases, delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. When delivering the underlying shares to employees, the firm generally issues new shares of common stock. The activity related to these restricted stock units is set forth below:

| | Restricted Stock Units Outstanding | | Weighted Average Grant-Date Fair Value of Restricted Stock Units Outstanding | |
|---|------------------------------------|----------------------------|--|----------------------------|
| | Future Service Required | No Future Service Required | Future Service Required | No Future Service Required |
| Outstanding, November 2006 ⁽¹⁾ | 26,380,372 | 38,918,141 | \$138.83 | \$138.22 |
| Granted ⁽²⁾⁽³⁾⁽⁴⁾ | 7,968,028 | 13,870,644 | 224.40 | 223.97 |
| Forfeited | (816,924) | (282,019) | 145.30 | 135.46 |
| Delivered ⁽⁵⁾ | — | (12,447,338) | — | 103.49 |
| Vested ⁽⁴⁾ | (11,506,129) | 11,506,129 | 116.95 | 116.95 |
| Outstanding, November 2007 | 22,025,347 | 51,565,557 | \$180.98 | \$164.94 |

⁽¹⁾ Includes restricted stock units granted to employees during the year ended November 2007 as part of compensation for 2006.

⁽²⁾ Includes restricted stock units granted to employees subsequent to November 2007 as part of compensation for 2007.

⁽³⁾ The weighted average grant-date fair value of restricted stock units granted during the years ended November 2007, November 2006 and November 2005 was \$224.13, \$196.99 and \$129.03, respectively.

⁽⁴⁾ The aggregate fair value of awards vested during the years ended November 2007, November 2006 and November 2005 was \$5.63 billion, \$4.40 billion and \$2.05 billion, respectively.

⁽⁵⁾ Includes restricted stock units that were cash settled.

Stock Options

Stock options granted to employees generally vest as outlined in the applicable stock option agreement and first become exercisable on or after the third anniversary of the grant date. Year-end stock options for 2007 and 2006 become exercisable in January 2011 and January 2010, respectively, and expire on November 24, 2017 and November 25, 2016, respectively. Shares received on exercise prior to January 2013 for year-end 2007 options and January 2011 for year-end 2006 options can not be sold, transferred or otherwise disposed of until January 2013 and January 2011, respectively. All employee stock option

agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. In general, all stock options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the Amended SIP and the applicable stock option agreement. The dilutive effect of the firm's outstanding stock options is included in "Average common shares outstanding—Diluted" on the consolidated statements of earnings.

The activity related to these stock options is set forth below:

| | Options Outstanding | Weighted Average Exercise Price | Aggregate Intrinsic Value (in millions) | Weighted Average Remaining Life (years) |
|---|---------------------|---------------------------------|---|---|
| Outstanding, November 2006 ⁽¹⁾ | 45,647,096 | \$ 93.12 | | |
| Granted ⁽²⁾ | 3,549,856 | 204.16 | | |
| Exercised | (9,918,538) | 79.54 | | |
| Forfeited | (48,785) | 75.08 | | |
| Outstanding, November 2007 | 39,229,629 | \$106.63 | \$4,708 | 5.05 |
| Exercisable, November 2007 | 29,613,029 | \$ 83.05 | \$4,252 | 3.75 |

⁽¹⁾Includes stock options granted to employees during the year ended November 2007 as part of compensation for 2006.

⁽²⁾Includes stock options granted to employees subsequent to November 2007 as part of compensation for 2007.

The total intrinsic value of options exercised during the years ended November 2007, November 2006 and November 2005 was \$1.32 billion, \$1.52 billion and \$766 million, respectively.

The options outstanding as of November 2007 are set forth below:

| Exercise Price | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (years) |
|----------------------------|---------------------------|---------------------------------|---|
| \$ 45.00–\$ 59.99 | 2,943,014 | \$ 52.98 | 1.50 |
| 60.00– 74.99 | — | — | — |
| 75.00– 89.99 | 13,537,137 | 81.03 | 3.94 |
| 90.00– 104.99 | 13,132,878 | 91.86 | 4.07 |
| 105.00– 119.99 | — | — | — |
| 120.00– 134.99 | 3,128,972 | 131.64 | 8.00 |
| 135.00– 194.99 | — | — | — |
| 195.00– 209.99 | 6,487,628 | 202.20 | 9.55 |
| Outstanding, November 2007 | 39,229,629 ⁽¹⁾ | | |

⁽¹⁾Includes stock options granted to employees subsequent to November 2007 as part of compensation for 2007.

Notes to Consolidated Financial Statements

The weighted average fair value of options granted for 2007, 2006 and 2005 was \$51.04, \$49.96 and \$32.91 per option, respectively. Fair value was estimated as of the grant date based on a Black-Scholes option-pricing model principally using the following weighted average assumptions:

| | Year Ended November | | |
|-------------------------|---------------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| Risk-free interest rate | 4.0% | 4.6% | 4.5% |
| Expected volatility | 35.0 | 27.5 | 30.0 |
| Dividend yield | 0.7 | 0.7 | 0.9 |
| Expected life | 7.5 years | 7.5 years | 7.5 years |

The common stock underlying the options granted in 2007, 2006 and 2005 is subject to transfer restrictions for a period of 2 years, 1 year and 1 year, respectively, from the date the options become exercisable. The value of the common stock underlying the options granted in 2007, 2006 and 2005 reflects a liquidity discount of 24.0%, 17.5% and 17.5%, respectively, as a result of these transfer restrictions. The liquidity discount was based on the firm's pre-determined written liquidity discount policies. The 7.5 years expected life of the options reflects the estimated impact of these sales restrictions on the life of the awards.

The following table sets forth share-based compensation and the related tax benefit:

| (in millions) | Year Ended November | | |
|---|---------------------|---------|---------|
| | 2007 | 2006 | 2005 |
| Share-based compensation | \$4,549 | \$3,669 | \$1,758 |
| Excess tax benefit related to options exercised | 469 | 542 | 268 |
| Excess tax benefit related to share-based compensation ⁽¹⁾ | 908 | 653 | 272 |

⁽¹⁾ Represents the tax benefit, recognized in additional paid-in capital, on stock options exercised and the delivery of common stock underlying restricted stock units.

As of November 2007, there was \$2.75 billion of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 2.15 years.

NOTE 13

Transactions with Affiliated Funds

The firm has formed numerous nonconsolidated investment funds with third-party investors. The firm generally acts as the investment manager for these funds and, as such, is entitled to receive management fees and, in certain cases, advisory fees, incentive fees or overrides from these funds. These fees amounted to \$3.62 billion, \$3.37 billion and \$2.08 billion for the years ended November 2007, November 2006 and November 2005, respectively. As of November 2007 and November 2006, the fees receivable from these funds were

\$596 million and \$362 million, respectively. Additionally, the firm may invest alongside the third-party investors in certain funds. The aggregate carrying value of the firm's interests in these funds was \$12.90 billion and \$3.94 billion as of November 2007 and November 2006, respectively. In the ordinary course of business, the firm may also engage in other activities with these funds, including, among others, securities lending, trade execution, trading, custody and acquisition and bridge financing. See Note 6 for the firm's commitments related to these funds.

NOTE 14
Income Taxes

The components of the net tax expense reflected in the consolidated statements of earnings are set forth below:

| (in millions) | Year Ended November | | |
|--------------------------------------|---------------------|----------|---------|
| | 2007 | 2006 | 2005 |
| Current taxes | | | |
| U.S. federal | \$2,934 | \$ 3,736 | \$1,504 |
| State and local | 388 | 627 | 213 |
| Non-U.S. | 2,554 | 2,165 | 1,380 |
| Total current tax expense | 5,876 | 6,528 | 3,097 |
| Deferred taxes | | | |
| U.S. federal | 118 | (635) | 3 |
| State and local | 100 | (262) | (4) |
| Non-U.S. | (89) | (608) | (449) |
| Total deferred tax (benefit)/expense | 129 | (1,505) | (450) |
| Net tax expense | \$6,005 | \$ 5,023 | \$2,647 |

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

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

| (in millions) | As of November | |
|------------------------------------|----------------|---------|
| | 2007 | 2006 |
| Deferred tax assets | | |
| Compensation and benefits | \$3,869 | \$2,763 |
| Other, net | 997 | 1,104 |
| | 4,866 | 3,867 |
| Valuation allowance ⁽¹⁾ | (112) | (81) |
| Total deferred tax assets | \$4,754 | \$3,786 |
| Deferred tax liabilities | | |
| Depreciation and amortization | \$1,208 | \$1,040 |
| Unrealized gains | 1,279 | 367 |
| Total deferred tax liabilities | \$2,487 | \$1,407 |

⁽¹⁾Relates primarily to the ability to utilize losses in various tax jurisdictions.

The firm permanently reinvests eligible earnings of certain foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated. As of November 2007, this policy resulted in an unrecognized net deferred tax liability of \$350 million attributable to reinvested earnings of \$4.97 billion.

During 2007, the valuation allowance was increased by \$31 million, primarily due to an increase in deferred tax assets relating to net operating losses considered more likely than not to expire unused. Net operating loss carryforwards were \$2.12 billion and \$1.78 billion as of November 2007 and November 2006, respectively.

Notes to Consolidated Financial Statements

The firm had federal net operating loss carryforwards, primarily resulting from acquisitions, of \$139 million and \$203 million as of November 2007 and November 2006, respectively. The firm recorded a related net deferred income tax asset of \$44 million and \$69 million as of November 2007 and November 2006, respectively. These carryforwards are subject to annual limitations on utilization and will begin to expire in 2011.

The firm had state and local net operating loss carryforwards, primarily resulting from acquisitions, of \$1.62 billion and \$1.52 billion as of November 2007 and November 2006, respectively. The firm recorded a related net deferred income tax asset of \$21 million and \$31 million as of November 2007 and November 2006, respectively. These carryforwards are subject to annual limitations on utilization and will begin to expire in 2012.

The firm had foreign net operating loss carryforwards of \$306 million and \$50 million as of November 2007 and November 2006, respectively. The firm recorded a related net deferred income tax asset of \$84 million and \$13 million as of November 2007 and November 2006, respectively. These carryforwards are subject to limitation on utilization and can be carried forward indefinitely.

The firm is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the firm has significant business operations, such as the United Kingdom, Japan, Korea and various states, such as New York. During fiscal 2007, the IRS substantially concluded its examination of fiscal years 2003 and 2004 and the firm does not expect that potential additional assessments from this examination will be material to its results of operations. The firm expects the IRS examination of the firm's 2005 and 2006 fiscal years will begin during 2008. Tax reserves have been established, which the firm believes are adequate in relation to the potential for additional assessments. The resolution of tax matters is not expected to have a material effect on the firm's financial condition but may be material to the firm's operating results for a particular period, depending, in part, upon the operating results for that period and the firm's effective tax rate for that period.

A reconciliation of the U.S. federal statutory income tax rate to the firm's effective income tax rate is set forth below:

| | Year Ended November | | |
|---|---------------------|--------------------|-------|
| | 2007 | 2006 | 2005 |
| U.S. federal statutory income tax rate | 35.0% | 35.0% | 35.0% |
| Increase related to state and local taxes, net of U.S. income tax effects | 1.8 | 1.6 | 1.6 |
| Tax credits | (0.5) | (0.6) | (1.6) |
| Foreign operations | (1.6) | (1.3) | (1.2) |
| Tax-exempt income, including dividends | (0.4) | (0.4) | (0.6) |
| Other | (0.2) | 0.2 ⁽¹⁾ | (1.2) |
| Effective income tax rate | 34.1% | 34.5% | 32.0% |

⁽¹⁾ Primarily includes the effect of audit settlements.

Tax benefits of approximately \$908 million in November 2007, \$653 million in November 2006 and \$272 million in November 2005, related to the delivery of common stock underlying restricted stock units and the exercise of options, were credited directly to "Additional paid-in capital" in the consolidated statements of financial condition and changes in shareholders' equity.

NOTE 15

Regulation

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

The firm's principal U.S. regulated subsidiaries include Goldman, Sachs & Co. (GS&Co.) and Goldman Sachs Execution & Clearing, L.P. (GSEC). GS&Co. and GSEC are registered U.S. broker-dealers and futures commission merchants subject to Rule 15c3-1 of the SEC and Rule 1.17 of the Commodity Futures Trading Commission, which specify uniform minimum net capital requirements, as defined, for their registrants, and also require that a significant part of the registrants' assets be kept in relatively liquid form. GS&Co. and GSEC have elected to compute their minimum capital requirements in accordance with the "Alternative Net Capital Requirement" as permitted by Rule 15c3-1. As of November 2007 and November 2006, GS&Co. and GSEC had net capital in excess of their minimum capital requirements. In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of November 2007 and November 2006, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

GS Bank USA, a wholly owned industrial bank, is regulated by the Federal Deposit Insurance Corporation and the State of Utah Department of Financial Institutions and is subject to minimum capital requirements. As of November 2007, GS Bank USA was in compliance with all regulatory capital requirements. Substantially all of the firm's bank deposits as of November 2007 consisted of U.S. dollar-denominated savings accounts at GS Bank USA. Savings accounts at GS Bank USA have no stated maturity and can be withdrawn upon short notice. The weighted average interest rates for savings deposits were 4.71% and 5.17% as of November 2007 and November 2006, respectively. The carrying value of savings deposits approximated fair value as of November 2007 and November 2006.

The firm has U.S. insurance subsidiaries that are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed. In addition, certain of the firm's insurance subsidiaries are regulated by the Bermuda Registrar of Companies. The firm's insurance subsidiaries were in compliance with all regulatory capital requirements as of November 2007 and November 2006.

The firm's principal non-U.S. regulated subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's regulated U.K. broker-dealer, is subject to the capital requirements of the U.K.'s Financial Services Authority. GSJCL, the firm's regulated Japanese broker-dealer, is subject to the capital requirements of Japan's Financial Services Agency. As of November 2007 and November 2006, GSI and GSJCL were in compliance with their local capital adequacy requirements. Certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of November 2007 and November 2006, these subsidiaries were in compliance with their local capital adequacy requirements.

The regulatory requirements referred to above restrict Group Inc.'s ability to withdraw capital from its regulated subsidiaries. As of November 2007, approximately \$18.10 billion of net assets of regulated subsidiaries were restricted as to the payment of dividends to Group Inc.

NOTE 16

Business Segments

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

Basis of Presentation

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

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

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

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

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

Segment Operating Results

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

| (in millions) | | As of or for the Year Ended November | | |
|--|-----------------------------------|--------------------------------------|-----------|-----------|
| | | 2007 | 2006 | 2005 |
| Investment Banking | Net revenues | \$ 7,555 | \$ 5,629 | \$ 3,671 |
| | Operating expenses | 4,985 | 4,062 | 3,258 |
| | Pre-tax earnings | \$ 2,570 | \$ 1,567 | \$ 413 |
| | Segment assets | \$ 5,526 | \$ 4,967 | \$ 4,869 |
| Trading and Principal Investments | Net revenues | \$ 31,226 | \$ 25,562 | \$ 16,818 |
| | Operating expenses | 17,998 | 14,962 | 10,600 |
| | Pre-tax earnings | \$ 13,228 | \$ 10,600 | \$ 6,218 |
| | Segment assets | \$ 744,647 | \$566,499 | \$505,536 |
| Asset Management and Securities Services | Net revenues | \$ 7,206 | \$ 6,474 | \$ 4,749 |
| | Operating expenses | 5,363 | 4,036 | 3,070 |
| | Pre-tax earnings | \$ 1,843 | \$ 2,438 | \$ 1,679 |
| | Segment assets | \$ 369,623 | \$266,735 | \$196,399 |
| Total | Net revenues ⁽¹⁾ | \$ 45,987 | \$ 37,665 | \$ 25,238 |
| | Operating expenses ⁽²⁾ | 28,383 | 23,105 | 16,965 |
| | Pre-tax earnings ⁽³⁾ | \$ 17,604 | \$ 14,560 | \$ 8,273 |
| | Total assets | \$1,119,796 | \$838,201 | \$706,804 |

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

| (in millions) | Year Ended November | | |
|--|---------------------|---------|---------|
| | 2007 | 2006 | 2005 |
| Investment Banking | \$ — | \$ 16 | \$ 72 |
| Trading and Principal Investments | 1,512 | 1,535 | 1,366 |
| Asset Management and Securities Services | 2,475 | 1,947 | 1,659 |
| Total net interest | \$3,987 | \$3,498 | \$3,097 |

⁽²⁾ Operating expenses include net provisions for a number of litigation and regulatory proceedings of \$37 million, \$45 million and \$37 million for the years ended November 2007, November 2006 and November 2005, respectively, that have not been allocated to the firm's segments.

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

| (in millions) | Year Ended November | | |
|--|---------------------|-------|-------|
| | 2007 | 2006 | 2005 |
| Investment Banking | \$ 137 | \$119 | \$143 |
| Trading and Principal Investments | 845 | 725 | 565 |
| Asset Management and Securities Services | 185 | 151 | 146 |
| Total depreciation and amortization | \$1,167 | \$995 | \$854 |

Geographic Information

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. Since a significant portion of the firm's activities require cross-border coordination in order to facilitate the needs of the firm's clients, the methodology for allocating the firm's profitability to geographic regions is dependent on the judgment of management.

Geographic results are generally allocated as follows:

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

The following table sets forth the total net revenues and pre-tax earnings of the firm and its consolidated subsidiaries by geographic region allocated on the methodology described above, as well as the percentage of total net revenues and total pre-tax earnings for each geographic region:

| (\$ in millions) | Year Ended November | | | | | |
|--------------------------|---------------------|------|----------|------|----------|------|
| | 2007 | | 2006 | | 2005 | |
| Net revenues | | | | | | |
| Americas ⁽¹⁾ | \$23,412 | 51% | \$20,361 | 54% | \$14,639 | 58% |
| EMEA ⁽²⁾ | 13,538 | 29 | 9,354 | 25 | 6,063 | 24 |
| Asia | 9,037 | 20 | 7,950 | 21 | 4,536 | 18 |
| Total net revenues | \$45,987 | 100% | \$37,665 | 100% | \$25,238 | 100% |
| Pre-tax earnings | | | | | | |
| Americas ⁽¹⁾ | \$ 7,673 | 43% | \$ 7,515 | 52% | \$ 4,977 | 60% |
| EMEA ⁽²⁾ | 5,458 | 31 | 3,075 | 21 | 1,457 | 17 |
| Asia | 4,510 | 26 | 4,015 | 27 | 1,876 | 23 |
| Corporate ⁽³⁾ | (37) | — | (45) | — | (37) | — |
| Total pre-tax earnings | \$17,604 | 100% | \$14,560 | 100% | \$ 8,273 | 100% |

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

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

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