



GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
PURSUANT to RULE 17a-5 of the
SECURITIES and EXCHANGE COMMISSION**

As of December 31, 2010

**200 WEST STREET
NEW YORK, NY 10282**



Report of Independent Auditors

To the Partners of Goldman Sachs Execution & Clearing, L.P.:

In our opinion, the accompanying consolidated statement of financial condition presents fairly, in all material respects, the financial position of Goldman Sachs Execution & Clearing, L.P. and its subsidiaries (the "Firm") at December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Firm's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 28, 2011

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

As of December 31, 2010

(in thousands)

Assets

Cash and cash equivalents	\$	38,857
Cash and securities segregated for regulatory and other purposes (includes \$2,160,403 at fair value)		2,994,665
Collateralized agreements:		
Securities borrowed		8,842,703
Financial instruments purchased under agreements to resell, at fair value		2,531,900
Receivables from brokers, dealers and clearing organizations		801,272
Receivables from customers and counterparties (includes \$26,118 at fair value)		6,747,120
Financial instruments owned, at fair value		5,466
Financial instruments owned and pledged as collateral, at fair value		28,209
Total financial instruments owned, at fair value		<u>33,675</u>
Other assets		169,655
Total assets	\$	<u><u>22,159,847</u></u>

Liabilities and Partners' Capital

Unsecured short-term borrowings	\$	2,384
Collateralized financings:		
Securities loaned		7,246,931
Financial instruments sold under agreements to repurchase, at fair value		2,091,214
Payables to brokers, dealers and clearing organizations		283,901
Payables to customers and counterparties		9,292,591
Financial instruments sold, but not yet purchased, at fair value		18,713
Other liabilities and accrued expenses		422,870
Total liabilities		<u>19,358,604</u>

Commitments, contingencies and guarantees

Subordinated borrowings		<u>1,680,000</u>
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Partners' capital		1,121,243
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Total liabilities and partners' capital	\$	<u><u>22,159,847</u></u>
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The accompanying notes are an integral part of this consolidated statement of financial condition.

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

Note 1. Description of Business

Goldman Sachs Execution & Clearing, L.P. (GSEC), a limited partnership, is a registered U.S. broker-dealer with the Securities and Exchange Commission (SEC), a member of the Financial Industry Regulatory Authority (FINRA), a registered futures commission merchant with the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA). GSEC, together with its consolidated subsidiaries (collectively, the Company), is a wholly owned subsidiary of SLK LLC, a limited liability company. SLK LLC is owned by Goldman Sachs Trade Management LLC, which is a wholly owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation. The Federal Reserve Board is the primary U.S. regulator of Group Inc., a financial holding company.

The Company provides a wide range of brokerage and investment services to a substantial and diversified client base. The Company's activities primarily consist of:

- **Market Making and Principal Investments.** The Company engages in floor-based and electronic market making as a Designated Market Maker (DMM) on U.S. equities exchanges in equity securities and options.
- **Execution and Clearance.** The Company facilitates and finances transactions with a diverse group of corporations, financial institutions, governments, hedge funds and individuals. It executes and clears customer transactions on major stock, options and futures exchanges worldwide.

Note 2. Basis of Presentation

This consolidated statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of GSEC and all other entities in which the Company has a controlling financial interest. Intercompany transactions and balances have been eliminated.

All references to 2010 unless specifically stated otherwise, refer to the Company's calendar year ended, or the date, as the context requires, December 31, 2010. Any reference to a future year refers to a calendar year ending on December 31 of that year.

Note 3. Significant Accounting Policies

The Company's significant accounting policies include when and how to measure the fair value of assets and liabilities, accounting for identifiable intangible assets, and when to consolidate an entity. See Notes 5 through 7 for policies on fair value measurements, and Note 10 for policies on identifiable intangible assets. All other significant accounting policies are either discussed below or included in the following footnotes:

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

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Consolidation

The Company consolidates entities in which the Company has a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity.

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

Variable Interest Entities (VIE). A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The Company has a controlling financial interest in a VIE when the Company has a variable interest or interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

Use of Estimates

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

Financial Instruments at Fair Value. Total financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value. In addition, the Company has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

Commissions and Fees. The Company earns “Commissions and fees” from executing and clearing client transactions on stock, options and futures markets. Commissions and fees are recognized on the day the trade is executed.

Transfers of Assets

Transfers of assets are accounted for as sales when the Company has relinquished control over the assets transferred. Assets or liabilities that arise from the Company’s continuing involvement with transferred assets are measured at fair value. For transfers of assets that are not accounted for as sales, the assets remain in “Total financial instruments owned, at fair value” and the transfer is accounted for as a collateralized financing. See Note 8 for further information about transfers of assets accounted for as collateralized financings.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally consist of collateralized receivables, primarily customer margin loans, related to client transactions. Certain of the Company’s receivables from customers and counterparties are accounted for at fair value under the fair value option. See Note 7 for further information about the fair values of these receivables.

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.

Cash and Cash Equivalents

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

Recent Accounting Developments

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

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(Continued)**

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

Total financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with U.S. GAAP. See Note 7 for further information about the fair value option. The table below presents the Company's total financial instruments owned, at fair value, including those pledged as collateral, and Financial instruments sold, but not yet purchased (in thousands):

	As of December 2010	
	Total Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Money market instruments	\$ 2,550	\$ -
Equities	31,125	18,713
Total	\$ 33,675	\$ 18,713

Note 5. Fair Value Measurements

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

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets.

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

The fair value hierarchy is as follows:

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

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

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

The fair value of certain level 2 and level 3 financial assets and financial liabilities may include valuation adjustments for counterparty and the Company's credit quality, transfer restrictions, large and/or concentrated positions, illiquidity and bid/offer inputs.

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(Continued)**

Financial Instruments by Level

The table below presents, by level within the fair value hierarchy, financial instruments owned and sold but not yet purchased, at fair value, and other financial assets and financial liabilities accounted for at fair value under the fair value option.

See Note 7 for the valuation methodologies and inputs for other financial assets and financial liabilities accounted for at fair value under the fair value option.

Financial Assets at Fair Value as of December 2010 (in thousands)				
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes	\$ 1,012,200 ¹	1,148,203 ²	-	\$ 2,160,403
Securities borrowed	-	8,842,703	-	8,842,703
Securities purchased under agreements to resell	-	2,531,900	-	2,531,900
Receivables from customers and counterparties	-	26,118	-	26,118
Total financial instruments owned	31,446	-	2,229 ³	33,675
Total	\$ 1,043,646	\$ 12,548,924	\$ 2,229	\$ 13,594,799

Financial Liabilities at Fair Value as of December 2010 (in thousands)				
	Level 1	Level 2	Level 3	Total
Securities loaned	\$ -	\$ 7,246,931	\$ -	\$ 7,246,931
Securities sold under agreements to repurchase, at fair value	-	2,091,214	-	2,091,214
Financial instruments sold, but not yet purchased, at fair value	18,713	-	-	18,713
Total	\$ 18,713	\$ 9,338,145	\$ -	\$ 9,356,858

1. Consists of money market instruments measured at fair value.

2. Consists of resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

3. Consists of non-publicly traded equity securities.

Note 6. Derivatives Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives, or they may be listed and traded on an exchange (exchange-traded). The Company does not trade or carry any OTC derivatives but enters into derivative transactions to facilitate client transactions.

Market-Making. As a market maker, the Company enters into listed derivative transactions with clients and other market participants to provide liquidity and to facilitate the transfer and hedging of risk. In this capacity, the Company typically acts as principal and is consequently required to commit capital to provide execution. As a market maker, it is essential to maintain an inventory of financial instruments sufficient to meet expected client and market demands.

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

Note 7. Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

The Company has elected to account for certain of its other financial assets and financial liabilities at fair value under the fair value option.

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

- reflect economic events in earnings on a timely basis;
- mitigate volatility in earnings from using different measurement attributes; and

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

- resale and repurchase agreements;
- securities borrowed and loaned consisting of the Company's financing activities;
- certain receivables from customers and counterparties, including certain margin loans

These financial assets and financial liabilities at fair value are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified as level 2 because the inputs are observable. Valuation adjustments may be made for counterparty and the Company's credit quality.

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

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are the amount and timing of expected future cash flows, interest rates and collateral funding spreads. See Note 8 for further information.

Receivables from customers and counterparties. The significant inputs to the valuation of certain receivables from customers and counterparties are commodity prices, interest rates and the amount and timing of expected future cash flows.

Note 8. Collateralized Agreements and Financings

Collateralized agreements are securities purchased under agreements to resell (resale agreements or reverse repurchase agreements) and securities borrowed. Collateralized financings are securities sold under agreements to repurchase (repurchase agreements) and securities loaned. The Company enters into these transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions, and finance certain Company activities.

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

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

The table below presents the carrying value of resale and repurchase agreements and securities borrowed and loaned transactions (in thousands):

	<u>As of December 2010</u>	
Securities borrowed	\$	8,842,703
Securities purchased under agreements to resell		2,531,900
Securities loaned		7,246,931
Securities sold under agreements to repurchase		2,091,214

Resale and Repurchase Agreements.

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

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

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

The Company receives financial instruments purchased under resale agreements, makes delivery of financial instruments sold under repurchase agreements, monitors the market value of these financial instruments on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the financial instruments, as appropriate. For resale agreements, the Company typically requires delivery of collateral with a fair value approximately equal to or greater than the carrying value of the relevant assets in the consolidated statement of financial condition.

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, "repos to maturity" are accounted for as sales. A repo to maturity is a transaction in which the Company transfers a security that has very little, if any, default risk under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the Company effectively no longer has a repurchase obligation and has relinquished control over the underlying security, and accordingly, accounts for the transaction as a sale. The Company had no such transactions outstanding as of December 2010.

The Company enters substantially all its financial instruments purchased under agreements to resell and financial instruments sold under agreements to repurchase transactions with Goldman, Sachs & Co. ("GSCO").

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

Securities Borrowed and Loaned Transactions

In a securities borrowed transactions, the Company borrows securities from counterparty in exchange for cash. When the Company returns the securities, the counterparty returns the cash. Interest is generally paid periodically over the life of the transaction.

In a securities loaned transaction, the Company lends securities to counterparty typically in exchange for cash or securities or a letter of credit. When the counterparty returns the securities, the Company returns the cash or securities posted as collateral. Interest is generally paid periodically over the life of the transaction.

The Company receives securities borrowed, makes delivery of securities loaned, monitors the market value of these securities on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the securities, as appropriate. For securities borrowed transactions, the Company typically requires delivery of collateral with a fair value approximately equal to or greater than the carrying value of the securities borrowed transaction.

Securities borrowed and loaned which is related to certain Company financing activities, are recorded at fair value under the fair value option.

Securities borrowed and loaned are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. The Company conducts substantially all its securities borrowed and loaned transactions with GSCO and Goldman Sachs International ("GSI").

As of December 2010, the Company had \$1.15 billion of securities received under resale agreements that were segregated to satisfy certain regulatory requirements. These securities are included in "Cash and securities segregated for regulatory and other purposes."

Collateral Received and Pledged

The Company receives financial instruments (e.g. U.S. government, federal agencies and corporate obligations, as well as equities) as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. The resale agreements and securities borrowed related transactions are primarily conducted with GSCO.

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

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

The table below presents financial instruments at fair value received as collateral that were available to be delivered or repledged and were delivered or repledged by the Company (in thousands):

	<u>As of December 2010</u>	
Collateral available to be delivered or repledged	\$	27,880,081
Collateral that was delivered or repledged		27,669,748

The Company also pledges certain financial assets in connection with repurchase agreements and securities lending agreements to counterparties who may or may not have the right to deliver or repledge them. The table below presents information about assets pledged by the Company (in thousands):

	<u>As of December 2010</u>	
Financial instruments owned pledged to counterparties that had the right to deliver or repledge	\$	28,209
Did not have the right to deliver or repledge		114

Note 9. Other Assets

Other assets are generally less liquid, nonfinancial assets. The table below presents other assets by type (in thousands):

	<u>As of December 2010</u>	
Property, leasehold improvements and equipment	\$	2,138
Identifiable intangible assets ¹		76,000
Deferred tax assets ²		48,061
Exchange memberships		19,362
Other		24,094
Total	\$	169,655

¹. See Note 10 for further information about identifiable intangible assets.

². See Note 19 for further information about income taxes.

Property, Leasehold Improvements and Equipment

All Property, leasehold improvements and equipment that the Company uses are in connection with its operations.

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.

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. The Company's policy for impairment testing of property, leasehold improvements and equipment is the same as is used for identifiable intangible assets with finite lives. See Note 10 for further information.

Note 10. Identifiable Intangible Assets

The table below presents the gross carrying amount, accumulated amortization and net carrying amount of identifiable intangible assets, which are included in "Other Assets" (in thousands):

		<u>As of December 2010</u>
NYSE DMM rights	Gross carrying amount	\$ 319,564
	Accumulated amortization	<u>(243,564)</u>
	Net carrying amount	<u>\$ 76,000</u>

Identifiable intangible assets, which consist of New York Stock Exchange (NYSE) DMM rights are considered to have finite lives and are amortized over their estimated lives. The weighted average remaining life of the Company's identifiable intangibles is approximately 11 years.

Identifiable intangible assets are tested for recoverability whenever events or changes in circumstances indicate that an asset's or asset group's carrying value may not be recoverable.

If a recoverability test is necessary, the carrying value of an asset or asset group is compared to the total of the undiscounted cash flows expected to be received over the remaining useful life and from the disposition of the asset or asset group.

- If the total of the undiscounted cash flows exceeds the carrying value, the asset or asset group is not impaired.
- If the total of the undiscounted cash flows is less than the carrying value, the asset or asset group is not fully recoverable and an impairment loss is recognized as the difference between the carrying amount of the asset or asset group and its estimated fair value.

During the fourth quarter of 2010, as a result of continuing weak operating results in the Company's NYSE DMM business, the Company tested its NYSE DMM rights for impairment in accordance with ASC 360. Because the carrying value of the Company's NYSE DMM rights exceeded the projected undiscounted cash flows over the estimated remaining useful life of the Company's NYSE DMM rights, the Company determined that the rights were impaired. The Company estimated this fair value, which is a level 3 measurement, using a relative value analysis which incorporated a comparison to another DMM portfolio that was transacted between third parties.

Note 11. Short-Term Borrowings

The Company obtains unsecured short-term borrowings primarily from Group Inc. at floating rates of interest, which are based on prevailing market rates. As of December 2010, these borrowings were \$2.38 million. The Company has a third party line of credit for \$1.5 billion. This is a secured facility with the Company pledging collateral to the third party. At December 31, 2010, the Company had no outstanding third party loan balance. The carrying value of these short-term obligations approximates fair value due to their short-term nature.

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

Note 12. Subordinated Borrowings

Subordinated borrowings are obtained from Group Inc. As of December 2010, outstanding subordinated borrowings, which mature in October 2011, bear interest at floating rates and total \$1.68 billion. The borrowing agreement contains an automatic rollover provision, whereby the maturity date will be extended an additional year, provided the borrower does not give notice of repayment on or before the day seven months preceding the then in effect maturity date. The Company has not given notice of repayment as of February 28, 2011. Amounts borrowed under this subordinated loan agreement bear interest at a rate of LIBOR plus .75% per annum. The carrying value of these borrowings approximates fair value due to the floating rates. The subordinated borrowings are available in computing net capital under the SEC's uniform net capital rule 15c3-1. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

Note 13. Other Liabilities and Accrued Expenses

The table below presents other liabilities and accrued expenses by type (in thousands):

	<u>As of December 2010</u>	
Compensation and benefits	\$	54,091
Income tax related liabilities ¹		96,373
Accrued expenses and other payables ²		272,406
Total	\$	422,870

¹. See Note 19 for further information about income taxes.

². Includes 2009 current income taxes due to GS Group Inc. to be settled in January 2011.

Note 14. Commitments, Contingencies and Guarantees

Leases

The Company has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2014. 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 thousands):

	<u>As of December 2010</u>	
2011	\$	2,566
2012		2,465
2013		1,548
2014		1,370
Total	\$	7,949

Contingencies

The Company 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 Company's financial condition.

GOLDMAN SACHS EXECUTION & CLEARING, L.P. and SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

Guarantees

The Company, 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 Company provides other financial guarantees of the obligations of third parties (e.g., standby letters of credit and other guarantees to enable clients to complete transactions and 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.

Indemnities and Guarantees of Service Providers. In the ordinary course of business, the Company 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 Company or its affiliates.

The Company 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 Company is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the Company 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 Company agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The Company'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 Company on behalf of the client.

The Company is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the Company will have to make any material payments under these arrangements and no material liability related to these guarantees and indemnifications has been recognized in the consolidated statement of financial condition as of December 2010.

Note 15. Net Capital Requirements

GSEC is a registered U.S. broker-dealer and futures commission merchant 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. GSEC has elected to compute net capital in accordance with the "Alternate Net Capital Requirement" as permitted by Rule 15c3-1. As of December 2010, GSEC had regulatory net capital, as defined, of \$1.96 billion which exceeded the minimum net capital requirement of \$132.93 million by \$1.83 billion.

Spear Leeds & Kellogg Specialists, LLC (SLKS), a subsidiary of GSEC, is subject to Rule 15c3-1, which was in compliance as of December 2010. This subsidiary of GSEC is also subject to additional regulatory requirements of exchanges of which it is a member. As of December 2010, these requirements were greater than the minimum requirements under Rule 15c3-1. As of December 2010, this entity was in compliance with the applicable exchange requirements. GSEC's net capital includes a reduction for the capital invested in each subsidiary to satisfy any applicable requirements.

As of December 2010, GSEC made a computation related to the reserve requirement for Proprietary Accounts of Introducing Brokers ("PAIB"). The reserve amount and value of securities held on deposit in the Reserve Bank account was \$18.07 million.

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**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(Continued)**

Note 16. Related Party Transactions

The Company enters into transactions with Group Inc. and affiliates in the normal course of business as part of its market making, financing and general operations. Amounts outstanding to/from Group Inc. and affiliates are presented in the table below (in thousands):

		<u>As of December 2010</u>
<u>Assets</u>		
Cash and securities segregated for regulatory and other purposes	\$	1,148,203
Collateralized agreements:		
Securities borrowed		8,842,703
Securities purchased under agreements to resell, at fair value		2,531,900
Receivables from brokers, dealers and clearing organizations		568,026
Other assets		2,763
<u>Liabilities</u>		
Unsecured short-term borrowings	\$	2,384
Collateralized financings:		
Securities loaned		7,246,931
Securities sold under agreements to repurchase, at fair value		2,091,214
Payables to brokers, dealers and clearing organizations		224,061
Other liabilities and accrued expenses ¹		170,043
Subordinated borrowings		1,680,000

¹ Includes 2009 current income taxes due to GS Group Inc. to be settled in January 2011.

Note 17. Employee Benefit Plans

The Company's employees participate in various Group Inc. sponsored pension plans and certain other postretirement benefit plans, primarily healthcare and life insurance. Group Inc. also provides certain benefits to former or inactive employees prior to retirement.

Defined Benefit Pension Plans and Postretirement Plans

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

Defined Contribution Plans

The Company contributes to a Group Inc. employer-sponsored U.S. defined contribution plan.

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NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Continued)

Note 18. Employee Incentive Plans

The Company participates in the share-based compensation plans of Group Inc. The cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Share-based employee awards that require future service are amortized over the relevant service period. Group Inc. pays cash dividend equivalents on outstanding RSUs.

Stock Incentive Plan

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

Restricted Stock Units

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

Stock Options

Stock options generally vest as outlined in the applicable stock option agreement. Options granted in February 2010 will generally become exercisable in one third installments in January 2011, January 2012 and January 2013 and will expire in February 2014. Employee stock option agreements provide that vesting is accelerated in certain circumstances, such as on retirement, death and extended absence. In general, options granted prior to February 2010 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 SIP and the applicable stock option agreement.

Note 19: Income Taxes

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

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**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(Continued)**

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively. See Notes 9 and 13 for further information.

The table below presents the significant components of deferred tax assets and liabilities (in thousands):

	<u>As of December 2010</u>	
Deferred tax assets		
Compensation and benefits	\$	17,426
Depreciation and amortization		25,106
Legal Reserves		7,093
Total deferred tax assets	<u>\$</u>	<u>49,625</u>
Deferred tax liabilities		
Unrealized gains	\$	1,149
Other, net		415
Total deferred tax liabilities	<u>\$</u>	<u>1,564</u>

No valuation allowance was required and there was no change in the valuation allowance during the year. The Company recognizes tax positions in the financial statement only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the financial statement. As of December 31, 2010, the Company did not record a liability related to accounting for uncertainty in income taxes.

Regulatory Tax Examinations

The Company is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the Company has significant business operations such as New York State and City. All years subsequent and including 2005 for U.S. Federal and 2004 for New York State and City remain open to examination by the taxing authorities. The Company believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

Note 20. Credit Concentrations

Credit concentrations may arise from market making, client facilitation, lending and collateralized transactions and may be impacted by changes in economic, industry or political factors. The Company seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the Company's activities expose it to many different industries and counterparties, the Company routinely executes a high volume of transactions with asset managers, investment funds, commercial

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**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
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banks, brokers and dealers, clearing houses and exchanges which results in significant credit concentrations.

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

As of December 2010, the Company did not have credit exposure to any counterparty, except for related parties, that exceeded 2% of the Company's total assets.

Note 21. Subsequent Events

Management has evaluated whether any events or transactions occurred subsequent to the date of the statement of financial condition and through February 28, 2011 and determined that there were no material events or transactions that would require recognition or disclosure in the statement of financial condition.