GOLDMAN SACHS GROUP INC
Form 10-Q
August 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from to

Commission File Number: 001-14965

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

Delaware	**13-4019460**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
200 West Street, New York, NY	**10282**
(Address of principal executive offices)	**(Zip Code)**

(212) 902-1000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of July 23, 2010, there were 515,616,486 shares of the registrant s common stock outstanding.

THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE FISCAL QUARTER ENDED JUNE 30, 2010

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended June		Six Months Ended June	
	2010	**2009**	**2010**	**2009**
	(in millions, except per share amounts)			
Revenues				
Investment banking	$ 917	$ 1,440	$ 2,101	$ 2,263
Trading and principal investments	5,292	9,322	14,487	15,028
Asset management and securities services	1,013	957	1,991	1,946
Total non-interest revenues	7,222	11,719	18,579	19,237
Interest income	3,302	3,470	6,303	7,832
Interest expense	1,683	1,428	3,266	3,883
Net interest income	1,619	2,042	3,037	3,949
Net revenues, including net interest income	8,841	13,761	21,616	23,186
Operating expenses				
Compensation and benefits	3,802	6,649	9,295	11,361
U.K. bank payroll tax	600		600	
Brokerage, clearing, exchange and distribution fees	622	574	1,184	1,110
Market development	116	82	226	150
Communications and technology	186	173	362	346
Depreciation and amortization	437	426	809	975
Occupancy	274	242	530	483
Professional fees	227	145	409	280
Other expenses	1,129	441	1,594	823
Total non-compensation expenses	2,991	2,083	5,114	4,167
Total operating expenses	7,393	8,732	15,009	15,528

Pre-tax earnings	1,448	5,029	6,607	7,658
Provision for taxes	835	1,594	2,538	2,409
Net earnings	613	3,435	4,069	5,249
Preferred stock dividends	160	717	320	872
Net earnings applicable to common shareholders	$ 453	$ 2,718	$ 3,749	$ 4,377
Earnings per common share				
Basic	$ 0.82	$ 5.27	$ 6.87	$ 8.81
Diluted	0.78	4.93	6.41	8.42
Dividends declared per common share	$ 0.35	$ 0.35	$ 0.70	$ 0.35
Average common shares outstanding				
Basic	539.8	514.1	542.9	495.7
Diluted	580.4	551.0	585.2	520.1

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

	As of	
	June 2010	**December 2009**
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	$ 32,601	$ 38,291
Cash and securities segregated for regulatory and other purposes (includes $42,532 and $18,853 at fair value as of June 2010 and December 2009, respectively)	56,414	36,663
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes $169,280 and $144,279 at fair value as of June 2010 and December 2009, respectively)	169,280	144,279
Securities borrowed (includes $64,856 and $66,329 at fair value as of June 2010 and December 2009, respectively)	190,079	189,939
Receivables from brokers, dealers and clearing organizations	13,485	12,597
Receivables from customers and counterparties (includes $2,734 and $1,925 at fair value as of June 2010 and December 2009, respectively)	57,261	55,303
Trading assets, at fair value (includes $35,643 and $31,485 pledged as collateral as of June 2010 and December 2009, respectively)	334,868	342,402
Other assets	29,200	29,468
Total assets	$ 883,188	$ 848,942
Liabilities and shareholders equity		
Deposits (includes $2,127 and $1,947 at fair value as of June 2010 and December 2009, respectively)	$ 37,024	$ 39,418
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	149,908	128,360
Securities loaned (includes $1,139 and $6,194 at fair value as of June 2010 and December 2009, respectively)	11,052	15,207
Other secured financings (includes $15,887 and $15,228 at fair value as of June 2010 and December 2009, respectively)	25,834	24,134
Payables to brokers, dealers and clearing organizations	4,745	5,242
Payables to customers and counterparties	185,531	180,392
Trading liabilities, at fair value	147,170	129,019
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes $19,509 and $18,403 at fair value as of June 2010 and December 2009, respectively)	39,123	37,516
Unsecured long-term borrowings (includes $20,241 and $21,392 at fair value as of June 2010 and December 2009, respectively)	178,582	185,085
	30,400	33,855

Other liabilities and accrued expenses (includes $2,992 and $2,054 at fair value as of June 2010 and December 2009, respectively)		
Total liabilities	809,369	778,228
Commitments, contingencies and guarantees		
Shareholders equity		
Preferred stock, par value $0.01 per share; aggregate liquidation preference of $8,100 as of both June 2010 and December 2009	6,957	6,957
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 766,674,337 and 753,412,247 shares issued as of June 2010 and December 2009, respectively, and 515,486,866 and 515,113,890 shares outstanding as of June 2010 and December 2009, respectively	8	8
Restricted stock units and employee stock options	6,362	6,245
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	41,597	39,770
Retained earnings	53,599	50,252
Accumulated other comprehensive loss	(318)	(362)
Stock held in treasury, at cost, par value $0.01 per share; 251,187,473 and 238,298,357 shares as of June 2010 and December 2009, respectively	(34,386)	(32,156)
Total shareholders equity	73,819	70,714
Total liabilities and shareholders equity	$ 883,188	$ 848,942

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)

	Six Months Ended June 2010	Year Ended December 2009
	(in millions)	
Preferred stock		
Balance, beginning of year	$ 6,957	$ 16,483
Accretion		48
Repurchased		(9,574)
Balance, end of period	6,957	6,957
Common stock		
Balance, beginning of year	8	7
Issued		1
Balance, end of period	8	8
Restricted stock units and employee stock options		
Balance, beginning of year	6,245	9,463
Issuance and amortization of restricted stock units and employee stock options	2,643	2,064
Delivery of common stock underlying restricted stock units	(2,457)	(5,206)
Forfeiture of restricted stock units and employee stock options	(64)	(73)
Exercise of employee stock options	(5)	(3)
Balance, end of period	6,362	6,245
Additional paid-in capital		
Balance, beginning of year	39,770	31,070
Issuance of common stock		5,750
Repurchase of common stock warrants		(1,100)
Delivery of common stock underlying restricted stock units and proceeds from the exercise of employee stock options	2,672	5,708
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(962)	(863)
Excess net tax benefit/(provision) related to share-based compensation	118	(793)
Cash settlement of share-based compensation	(1)	(2)
Balance, end of period	41,597	39,770
Retained earnings		
Balance, beginning of year	50,252	38,579
Net earnings	4,069	13,385
Dividends and dividend equivalents declared on common stock and restricted stock units	(402)	(588)
Dividends declared on preferred stock	(320)	(1,076)
Preferred stock accretion		(48)

Balance, end of period	53,599	50,252
Accumulated other comprehensive income/(loss)		
Balance, beginning of year	(362)	(372)
Currency translation adjustment, net of tax	(14)	(70)
Pension and postretirement liability adjustments, net of tax	11	(17)
Net unrealized gains on available-for-sale securities, net of tax	47	97
Balance, end of period	(318)	(362)
Stock held in treasury, at cost		
Balance, beginning of year	(32,156)	(32,176)
Repurchased	(2,269)	(2) [1]
Reissued	39	22
Balance, end of period	(34,386)	(32,156)
Total shareholders equity	$ 73,819	$ 70,714

(1) Relates primarily to repurchases of common stock by a broker-dealer subsidiary to facilitate customer transactions in the ordinary course of business and shares withheld to satisfy withholding tax requirements.

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 2010	2009
	(in millions)	
Cash flows from operating activities		
Net earnings	$ 4,069	$ 5,249
Non-cash items included in net earnings		
Depreciation and amortization	815	1,176
Share-based compensation	2,594	907
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	(19,748)	58,895
Net receivables from brokers, dealers and clearing organizations	(1,336)	2,715
Net payables to customers and counterparties	3,263	(37,786)
Securities borrowed, net of securities loaned	(4,296)	(16,490)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	(3,452)	(136,246)
Trading assets, at fair value	16,823	172,389
Trading liabilities, at fair value	18,145	(38,731)
Other, net	(14,428)	3,942
Net cash provided by operating activities	2,449	16,020
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(452)	(653)
Proceeds from sales of property, leasehold improvements and equipment	49	50
Business acquisitions, net of cash acquired	(753)	(208)
Proceeds from sales of investments	445	140
Purchase of available-for-sale securities	(1,248)	(1,904)
Proceeds from sales of available-for-sale securities	1,269	1,803
Net cash used for investing activities	(690)	(772)
Cash flows from financing activities		
Unsecured short-term borrowings, net	204	(10,965)
Other secured financings (short-term), net	1,392	(6,531)
Proceeds from issuance of other secured financings (long-term)	1,752	3,400
Repayment of other secured financings (long-term), including the current portion	(2,528)	(2,850)
Proceeds from issuance of unsecured long-term borrowings	9,518	20,875
Repayment of unsecured long-term borrowings, including the current portion	(13,458)	(16,805)
Preferred stock repurchased		(9,574)
Derivative contracts with a financing element, net	536	1,815
Deposits, net	(2,394)	9,327
Common stock repurchased	(2,269)	(2)
	(722)	(1,495)

Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units		
Proceeds from issuance of common stock, including stock option exercises	250	5,893
Excess tax benefit related to share-based compensation	271	38
Cash settlement of share-based compensation	(1)	(2)
Net cash used for financing activities	(7,449)	(6,876)
Net increase/(decrease) in cash and cash equivalents	(5,690)	8,372
Cash and cash equivalents, beginning of year	38,291	13,805
Cash and cash equivalents, end of period	$ 32,601	$ 22,177

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were $3.75 billion and $4.58 billion during the six months ended June 2010 and June 2009, respectively.

Cash payments for income taxes, net of refunds, were $2.77 billion and $1.81 billion during the six months ended June 2010 and June 2009, respectively.

Non-cash activities:
The firm assumed $90 million and $16 million of debt in connection with business acquisitions during the six months ended June 2010 and June 2009, respectively. In addition, in the first quarter of 2010, the firm recorded an increase of approximately $3 billion in both assets (primarily trading assets, at fair value) and liabilities (primarily unsecured short-term borrowings and other liabilities) upon adoption of Accounting Standards Update (ASU) No. 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June		Six Months Ended June	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Net earnings	$ 613	$ 3,435	$ 4,069	$ 5,249
Currency translation adjustment, net of tax	(10)	(54)	(14)	(29)
Pension and postretirement liability adjustments, net of tax	5	8	11	17
Net unrealized gains on available-for-sale securities, net of tax	43	53	47	34
Comprehensive income	$ 651	$ 3,442	$ 4,113	$ 5,271

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of Business

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers around the world.

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 through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. The firm also takes proprietary positions on certain of these products. In addition, the firm engages in market-making activities on equities and options exchanges, and the firm clears client transactions on major stock, options and futures exchanges worldwide. In connection with the firm s 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 and wealth advisory services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse group of institutions and individuals worldwide and provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

Note 2. Significant Accounting Policies

Basis of Presentation

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

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

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

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

interest in a voting interest 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 provides the enterprise with (i) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The firm determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers: (i) the VIE s purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders, (ii) the VIE s capital structure, (iii) the terms between the VIE and its variable interest holders and other parties involved with the VIE, (iv) which variable interest holders have the power to direct the activities of the VIE that most significantly impact the VIE s economic performance, (v) which variable interest holders have the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE and (vi) related party relationships. The firm reassesses its initial evaluation of an entity as a VIE upon the occurrence of certain reconsideration events. The firm reassesses its determination of whether the firm is the primary beneficiary of a VIE upon changes in facts and circumstances that could potentially alter the firm s assessment. See Recent Accounting Developments below for further information regarding accounting for VIEs.

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Equity-Method Investments. When the firm does not have a controlling financial interest in an entity but exerts significant influence over the entity s operating and financial policies (generally defined as owning a voting interest of 20% to 50%) and has an investment in common stock or in-substance common stock, the firm accounts for its investment either under the equity method of accounting or at fair value pursuant to the fair value option available under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825-10. In general, the firm accounts for investments acquired subsequent to November 24, 2006, when the fair value option became available, at fair value. In certain cases, the firm applies the equity method of accounting to new investments that are strategic in nature or closely related to the firm s principal business activities, where the firm has a significant degree of involvement in the cash flows or operations of the investee, or where cost-benefit considerations are less significant. See Revenue Recognition Other Financial Assets and Financial Liabilities at Fair Value below for a discussion of the firm s application of the fair value option.

Other. If the firm does not consolidate an entity or apply the equity method of accounting, the firm accounts for its investment at fair value. 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. As a result, the firm does not consolidate these funds. Investments in these funds are included in Trading assets, at fair value in the condensed consolidated statements of financial condition.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm s Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The condensed consolidated financial information as of December 31, 2009 has been derived from audited consolidated financial statements not included herein.

These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

All references to June 2010 and June 2009, unless specifically stated otherwise, refer to the firm s fiscal periods ended, or the dates, as the context requires, June 30, 2010 and June 26, 2009, respectively. Beginning with the fourth quarter of fiscal 2009, the firm changed its fiscal year-end from the last Friday of December to December 31. All references to December 2009, unless specifically stated otherwise, refer to the firm s fiscal year ended, or the date, as the context requires, December 31, 2009. All references to 2010, unless specifically stated otherwise, refer to the firm s year ending, or the date, as the context requires, December 31, 2010. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Use of Estimates

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

Revenue Recognition

Investment Banking

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

Trading Assets and Trading Liabilities

Substantially all trading assets and trading liabilities are reflected in the condensed consolidated statements of financial condition at fair value. Related gains or losses are generally recognized in Trading and principal investments in the condensed consolidated statements of earnings.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Other Financial Assets and Financial Liabilities at Fair Value

In addition to trading assets, at fair value and trading liabilities, at fair value, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value under ASC 815-15 and 825-10 (i.e., the fair value option). The primary reasons for electing the fair value option are to reflect economic events in earnings on a timely basis, to mitigate volatility in earnings from using different measurement attributes and to address simplification and cost-benefit considerations.

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

- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;
- certain other secured financings, primarily transfers of financial assets accounted for as financings rather than sales, debt raised through the firm s William Street credit extension program and certain other nonrecourse financings;
- certain unsecured long-term borrowings, including prepaid physical commodity transactions and certain hybrid financial instruments;
- 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;
- certain deposits issued by the firm s bank subsidiaries, as well as securities held by Goldman Sachs Bank USA (GS Bank USA);
- certain receivables from customers and counterparties, including certain margin loans, transfers of financial assets accounted for as secured loans rather than purchases and prepaid variable share forwards;
- certain insurance and reinsurance contracts and certain guarantees;
- certain subordinated liabilities issued by consolidated VIEs; and
- in general, investments acquired after November 24, 2006, when the fair value option became available, where the firm has significant influence over the investee and would otherwise apply the equity method of accounting.

Fair Value Measurements

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

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

	Basis of Fair Value Measurement
Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Transfers between levels and sales are recognized at the beginning of the reporting period in which they occur.

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

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

Trading Assets, at Fair Value and Trading Liabilities, at Fair Value

Level 1 and level 2 trading assets, at fair value and trading liabilities, at fair value. In determining fair value, the firm separates trading assets, at fair value and trading liabilities, at fair value into two categories: cash instruments and derivative contracts.

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

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

The types of instruments that trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include commercial paper, certificates of deposit, time deposits, most government agency obligations, most corporate debt securities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, less liquid publicly listed equities, certain state and municipal obligations and certain money market

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

instruments and loan commitments. These instruments are generally classified within level 2 of the fair value hierarchy. For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on market evidence where available.

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

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

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, calibration to market-clearing transactions, broker or dealer quotations, or other alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The firm generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, voluntary and involuntary prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model inputs can generally be verified and model selection does not involve significant management judgment. OTC derivatives are classified within level 2 of the fair value hierarchy when all of the significant inputs are corroborated by market evidence. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on market evidence where available.

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

Equities and convertible debentures. For private equity investments, recent third-party investments or pending transactions are considered to be the best evidence for any change in

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fair value. In the absence of such evidence, valuations are based on one or more of the following methodologies, as appropriate and available: transactions in similar instruments, discounted cash flow techniques, third-party independent appraisals, valuation multiples and public comparables. Such evidence includes pending reorganizations (e.g., merger proposals, tender offers or debt restructurings), and significant changes in financial metrics (e.g., operating results as compared to previous projections, industry multiples, credit ratings and balance sheet ratios). Real estate fund investments are carried at net asset value per share. The underlying investments in the funds are generally valued using discounted cash flow techniques, for which the significant inputs are the amount and timing of expected future cash flows, capitalization rates and valuation multiples.

Bank loans and bridge loans, Corporate debt securities, State and municipal obligations and Other debt obligations. Valuations are generally based on discounted cash flow techniques, for which the significant inputs are the amount and timing of expected future cash flows, market yields and recovery assumptions. The significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to credit default swaps that reference the same underlying credit risk and to other debt instruments for the same issuer for which observable prices or broker quotes are available.

Loans and securities backed by commercial real estate. Loans and securities backed by commercial real estate are collateralized by specific assets and may be tranched into varying levels of subordination. Due to the nature of these instruments, valuation techniques vary by instrument, but are generally based on relative value analyses, discounted cash flow techniques or a combination thereof. Significant inputs for these valuations include transactions in both the underlying collateral and instruments with the same or substantially the same underlying collateral, credit default swap prices, current levels and trends of market indices (such as the CMBX), market yields and other factors (such as the operating income generated by the underlying collateral) which are used in determining the amount and timing of expected future cash flows.

Loans and securities backed by residential real estate. Valuations are based on both proprietary and industry recognized models (including Intex and Bloomberg), and discounted cash flow techniques. The most significant inputs to the valuation of these instruments are the rates and timing of delinquencies, the rates and timing of prepayments, and default and loss expectations, which are driven in part by housing prices. The significant inputs are determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles, including relevant indices such as the ABX.

Loan portfolios. Loan portfolios are acquired portfolios of distressed loans, primarily backed by commercial and residential real estate collateral. Valuations are based on discounted cash flow techniques, for which the significant inputs are the amount and timing of expected future cash flows and market yields. The significant inputs are determined based on relative value analyses which incorporate comparisons to recent auction data for other similar loan portfolios.

Derivative contracts. Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. The valuations of these less liquid OTC derivatives are typically based on level 1 and/or level 2 inputs that can be observed in the market, as well as unobservable level 3 inputs. Unobservable inputs typically include certain correlations as well as credit spreads, equity volatilities, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. When unobservable inputs to a valuation

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model are significant to the fair value measurement of an instrument, the instrument is classified within level 3 of the fair value hierarchy. Subsequent to initial recognition, the firm updates the level 1 and level 2 inputs to reflect observable market changes with resulting gains and losses reflected within level 3. Level 3 inputs are only changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other empirical market data. In circumstances where the firm cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

Other Financial Assets and Financial Liabilities at Fair Value

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

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned within Trading and Principal Investments (which are related to the firm s matched book and certain firm financing activities) are the amount and timing of expected future cash flows, interest rates and collateral funding spreads.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value, including transfers of financial assets accounted for as financings rather than sales, debt raised through the firm s William Street credit extension program and certain other nonrecourse financings, are the amount and timing of expected future cash flows, interest rates, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market yields and recovery assumptions), the frequency of additional collateral calls and the credit spreads of the firm.

Unsecured short-term and long-term borrowings. The significant inputs to the valuation of certain short-term and long-term borrowings at fair value, including all promissory notes and commercial paper, certain hybrid financial instruments and prepaid physical commodity transactions, are the amount and timing of expected future cash flows, interest rates, the credit spreads of the firm, as well as commodity prices in the case of prepaid physical commodity transactions and, for certain hybrid financial instruments, equity prices, inflation rates and index levels.

Receivables from customers and counterparties. The significant inputs to the valuation of certain receivables from customers and counterparties, including certain margin loans, transfers of financial assets accounted for as secured loans rather than purchases and prepaid variable share forwards, are interest rates and the amount and timing of expected future cash flows.

Insurance and reinsurance contracts. Insurance and reinsurance contracts at fair value are included in Receivables from customers and counterparties and Other liabilities and accrued expenses in the firm s condensed consolidated statements of financial condition. These contracts are valued using market transactions and other market evidence where possible, including market-based inputs to models, calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant level 2 inputs typically include interest rates and inflation risk. Significant level 3 inputs typically include mortality or funding

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benefit assumptions. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified within level 3 of the fair value hierarchy.

Deposits. The significant inputs to the valuation of deposits are interest rates.

Collateralized Agreements and Financings

Collateralized agreements consist of resale agreements and securities borrowed. For these agreements, the firm requires delivery of collateral with a fair value approximately equal to the carrying value of the relevant assets in the condensed consolidated statements of financial condition. Collateralized financings consist of repurchase agreements, securities loaned and other secured financings. Interest on collateralized agreements and collateralized financings is recognized in Interest income and Interest expense, respectively, in the condensed consolidated statements of earnings over the life of the transaction. Collateralized agreements and financings are presented on a net-by-counterparty basis when a right of setoff exists.

Resale and Repurchase Agreements. Securities purchased under agreements to resell and securities sold under agreements to repurchase, principally U.S. government, federal agency and investment-grade sovereign obligations, represent collateralized financing transactions. The firm receives securities purchased under agreements to resell, makes delivery of securities sold under agreements to repurchase, monitors the market value of these securities on a daily basis and delivers or obtains additional collateral as appropriate. As noted above, resale and repurchase agreements are carried in the condensed consolidated statements of financial condition at fair value under the fair value option.

Securities Borrowed and Loaned. Securities borrowed and loaned are generally collateralized by cash, securities or letters of credit. The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate. Securities borrowed and loaned 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 generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. As noted above, 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 under the fair value option.

Other Secured Financings. In addition to repurchase agreements and securities loaned, the firm funds assets through the use of other secured financing arrangements and pledges financial instruments and other assets as collateral in these transactions. As noted above, the firm has elected to apply the fair value option to transfers of financial assets accounted for as financings rather than sales, debt raised through the firm s William Street credit extension program and certain other nonrecourse financings, for which the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest. See Note 3 for further information regarding other secured financings.

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Hybrid Financial Instruments

Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives 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 from the associated debt, the derivative is accounted for at fair value and the host contract is accounted for at amortized cost, adjusted for the effective portion of any fair value hedge accounting relationships. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under the fair value option. See Notes 3 and 6 for further information regarding hybrid financial instruments.

Transfers of Financial Assets

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

Commissions

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

Insurance Activities

Certain of the firm s insurance and reinsurance contracts are accounted for at fair value under the fair value option, with changes in fair value included in Trading and principal investments in the condensed consolidated statements of earnings.

Revenues from variable annuity and life insurance and reinsurance contracts not accounted for at fair value generally consist of fees assessed on contract holder account balances for mortality charges, policy administration fees and surrender charges, and are recognized in Trading and principal investments in the condensed consolidated statements of earnings in the period that services are provided.

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

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

Merchant Banking Overrides

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

Asset Management

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

Share-Based Compensation

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

The firm pays cash dividend equivalents on outstanding restricted stock units (RSUs). Dividend equivalents paid on RSUs are generally charged to retained earnings. Dividend equivalents paid on RSUs expected to be forfeited are included in compensation expense. In the first quarter of fiscal 2009, the firm adopted amended accounting principles related to income tax benefits of dividends on share-based payment awards (ASC 718). These amended principles require the tax benefit related to dividend equivalents paid on RSUs to be accounted for as an increase to additional paid-in capital. Previously, the firm accounted for this tax benefit as a reduction to income tax expense.

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.

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Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. Goodwill is tested at least annually for impairment. An impairment loss is recognized if the estimated fair value 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, television broadcast royalties, contractual rights related to commodity-related acquisitions, New York Stock Exchange (NYSE) Designated Market Maker (DMM) rights and the value of business acquired (VOBA) in the firm s insurance subsidiaries, are amortized over their estimated lives or, in the case of insurance contracts, in proportion to estimated gross profits or premium revenues. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

Property, Leasehold Improvements and Equipment

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

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

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

The firm s operating leases include office space held in excess of current requirements. Rent expense relating to space held for growth is included in Occupancy in the condensed consolidated statements of earnings. 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.

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Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statements of financial condition, and revenues and expenses are translated at average rates of exchange for the period. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of hedges and taxes, in the condensed consolidated statements of comprehensive income. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are included in the condensed consolidated statements of earnings.

Hedge Accounting

The firm applies hedge accounting for certain derivative contracts used to manage the interest rate exposure of certain fixed-rate obligations, and for certain derivative contracts and foreign currency-denominated debt used to manage foreign currency exposures resulting from the firm s net investment in certain non-U.S. operations. The firm documents its risk management strategy at the inception of each hedging relationship and assesses the effectiveness of each hedging relationship at least quarterly.

Fair Value Hedges Interest Rate. 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 fixed-rate borrowings, certain unsecured short-term fixed-rate borrowings and certificates of deposit into floating rate obligations.

The firm applies the long-haul method in assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and hedged item. During the three months ended March 2010, the firm changed its method of prospectively and retrospectively assessing the effectiveness of all of its fair value hedging relationships from a dollar-offset method, which is a non-statistical method, to regression analysis, which is a statistical method. An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%. The dollar-offset method compared the change in the fair value of the hedging instrument to the change in the fair value of the hedged item, excluding the effect of the passage of time. The firm s prospective dollar-offset assessment utilized scenario analyses to test hedge effectiveness via simulations of numerous parallel and slope shifts of the relevant yield curve. Parallel shifts changed the interest rate of all maturities by identical amounts. Slope shifts changed the curvature of the yield curve. For both the prospective assessment, in response to each of the simulated yield curve shifts, and the retrospective assessment, a hedging relationship was deemed to be effective if the fair value of the hedging instrument and the hedged item changed inversely within a range of 80% to 125%.

For qualifying fair value hedges, gains or losses on derivative transactions are recognized in Interest expense in the condensed consolidated statements of earnings. The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses resulting from hedge ineffectiveness are included in Interest expense in the condensed consolidated statements of earnings.

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Net Investment Hedges. The firm seeks to reduce the impact of fluctuations in foreign exchange rates on its net investment in certain non-U.S. operations through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts designated as hedges, the effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts (that is, based on changes in forward rates). For foreign currency-denominated debt designated as a hedge, the effectiveness of the hedge is assessed based on changes in spot rates. For qualifying net investment hedges, the gains or losses on hedging instruments, to the extent effective, are included in the condensed consolidated statements of comprehensive income.

Income Taxes

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

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 RSUs 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 warrants and options and to RSUs for which future service is required as a condition to the delivery of the underlying common stock. In the first quarter of fiscal 2009, the firm adopted amended accounting principles related to determining whether instruments granted in share-based payment transactions are participating securities. Accordingly, the firm treats unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per common share.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of June 2010 and December 2009, Cash and cash equivalents on the condensed consolidated statements of financial condition included $5.84 billion and $4.45 billion, respectively, of cash and due from banks and $26.76 billion and $33.84 billion, respectively, of interest-bearing deposits with banks.

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Recent Accounting Developments

Transfers of Financial Assets and Interests in Variable Interest Entities (ASC 860 and 810). In June 2009, the FASB issued amended accounting principles that changed the accounting for securitizations and VIEs. These principles were codified as ASU No. 2009-16, Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets and ASU No. 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities in December 2009. ASU No. 2009-16 eliminates the concept of a qualifying special-purpose entity (QSPE), changes the requirements for derecognizing financial assets, and requires additional disclosures about transfers of financial assets, including securitization transactions and continuing involvement with transferred financial assets. ASU No. 2009-17 changes the accounting and requires additional disclosures for VIEs. Under ASU No. 2009-17, the determination of whether to consolidate a VIE is based on the power to direct the activities of the VIE that most significantly impact the VIE s economic performance together with either the obligation to absorb losses or the right to receive benefits that could be significant to the VIE, as well as the VIE s purpose and design. Additionally, entities previously classified as QSPEs are now required to be evaluated for consolidation and disclosure as VIEs. Previously, QSPEs were not consolidated and not considered for disclosure as VIEs and the determination of whether to consolidate a VIE was based on whether an enterprise had a variable interest, or combination of variable interests, that would absorb a majority of the VIE s expected losses, receive a majority of the VIE s expected residual returns, or both. ASU Nos. 2009-16 and 2009-17 were effective for fiscal years beginning after November 15, 2009. In February 2010, the FASB issued ASU No. 2010-10, Consolidations (Topic 810) Amendments For Certain Investment Funds, which defers the requirements of ASU No. 2009-17 for certain interests in investment funds and certain similar entities.

The firm adopted ASU Nos. 2009-16 and 2009-17 as of January 1, 2010 and reassessed whether it was the primary beneficiary of any VIEs in which it had variable interests (including VIEs that were formerly QSPEs) as of that date. Adoption resulted in an increase to the firm s total assets of approximately $3 billion as of March 2010, principally within Trading assets, at fair value in the condensed consolidated statement of financial condition. In addition, Other assets in the condensed consolidated statement of financial condition increased by $545 million as of March 2010, with a corresponding decrease in Trading assets, at fair value, as a result of the consolidation of an entity which holds intangible assets. Upon adoption, the firm elected the fair value option for all eligible assets and liabilities of newly consolidated VIEs, except for (i) those VIEs where the financial assets and financial liabilities are accounted for either at fair value or in a manner that approximates fair value under other GAAP and (ii) those VIEs where the election would have caused volatility in earnings as a result of using different measurement attributes for financial instruments and nonfinancial assets. Adoption did not have a material impact on the firm s results of operations or cash flows.

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

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Note 3. Financial Instruments

Fair Value of Financial Instruments

The following table sets forth the firm s trading assets, at fair value, including those pledged as collateral, and trading liabilities, 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.

	As of			
	June 2010		December 2009	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 10,449 [1]	$	$ 9,111 [1]	$
U.S. government and federal agency obligations	83,344	19,148	78,336	20,982
Non-U.S. government obligations	40,789	29,875	38,858	23,843
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	5,859	24	6,203	29
Loans and securities backed by residential real estate	6,219	42	6,704	74
Loan portfolios	1,258 [2]		1,370 [2]	
Bank loans and bridge loans	17,776	1,679 [5]	19,345	1,541 [5]
Corporate debt securities	24,386	7,243	26,368	6,229
State and municipal obligations	2,393		2,759	36
Other debt obligations	3,851		2,914	
Equities and convertible debentures	57,165	31,548	71,474	20,253
Physical commodities	1,578	37	3,707	23
Derivative contracts	79,801 [3]	57,574 [6]	75,253 [3]	56,009 [6]
Total	$ 334,868 [4]	$ 147,170	$ 342,402 [4]	$ 129,019

(1) Includes \$4.08 billion and \$4.31 billion as of June 2010 and December 2009, respectively, of money market instruments held by William Street Funding Corporation (Funding Corp.) to support the William Street credit extension program. See Note 8 for further information regarding the William Street credit extension program.

(2) Consists of acquired portfolios of distressed loans, primarily backed by commercial and residential real estate collateral.

(3) Net of cash received pursuant to credit support agreements of $113.76 billion and $124.60 billion as of June 2010 and December 2009, respectively.

(4) Includes $3.96 billion and $3.86 billion as of June 2010 and December 2009, respectively, of securities accounted for as available-for-sale, substantially all of which is held within the firm s insurance subsidiaries.

(5) Includes the fair value of unfunded commitments to extend credit. The fair value of partially funded commitments is included in trading assets, at fair value.

(6) Net of cash posted pursuant to credit support agreements of $17.65 billion and $14.74 billion as of June 2010 and December 2009, respectively.

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Fair Value Hierarchy

The firm s financial assets at fair value classified within level 3 of the fair value hierarchy are summarized below:

	As of		
	June 2010	March 2010	December 2009
	($ in millions)		
Total level 3 assets	$ 46,125	$ 45,153	$ 46,475
Level 3 assets for which the firm bears economic exposure [1]	43,516	42,513	43,348
Total assets	883,188	880,528	848,942
Total financial assets at fair value	614,270	606,238	573,788
Total level 3 assets as a percentage of Total assets	5.2%	5.1%	5.5%
Level 3 assets for which the firm bears economic exposure as a percentage of Total assets	4.9	4.8	5.1
Total level 3 assets as a percentage of Total financial assets at fair value	7.5	7.4	8.1
Level 3 assets for which the firm bears economic exposure as a percentage of Total financial assets at fair value	7.1	7.0	7.6

(1) Excludes assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.

The following tables set forth by level within the fair value hierarchy trading assets, at fair value, trading liabilities, at fair value, and other financial assets and financial liabilities accounted for at fair value under the fair value option as of June 2010 and December 2009. See Note 2 for further information on the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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	Financial Assets at Fair Value as of June 2010				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 4,380	$ 6,069	$	$	$ 10,449
U.S. government and federal agency obligations	37,177	46,167			83,344
Non-U.S. government obligations	37,077	3,712			40,789
Mortgage and other asset-backed loans and securities [1]:					
Loans and securities backed by commercial real estate		1,991	3,868		5,859
Loans and securities backed by residential real estate		4,095	2,124		6,219
Loan portfolios			1,258		1,258
Bank loans and bridge loans		8,203	9,573		17,776
Corporate debt securities [2]	137	21,657	2,592		24,386
State and municipal obligations		1,568	825		2,393
Other debt obligations		2,475	1,376		3,851
Equities and convertible debentures	37,845 [4]	8,985 [6]	10,335 [8]		57,165
Physical commodities		1,578			1,578
Total cash instruments	116,616	106,500	31,951		255,067
Derivative contracts	284	181,600	13,956	(116,039) [9]	79,801
Trading assets, at fair value	116,900	288,100	45,907	(116,039)	334,868
Securities segregated for regulatory and other purposes	20,760 [5]	21,772 [7]			42,532
Securities purchased under agreements to resell		169,280			169,280
Securities borrowed		64,856			64,856
Receivables from customers and counterparties		2,516	218		2,734
Total financial assets at fair value	$ 137,660	$ 546,524	$ 46,125	$ (116,039)	$ 614,270
Level 3 assets for which the firm does not bear economic exposure [3]			(2,609)		

Level 3 assets for which the firm bears economic exposure	$ 43,516

(1) Includes $7 million and $655 million of collateralized debt obligations (CDOs) backed by real estate within level 2 and level 3, respectively, of the fair value hierarchy.

(2) Includes $315 million and $775 million of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations within level 2 and level 3, respectively, of the fair value hierarchy.

(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 publicly listed equity securities. Includes the firm s $9.68 billion investment in the ordinary shares of Industrial and Commercial Bank of China Limited, which was transferred from level 2 within the fair value hierarchy upon expiration of transfer restrictions in April 2010.

(5) Principally consists of U.S. Department of the Treasury (U.S. Treasury) securities and money market instruments as well as insurance separate account assets measured at fair value.

(6) Principally consists of less liquid publicly listed securities.

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

(8) Includes $9.24 billion of private equity investments, $918 million of real estate investments and $180 million of convertible debentures.

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

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	Financial Liabilities at Fair Value as of June 2010				
	Level 1	**Level 2**	**Level 3** (in millions)	**Netting and Collateral**	**Total**
U.S. government and federal agency obligations	$ 18,323	$ 825	$	$	$ 19,148
Non-U.S. government obligations	29,532	343			29,875
Mortgage and other asset-backed loans and securities:					
Loans and securities backed by commercial real estate		24			24
Loans and securities backed by residential real estate		42			42
Bank loans and bridge loans		1,182	497		1,679
Corporate debt securities (1)	62	7,090	91		7,243
Equities and convertible debentures (2)	30,005	1,536	7		31,548
Physical commodities		37			37
Total cash instruments	77,922	11,079	595		89,596
Derivative contracts	82	71,333	6,084	(19,925) (4)	57,574
Trading liabilities, at fair value	78,004	82,412	6,679	(19,925)	147,170
Deposits		2,127			2,127
Securities sold under agreements to repurchase, at fair value		148,489	1,419		149,908
Securities loaned		1,139			1,139
Other secured financings		7,801	8,086		15,887
Unsecured short-term borrowings		16,741	2,768		19,509
Unsecured long-term borrowings		18,342	1,899		20,241
Other liabilities and accrued expenses		606	2,386		2,992
Total financial liabilities at fair value	$ 78,004	$ 277,657	$ 23,237 (3)	$ (19,925)	$ 358,973

(1) Includes $11 million and $82 million of CDOs and CLOs backed by corporate obligations within level 2 and level 3, respectively, of the fair value hierarchy.

(2) Substantially all consists of publicly listed equity securities.

(3) Level 3 liabilities were 6.5% of Total financial liabilities at fair value.

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

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	Financial Assets at Fair Value as of December 2009				
	Level 1	**Level 2**	**Level 3**	**Netting and Collateral**	**Total**
			(in millions)		
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 5,026	$ 4,085	$	$	$ 9,111
U.S. government and federal agency obligations	36,391	41,945			78,336
Non-U.S. government obligations	33,881	4,977			38,858
Mortgage and other asset-backed loans and securities [1]:					
Loans and securities backed by commercial real estate		1,583	4,620		6,203
Loans and securities backed by residential real estate		4,824	1,880		6,704
Loan portfolios		6	1,364		1,370
Bank loans and bridge loans		9,785	9,560		19,345
Corporate debt securities [2]	164	23,969	2,235		26,368
State and municipal obligations		1,645	1,114		2,759
Other debt obligations		679	2,235		2,914
Equities and convertible debentures	37,103 [4]	22,500 [6]	11,871 [9]		71,474
Physical commodities		3,707			3,707
Total cash instruments	112,565	119,705	34,879		267,149
Derivative contracts	161	190,816 [7]	11,596 [7]	(127,320) [10]	75,253
Trading assets, at fair value	112,726	310,521	46,475	(127,320)	342,402
Securities segregated for regulatory and other purposes	14,381 [5]	4,472 [8]			18,853
Securities purchased under agreements to resell		144,279			144,279
Securities borrowed		66,329			66,329
Receivables from customers and counterparties		1,925			1,925
Total financial assets at fair value	$ 127,107	$ 527,526	$ 46,475	$ (127,320)	$ 573,788
Level 3 assets for which the firm does not bear economic exposure [3]			(3,127)		

Level 3 assets for which the firm bears economic exposure	$ 43,348

(1) Includes $291 million and $311 million of CDOs and CLOs backed by real estate within level 2 and level 3, respectively, of the fair value hierarchy.

(2) Includes $338 million and $741 million of CDOs and CLOs backed by corporate obligations within level 2 and level 3, respectively, of the fair value hierarchy.

(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 publicly listed equity securities.

(5) Principally consists of U.S. Treasury securities and money market instruments as well as insurance separate account assets measured at fair value.

(6) Substantially all consists of less liquid publicly listed securities.

(7) Includes $31.44 billion and $9.58 billion of credit derivative assets within level 2 and level 3, respectively, of the fair value hierarchy. These amounts exclude the effects of netting under enforceable netting agreements across other derivative product types.

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

(9) Includes $10.56 billion of private equity investments, $1.23 billion of real estate investments and $79 million of convertible debentures.

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

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	Financial Liabilities at Fair Value as of December 2009				
	Level 1	**Level 2**	**Level 3** (in millions)	**Netting and Collateral**	**Total**
U.S. government and federal agency obligations	$ 20,940	$ 42	$	$	$ 20,982
Non-U.S. government obligations	23,306	537			23,843
Mortgage and other asset-backed loans and securities:					
Loans and securities backed by commercial real estate		29			29
Loans and securities backed by residential real estate		74			74
Bank loans and bridge loans		1,128	413		1,541
Corporate debt securities [1]	65	6,018	146		6,229
State and municipal obligations		36			36
Equities and convertible debentures [2]	19,072	1,168	13		20,253
Physical commodities		23			23
Total cash instruments	63,383	9,055	572		73,010
Derivative contracts	126	66,943 [3]	6,400 [3]	(17,460) [5]	56,009
Trading liabilities, at fair value	63,509	75,998	6,972	(17,460)	129,019
Deposits		1,947			1,947
Securities sold under agreements to repurchase, at fair value		127,966	394		128,360
Securities loaned		6,194			6,194
Other secured financings	118	8,354	6,756		15,228
Unsecured short-term borrowings		16,093	2,310		18,403
Unsecured long-term borrowings		18,315	3,077		21,392
Other liabilities and accrued expenses		141	1,913		2,054
Total financial liabilities at fair value	$ 63,627	$ 255,008	$ 21,422 [4]	$ (17,460)	$ 322,597

(1) Includes $45 million of CDOs and CLOs backed by corporate obligations within level 3 of the fair value hierarchy.

(2) Substantially all consists of publicly listed equity securities.

(3) Includes \$7.96 billion and \$3.20 billion of credit derivative liabilities within level 2 and level 3, respectively, of the fair value hierarchy. These amounts exclude the effects of netting under enforceable netting agreements across other derivative product types.

(4) Level 3 liabilities were 6.6% of Total financial liabilities at fair value.

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

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

	Derivative Assets at Fair Value as of June 2010				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
			(in millions)		
Interest rates	$ 207	$ 569,264	$ 350		$ 569,821
Credit		138,829	14,120		152,949
Currencies		84,839	1,792		86,631
Commodities		34,907	1,893		36,800
Equities	77	69,979	1,182		71,238
Gross fair value of derivative assets	$ 284	$ 897,818	$ 19,337		$ 917,439
Counterparty netting (1)		(716,218)	(5,381)	$ (2,275) (3)	(723,874)
Subtotal	$ 284	$ 181,600	$ 13,956	$ (2,275)	$ 193,565
Cash collateral netting (2)					(113,764)
Fair value included in trading assets, at fair value					$ 79,801

	Derivative Liabilities at Fair Value as of June 2010				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
			(in millions)		
Interest rates	$ 9	$ 499,520	$ 370		$ 499,899
Credit		119,953	5,738		125,691
Currencies		75,663	658		76,321
Commodities		35,575	2,164		37,739
Equities	73	56,840	2,535		59,448
Gross fair value of derivative liabilities	$ 82	$ 787,551	$ 11,465		$ 799,098

Counterparty netting [1]		(716,218)	(5,381)	$ (2,275) [3]	(723,874)
Subtotal	$ 82	$ 71,333	$ 6,084	$ (2,275)	$ 75,224
Cash collateral netting [2]					(17,650)
Fair value included in trading liabilities, at fair value					$ 57,574

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

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

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

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Level 3 Unrealized Gains/(Losses)

The table below sets forth a summary of unrealized gains/(losses) on the firm s level 3 financial assets and financial liabilities at fair value still held at the reporting date for the three and six months ended June 2010 and June 2009:

	Level 3 Unrealized Gains/(Losses)			
	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Cash instruments assets	$ 191	$ (1,932)	$ 855	$ (5,597)
Cash instruments liabilities	(109)	289	(60)	280
Net unrealized gains/(losses) on level 3 cash instruments	82	(1,643)	795	(5,317)
Derivative contracts net	1,386	(1,403)	2,852	(171)
Receivables from customers and counterparties	(21)		(48)	
Other secured financings	50	(442)	39	(426)
Unsecured short-term borrowings	224	(189)	307	(50)
Unsecured long-term borrowings	124	(133)	137	(98)
Other liabilities and accrued expenses	(17)	18	47	81
Total level 3 unrealized gains/(losses)	$ 1,828	$ (3,792)	$ 4,129	$ (5,981)

Cash Instruments

The net unrealized gain on level 3 cash instruments of $82 million for the three months ended June 2010 primarily consisted of unrealized gains across most asset classes, partially offset by unrealized losses on bank loans and bridge loans. The net unrealized loss on level 3 cash instruments of $1.64 billion for the three months ended June 2009 primarily consisted of unrealized losses on real estate fund investments, and loans and securities backed by commercial real estate, reflecting continued weakness in the commercial real estate market. The net unrealized gain on level 3 cash instruments of $795 million for the six months ended June 2010 primarily consisted of unrealized gains on loans and securities backed by commercial real estate, private equity investments and real estate fund investments, loans and securities backed by residential real estate, and other debt obligations evidenced by sales of similar assets in each of these asset classes during the period. The net unrealized loss on level 3 cash instruments of $5.32 billion for the six months ended June 2009 primarily consisted of unrealized losses on private equity investments and real estate fund investments, and loans and securities backed by commercial real estate, reflecting weakness in the global equity markets in the first quarter of 2009, as well as weakness in the commercial real estate market.

Level 3 cash instruments are frequently economically hedged with instruments classified within level 1 and level 2, and accordingly, gains or losses that have been reported in level 3 can be partially offset by gains or losses attributable to instruments classified within level 1 or level 2 or by gains or losses on derivative contracts classified within level 3 of the fair value hierarchy.

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Derivative Contracts

The net unrealized gain on level 3 derivative contracts of $1.39 billion for the three months ended June 2010 was primarily driven by wider credit spreads (which are level 2 inputs) on the underlying instruments as well as decreases in certain equity prices (which are either level 1 or level 2 inputs). These unrealized gains were substantially offset by unrealized losses on currency, interest rate and credit derivative contracts which are classified within level 2 of the fair value hierarchy and are used to economically hedge derivative contracts classified within level 3 of the fair value hierarchy. The net unrealized loss on level 3 derivative contracts of $1.40 billion for the three months ended June 2009 was primarily driven by tighter credit spreads (which are level 2 observable inputs) on the underlying instruments. The net unrealized gain on level 3 derivative contracts of $2.85 billion for the six months ended June 2010 was primarily attributable to foreign exchange rates and interest rates (which are level 2 inputs) underlying certain credit derivative contracts. These unrealized gains were substantially offset by unrealized losses on currency, interest rate and credit derivative contracts which are classified within level 2 of the fair value hierarchy and are used to economically hedge derivative contracts classified within level 3 of the fair value hierarchy. The net unrealized loss on level 3 derivative contracts of $171 million for the six months ended June 2009 was primarily attributable to tighter credit spreads on the underlying instruments partially offset by increases in commodities prices (which are level 2 observable inputs). Level 3 gains and losses on derivative contracts should be considered in the context of the following:

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 within level 1 or level 2 or cash instruments reported within level 3 of the fair value hierarchy.

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The tables below set forth a summary of changes in the fair value of the firm s level 3 financial assets and financial liabilities at fair value for the three and six months ended June 2010 and June 2009. The tables reflect gains and losses, including gains and losses for the entire period on financial assets and financial liabilities at fair value that were transferred to level 3 during the period, for all financial assets and financial liabilities at fair value categorized as level 3 as of June 2010 and June 2009, respectively. Transfers between levels and sales are recognized at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses that were reported in level 3 in prior periods for financial instruments that were transferred out of level 3 or sold prior to the end of the period presented.

	Level 3 Financial Assets and Financial Liabilities at Fair Value					
	Balance, beginning of period	Net realized gains/(losses)	Net unrealized gains/(losses) relating to instruments still held at the reporting date	Net purchases, issuances and settlements	Net transfers in and/or out of level 3	Balance, end of period
	(in millions)					
Three Months Ended June 2010						
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	$ 4,070	$ 88	$ 60	$ (327)	$ (23) (4)	$ 3,868
Loans and securities backed by residential real estate	2,131	57	61	37	(162) (4)	2,124
Loan portfolios	1,291	4	(16)	(72)	51 (4)	1,258
Bank loans and bridge loans	9,323	134	(205)	(162)	483 (5)	9,573
Corporate debt securities	2,703	36	49	(202)	6 (4)	2,592
State and municipal obligations	870	(5)	34	(73)	(1) (4)	825
Other debt obligations	1,487	(1)	78	(116)	(72) (4)	1,376
Equities and convertible debentures	10,653	21	130	248	(717) (6)	10,335
Total cash instruments assets	32,528	334 (1)	191 (1)	(667)	(435)	31,951
Cash instruments liabilities	(483)	112 (2)	(109) (2)	(113)	(2) (4)	(595)
Derivative contracts:						
Interest rates net	94	(6)	43	(51)	(195) (4)	(115)
Credit net	7,137	(1)	949	83	358 (4)	8,526
Currencies net	468		75	287	270 (4)	1,100

Commodities net	(244)	(92)	(4)	92	(23) [4]	(271)
Equities net	(1,119)	(5)	323	(500)	(67) [4]	(1,368)
Total derivative contracts net	6,336	(104) [2]	1,386 [2][3]	(89)	343	7,872
Securities purchased under agreements to resell	268				(268) [4]	
Receivables from customers and counterparties	234	5 [2]	(21) [2]		[4]	218
Securities sold under agreements to repurchase, at fair value	(1,055)			(531)	167 [4]	(1,419)
Other secured financings	(8,139)	(12) [2]	50 [2]	(38)	53 [4]	(8,086)
Unsecured short-term borrowings	(2,994)	(47) [2]	224 [2]	224	(175) [4]	(2,768)
Unsecured long-term borrowings	(1,715)	(2) [2]	124 [2]	53	(359) [4]	(1,899)
Other liabilities and accrued expenses	(2,327)	(2) [2]	(17) [2]	(21)	(19) [4]	(2,386)

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	Level 3 Financial Assets and Financial Liabilities at Fair Value					
	Balance, beginning of year	**Net realized gains/(losses)**	**Net unrealized gains/(losses) relating to instruments still held at the reporting date**	**Net purchases, issuances and settlements**	**Net transfers in and/or out of level 3**	**Balance, end of period**
	(in millions)					
Six Months Ended June 2010						
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	$ 4,620	$ 172	$ 202	$ (1,002)	$ (124) [4]	$ 3,868
Loans and securities backed by residential real estate	1,880	66	143	52	(17) [4]	2,124
Loan portfolios	1,364	28	(6)	(194)	66 [4]	1,258
Bank loans and bridge loans	9,560	260	83	(404)	74 [4]	9,573
Corporate debt securities	2,235	72	141	793	(649) [7]	2,592
State and municipal obligations	1,114	(3)	26	(299)	(13) [4]	825
Other debt obligations	2,235	(10)	119	(105)	(863) [8]	1,376
Equities and convertible debentures	11,871	150	147	(903)	(930) [6]	10,335
Total cash instruments assets	34,879	735 [1]	855 [1]	(2,062)	(2,456)	31,951
Cash instruments liabilities	(572)	132 [2]	(60) [2]	(169)	74 [4]	(595)
Derivative contracts:						
Interest rates net	(71)	(14)	7	21	(58) [4]	(115)
Credit net	6,366	(39)	2,238	(19)	(20) [4]	8,526
Currencies net	215	(37)	64	331	527 [9]	1,100
Commodities net	(90)	(259)	105	259	(286) [4]	(271)
Equities net	(1,224)	(52)	438	(439)	(91) [4]	(1,368)
Total derivative contracts net	5,196	(401) [2]	2,852 [2][3]	153	72	7,872
Receivables from customers and counterparties		10 [2]	(48) [2]		256 [4]	218

Securities sold under agreements to repurchase, at fair value	(394)			(1,025)	[4]	(1,419)
Other secured financings	(6,756)	(21) [2]	39 [2]	(1,174)	(174) [10]	(8,086)
Unsecured short-term borrowings	(2,310)	(67) [2]	307 [2]	267	(965) [10]	(2,768)
Unsecured long-term borrowings	(3,077)	(15) [2]	137 [2]	19	1,037 [11]	(1,899)
Other liabilities and accrued expenses	(1,913)	(5) [2]	47 [2]	(22)	(493) [12]	(2,386)

(1) The aggregate amounts include approximately $173 million and $352 million reported in Trading and principal investments and Interest income, respectively, in the condensed consolidated statement of earnings for the three months ended June 2010. The aggregate amounts include approximately $932 million and $658 million reported in Trading and principal investments and Interest income, respectively, in the condensed consolidated statement of earnings for the six months ended June 2010.

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

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

(4) Includes no individually significant transfers into or out of level 3 during the three and six months ended June 2010.

(5) Principally reflects transfers from level 2 within the fair value hierarchy reflecting reduced transparency of prices for these financial instruments as a result of less trading activity.

(6) Principally reflects transfers to level 2 within the fair value hierarchy of certain private equity investments, reflecting improved transparency of prices for these financial instruments, primarily as a result of market transactions.

(7) Principally reflects a reduction in financial instruments as a result of the consolidation of a VIE, which holds identifiable intangible assets, as a result of the adoption of ASU No. 2009-17. Such assets are included in Other assets in the condensed consolidated statements of financial condition.

(8) Principally reflects a reduction in financial instruments as a result of the consolidation of a VIE, which holds real estate assets. Such assets are included in Other assets in the condensed consolidated statements of financial condition.

(9) Principally reflects transfers from level 2 within the fair value hierarchy of certain currency derivative assets reflecting reduced transparency of the correlation inputs used to value these financial instruments.

(10) Principally reflects consolidation of certain VIEs as a result of the adoption of ASU No. 2009-17.

(11) Upon the firm s consolidation of certain VIEs as a result of the adoption of ASU No. 2009-17, the firm s borrowings from such VIEs, substantially all of which were level 3, became intercompany borrowings and were eliminated in consolidation.

(12) Principally reflects an increase related to subordinated liabilities issued by VIEs which were consolidated upon the adoption of ASU No. 2009-17.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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Level 3 Financial Assets and Financial Liabilities at Fair Value

	Balance, beginning of period	Net realized gains/(losses)	Net unrealized gains/(losses) relating to instruments still held at the reporting date	Net purchases, issuances and settlements	Net transfers in and/or out of level 3	Balance, end of period
	(in millions)					
Three Months Ended June 2009						
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	$ 7,705	$ (207)	$ (637)	$ (92)	$ 70	$ 6,839
Loans and securities backed by residential real estate	2,088	101	(14)	(301)	(12)	1,862
Loan portfolios	1,851	41	(29)	(89)		1,774
Bank loans and bridge loans	9,866	169	(74)	(679)	387	9,669
Corporate debt securities	2,648	23	(70)	(161)	(68)	2,372
State and municipal obligations	1,157	3	(5)	(33)	308	1,430
Other debt obligations	3,749	119	(166)	(626)	(273)	2,803
Equities and convertible debentures	13,620	11	(937)	118	(133)	12,679
Total cash instruments assets	42,684	260 (1)	(1,932) (1)	(1,863)	279	39,428
Cash instruments liabilities	(1,304)	(9) (2)	289 (2)	(31)	35	(1,020)
Derivative contracts net	4,116	474 (2)	(1,403) (2)(3)	(141)	30 (4)	3,076
Other secured financings	(7,277)	(15) (2)	(442) (2)	90	(423) (5)	(8,067)
Unsecured short-term borrowings	(3,143)	1 (2)	(189) (2)	(219)	1,321 (6)	(2,229)
Unsecured long-term borrowings	(1,916)	(25) (2)	(133) (2)	54	(1,407) (6)	(3,427)
Other liabilities and accrued expenses	(1,510)	(11) (2)	18 (2)	(141)		(1,644)

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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	Level 3 Financial Assets and Financial Liabilities at Fair Value					
	Balance, beginning of period	**Net realized gains/(losses)**	**Net unrealized gains/(losses) relating to instruments still held at the reporting date**	**Net purchases, issuances and settlements**	**Net transfers in and/or out of level 3**	**Balance, end of period**
	(in millions)					
Six Months Ended June 2009						
Mortgage and other asset-backed loans and securities:						
Loans and securities backed by commercial real estate	$ 9,170	$ (148)	$ (1,546)	$ (530)	$ (107)	$ 6,839
Loans and securities backed by residential real estate	1,927	183	(123)	(505)	380	1,862
Loan portfolios	4,266	90	(269)	(766)	(1,547) (7)	1,774
Bank loans and bridge loans	11,169	344	(682)	(1,227)	65	9,669
Corporate debt securities	2,734	163	(349)	13	(189)	2,372
State and municipal obligations	1,356	7	(9)	(219)	295	1,430
Other debt obligations	3,903	68	(211)	(920)	(37)	2,803
Equities and convertible debentures	15,127	7	(2,408)	(56)	9	12,679
Total cash instruments assets	49,652	714 (1)	(5,597) (1)	(4,210)	(1,131)	39,428
Cash instruments liabilities	(1,727)	(2) (2)	280 (2)	274	155	(1,020)
Derivative contracts net	3,315	577 (2)	(171) (2)(3)	(1,446)	801 (8)	3,076
Other secured financings	(4,039)	(21) (2)	(426) (2)	(1,053)	(2,528) (9)	(8,067)
Unsecured short-term borrowings	(4,712)	8 (2)	(50) (2)	(1,039)	3,564 (9)	(2,229)
Unsecured long-term borrowings	(1,689)	15 (2)	(98) (2)	225	(1,880) (9)	(3,427)
Other liabilities and accrued expenses		(21) (2)	81 (2)	(751)	(953) (10)	(1,644)

(1) The aggregate amounts include approximately $(2.18) billion and $510 million reported in "Trading and principal investments" and "Interest income," respectively, in the condensed consolidated statement of earnings for the three months ended June 2009. The aggregate amounts include approximately $(5.96) billion and $1.08 billion reported in "Trading and principal investments" and "Interest income," respectively, in the condensed consolidated statement of earnings for the six months ended June 2009.

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

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

(4) Principally reflects transfers from level 2 within the fair value hierarchy of credit derivative assets, reflecting reduced transparency of the correlation inputs used to value these financial instruments, offset by transfers to level 2 within the fair value hierarchy of equity derivative assets, reflecting improved transparency of the equity index volatility inputs used to value these financial instruments.

(5) Principally reflects transfers from level 2 within the fair value hierarchy due to reduced transparency of prices for municipal obligations that collateralize certain secured financings.

(6) Principally reflects transfers from level 3 unsecured short-term borrowings to level 3 unsecured long-term borrowings related to changes in the terms of certain notes.

(7) Principally reflects the deconsolidation of certain loan portfolios for which the firm did not bear economic exposure.

(8) Principally reflects transfers from level 2 within the fair value hierarchy of credit derivative assets, reflecting reduced transparency of certain credit spread inputs used to value these financial instruments, partially offset by transfers to level 2 within the fair value hierarchy of equity derivative assets, reflecting improved transparency of the equity index volatility inputs used to value these financial instruments.

(9) Principally reflects transfers from level 3 unsecured short-term borrowings to level 3 other secured financings and level 3 unsecured long-term borrowings related to changes in the terms of certain notes.

(10) Principally reflects transfers from level 2 within the fair value hierarchy of certain insurance contracts, reflecting reduced transparency of mortality curve inputs used to value these financial instruments as a result of less observable trading activity.

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Derivative Activities

Derivative contracts are instruments such as futures, forwards, swaps or option contracts that derive their value from underlying asset prices, indices, reference rates and other inputs or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange. Derivatives may involve future commitments to purchase or sell financial instruments or 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, financial instruments, 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, as a means of risk management or to take proprietary positions. Risk exposures are managed through diversification, by controlling position sizes and by entering into offsetting positions. For example, the firm may manage the risk related to a portfolio of common stock by entering into an offsetting position in a related equity-index futures contract.

Gains and losses on derivatives used for trading purposes are included in Trading and principal investments in the condensed consolidated statements of earnings. See Note 2 for information regarding the firm s accounting policy and use of derivatives for hedge accounting.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The fair value of the firm s derivative contracts is reflected net of cash posted or received pursuant to credit support agreements and is reported on a net-by-counterparty basis in the firm s condensed consolidated statements of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. The following table sets forth the fair value and the number of contracts of the firm s derivative contracts by major product type on a gross basis as of June 2010 and December 2009. Gross fair values in the table below exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted pursuant to credit support agreements, and therefore are not representative of the firm s exposure:

	As of June 2010			As of December 2009		
	Derivative Assets	Derivative Liabilities	Number of Contracts	Derivative Assets	Derivative Liabilities	Number of Contracts
	(in millions, except number of contracts)					
Derivative contracts for trading activities						
Interest rates	$ 543,982	$ 499,894	281,630	$ 458,614	$ 407,125	270,707
Credit	152,949	125,691	401,265	164,669	134,810	443,450
Currencies	86,563	76,300	244,554	77,223	62,413	171,760
Commodities	36,800	37,739	69,553	47,234	48,163	73,010
Equities	71,238	59,448	289,887	67,559	53,207	237,625
Subtotal	$ 891,532	$ 799,072	1,286,889	$ 815,299	$ 705,718	1,196,552
Derivative contracts accounted for as hedges						
Interest rates	$ 25,839	$ 5	868	$ 19,563	$ 1	806
Currencies	68	21	71	8	47	58
Subtotal	$ 25,907	$ 26	939	$ 19,571	$ 48	864
Gross fair value of derivative contracts	$ 917,439	$ 799,098	1,287,828	$ 834,870	$ 705,766	1,197,416
Counterparty netting (1)	(723,874)	(723,874)		(635,014)	(635,014)	
Cash collateral netting (2)	(113,764)	(17,650)		(124,603)	(14,743)	
Fair value included in trading assets, at fair value	$ 79,801			$ 75,253		
		$ 57,574			$ 56,009	

Fair value included in trading liabilities, at fair value

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

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) (UNAUDITED)

For the three months ended June 2010 and June 2009, the gain/(loss) recognized on interest rate derivative contracts accounted for as hedges was $4.95 billion and $(5.54) billion, respectively, and the related gain/(loss) recognized on the hedged borrowings and bank deposits was $(5.37) billion and $5.54 billion, respectively. For the six months ended June 2010 and June 2009, the gain/(loss) recognized on interest rate derivative contracts accounted for as hedges was $5.64 billion and $(8.01) billion, respectively, and the related gain/(loss) recognized on the hedged borrowings and bank deposits was $(6.47) billion and $7.97 billion, respectively. These gains and losses are included in Interest expense in the condensed consolidated statements of earnings. The hedge ineffectiveness recognized on these derivative contracts for the three and six months ended June 2010 was a loss of $418 million and $831 million, respectively. This loss consisted primarily of the amortization of prepaid credit spreads, and was not material for the three and six months ended June 2009. The gain/(loss) excluded from the assessment of hedge effectiveness was not material for the three and six months ended June 2010 and was a loss of $350 million and $666 million for the three and six months ended June 2009, respectively.

For the three months ended June 2010 and June 2009, the gain/(loss) on currency derivative contracts accounted for as hedges was $196 million and $(450) million, respectively. For the six months ended June 2010 and June 2009, the gain/(loss) on currency derivative contracts accounted for as hedges was $317 million and $(297) million, respectively. Such amounts are included in Currency translation adjustment, net of tax in the condensed consolidated statements of comprehensive income. The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income were not material for the three and six months ended June 2010 and June 2009.

The firm also has embedded derivatives that have been bifurcated from related borrowings. Such derivatives, which are classified in unsecured short-term and unsecured long-term borrowings in the firm s condensed consolidated statements of financial condition, had a net asset carrying value of $86 million and $96 million as of June 2010 and December 2009, respectively. The net asset as of June 2010, which represented 322 contracts, included gross assets of $384 million (primarily comprised of equity and interest rate derivatives) and gross liabilities of $298 million (primarily comprised of interest rate and equity derivatives). The net asset as of December 2009, which represented 297 contracts, included gross assets of $478 million (primarily comprised of equity and interest rate derivatives) and gross liabilities of $382 million (primarily comprised of equity and interest rate derivatives). See Notes 6 and 7 for further information regarding the firm s unsecured borrowings.

As of June 2010 and December 2009, the firm has designated $3.56 billion and $3.38 billion, respectively, of foreign currency-denominated debt, included in unsecured long-term borrowings and unsecured short-term borrowings in the firm s condensed consolidated statements of financial condition, as hedges of net investments in non-U.S. subsidiaries. For the three months ended June 2010 and June 2009, the loss on these debt instruments was $190 million and $90 million, respectively. For the six months ended June 2010 and June 2009, the gain/(loss) on these debt instruments was $(178) million and $179 million, respectively. Such amounts are included in Currency translation adjustment, net of tax in the condensed consolidated statements of comprehensive income. The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income was not material for the three and six months ended June 2010 and June 2009.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued) (UNAUDITED)

The following table sets forth by major product type the firm s gains/(losses) related to trading activities, including both derivative and nonderivative financial instruments, for the three and six months ended June 2010 and June 2009. These gains/(losses) are not representative of the firm s individual business unit results because many of the firm s trading strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm s longer-term derivative contracts are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm s cash and derivatives trading inventory has exposure to foreign currencies and may be economically hedged with foreign currency contracts. The gains/(losses) set forth below are included in Trading and principal investments in the condensed consolidated statements of earnings and exclude related interest income and interest expense.

	Three Months Ended June		Six Months Ended June	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Interest rates	$ (2,814)	$ 4,215	$ (4,728)	$ 4,875
Credit	2,376	1,558	6,479	3,114
Currencies [1]	3,470	(1,398)	6,791	(421)
Equities	376	1,798	1,949	2,842
Commodities and other	343	1,574	1,161	3,343
Total	$ 3,751	$ 7,747	$ 11,652	$ 13,753

(1) Includes gains/(losses) on currency contracts used to economically hedge positions included in other product types in this table.

Certain of the firm s derivative instruments have been transacted pursuant to bilateral agreements with certain counterparties that may require the firm to post collateral or terminate the transactions based on the firm s long-term credit ratings. As of June 2010, the aggregate fair value of such derivative contracts that were in a net liability position was $26.51 billion, and the aggregate fair value of assets posted by the firm as collateral for these derivative contracts was $19.79 billion. As of June 2010, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately $1.33 billion and $2.68 billion could have been called by counterparties in the event of a one-notch and two-notch reduction, respectively, in the firm s long-term credit ratings. As of December 2009, the aggregate fair value of such derivative contracts that were in a net liability position was $20.85 billion, and the aggregate fair value of assets posted by the firm as collateral for these derivative contracts was $14.48 billion. As of December 2009, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately $1.12 billion and $2.36 billion could have been called by counterparties in the event of a one-notch and two-notch reduction, respectively, in the firm s long-term credit ratings.

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

Credit default swaps. Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event of a default by the issuer (reference entity). The buyer of protection pays an initial or periodic premium to the seller and receives credit default protection for the period of the contract. If there is no credit default event, as defined by the specific derivative contract, then the seller of protection makes no payments to the buyer of protection. However, if a credit default event occurs, the seller of protection will be required to make a payment to the buyer of protection. Typical credit default events requiring payment include bankruptcy of the reference credit entity, failure to pay the principal or interest, and restructuring of the relevant obligations of the reference entity.

Credit indices, baskets and tranches. Credit derivatives may reference a basket of single-name credit default swaps or a broad-based index. Typically, in the event of a default of one of the underlying reference obligations, the protection seller will pay to the protection buyer a pro-rata portion of a transaction s total notional amount relating to the underlying defaulted reference obligation. In tranched transactions, the credit risk of a basket or index is separated into various portions each having different levels of subordination. The most junior tranches cover initial defaults, and once losses exceed the notional amount of these tranches, the excess is covered by the next most senior tranche in the capital structure.

Total return swaps. A total return swap transfers the risks relating to economic performance of a reference obligation from the protection buyer to the protection seller. Typically, the protection buyer receives from the protection seller a floating rate of interest and protection against any reduction in fair value of the reference obligation, and in return the protection seller receives the cash flows associated with the reference obligation, plus any increase in the fair value of the reference obligation.

Credit options. In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

Substantially all of the firm s purchased credit derivative transactions are with financial institutions and are subject to stringent collateral thresholds. The firm economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underlyings. In addition, upon the occurrence of a specified trigger event, the firm may take possession of the reference obligations underlying a particular written credit derivative, and consequently may, upon liquidation of the reference obligations, recover amounts on the underlying reference obligations in the event of default. As of June 2010, the firm s written and purchased credit derivatives had total gross notional amounts of $2.15 trillion and $2.29 trillion, respectively, for total net purchased protection of $140.73 billion in notional value. As of December 2009, the firm s written and purchased credit derivatives had total gross notional amounts of $2.54 trillion and $2.71 trillion, respectively, for total net purchased protection of $164.13 billion in notional value.

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

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor [1]				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivative		
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives [2]	Other Purchased Credit Derivatives [3]	Asset	Liability	Ne Ass (Liab
	($ in millions)								
une 2010									
spread ying points) [4]									
	$ 220,472	$ 1,011,103	$ 283,685	$ 1,515,260	$ 1,423,331	$ 216,075	$ 20,272	$ 19,324	$ 9
0	22,176	214,903	54,160	291,239	272,856	39,163	5,016	12,209	(7,1
000	15,064	137,022	44,841	196,927	163,787	23,345	4,086	15,599	(11,5
r than	9,887	112,152	23,356	145,395	115,449	35,542	2,164	52,420	(50,2
	$ 267,599	$ 1,475,180	$ 406,042	$ 2,148,821	$ 1,975,423	$ 314,125	$ 31,538	$ 99,552	$ (68,0
ber 2009									
spread ying points) [4]									
	$ 283,353	$ 1,342,649	$ 414,809	$ 2,040,811	$ 1,884,864	$ 299,329	$ 39,740	$ 13,441	$ 26,2
0	15,151	142,732	39,337	197,220	182,583	27,194	5,008	6,816	(1,8
000	10,364	101,621	34,194	146,179	141,317	5,673	2,841	12,448	(9,6
r than	20,262	107,768	31,208	159,238	117,914	48,699	1,524	60,279	(58,7
	$ 329,130	$ 1,694,770	$ 519,548	$ 2,543,448	$ 2,326,678	$ 380,895	$ 49,113	$ 92,984	$ (43,8

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

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

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

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

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

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Impact of Credit Spreads

On an ongoing basis, the firm realizes gains or losses relating to changes in credit risk on derivative contracts through changes in credit mitigants or the sale or unwind of the contracts. The net gain attributable to the impact of changes in credit exposure and credit spreads on derivative contracts (including derivative assets and liabilities and related hedges) was $145 million and $38 million for the three months ended June 2010 and June 2009, respectively, and $189 million and $86 million for the six months ended June 2010 and June 2009, respectively.

The following table sets forth the net gains/(losses) attributable to the impact of changes in the firm s own credit spreads on borrowings for which the fair value option was elected. The firm calculates the fair value of borrowings by discounting future cash flows at a rate which incorporates the firm s observable credit spreads.

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Net gains/(losses) including hedges	$ 390	$ (348)	$ 497	$ (545)
Net gains/(losses) excluding hedges	405	(353)	514	(545)

The net gain/(loss) attributable to changes in instrument-specific credit spreads on loans and loan commitments for which the fair value option was elected was a gain/(loss) of $(118) million and $917 million for the three months ended June 2010 and June 2009, respectively, and a gain/(loss) of $952 million and $(297) million for the six months ended June 2010 and June 2009, respectively. The firm attributes changes in the fair value of floating rate loans and loan commitments to changes in instrument-specific credit spreads. For fixed rate loans and loan commitments, the firm allocates changes in fair value between interest rate-related changes and credit spread-related changes based on changes in interest rates. See below for additional details regarding the fair value option.

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The Fair Value Option

Gains/(Losses)

The following table sets forth the gains/(losses) included in earnings for the three and six months ended June 2010 and June 2009 as a result of the firm electing to apply the fair value option to certain financial assets and financial liabilities, as described in Note 2. The table excludes gains and losses related to (i) trading assets, at fair value and trading liabilities, at fair value, (ii) gains and losses on assets and liabilities that would have been accounted for at fair value under other GAAP if the firm had not elected the fair value option, (iii) gains and losses on secured financings related to transfers of financial assets accounted for as financings rather than sales, as such gains and losses are offset by gains and losses on the related financial assets, and (iv) gains and losses on subordinated liabilities issued by consolidated VIEs, as such gains and losses are offset by gains and losses on the financial assets held by the consolidated VIEs.

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Unsecured long-term borrowings [1]	$ 286	$ (307)	$ 370	$ (442)
Other secured financings [2]	58	(442)	54	(417)
Unsecured short-term borrowings [3]	61	(27)	74	(94)
Receivables from customers and counterparties [4]	(55)	84	(93)	82
Other liabilities and accrued expenses [5][6]	(142)	(162)	(73)	(80)
Other [7]	20	34	17	8
Total [8]	$ 228	$ (820)	$ 349	$ (943)

(1) Excludes losses of $2.17 billion and $2.96 billion for the three months ended June 2010 and June 2009, respectively, and $1.59 billion and $1.72 billion for the six months ended June 2010 and June 2009, respectively, related to the embedded derivative component of hybrid financial instruments. Such losses would have been recognized even if the firm had not elected to account for the entire hybrid instrument at fair value under the fair value option.

(2) Excludes gains/(losses) of $(12) million for the three months ended June 2009 and $(5) million and $7 million for the six months ended June 2010 and June 2009, respectively, related to financings recorded as a result of transactions that were accounted for as secured financings rather than sales. Changes in the fair value of these secured financings are offset by changes in the fair value of the related financial instruments included in Trading assets, at fair value in the condensed consolidated statements of financial condition. Such gains/(losses) were not material for the three months ended June 2010.

(3) Excludes gains/(losses) of $964 million and $(1.18) billion for the three months ended June 2010 and June 2009, respectively, and $759 million and $(1.48) billion for the six months ended June 2010 and June 2009, respectively, related to the embedded derivative component of hybrid financial instruments. Such gains and losses would have been recognized even if the firm had not elected to account for the entire hybrid instrument at fair value under the fair value option.

(4) Primarily consists of gains/(losses) on certain reinsurance contracts.

(5) Excludes gains of $44 million and $151 million for the three and six months ended June 2010, respectively, related to subordinated liabilities issued by consolidated VIEs. Changes in the fair value of these financial instruments are offset by changes in the fair value of the financial assets held by the consolidated VIEs.

(6) Primarily consists of losses on certain insurance and reinsurance contracts.

(7) Primarily consists of gains/(losses) on resale and repurchase agreements, securities borrowed and loaned within Trading and Principal Investments, and deposits.

(8) Reported in Trading and principal investments in the condensed consolidated statements of earnings. The amounts exclude contractual interest, which is included in Interest income and Interest expense in the condensed consolidated statements of earnings, for all instruments other than hybrid financial instruments.

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All trading assets and trading liabilities are accounted for at fair value either under the fair value option or as required by other accounting standards (principally ASC 320, ASC 940 and ASC 815). Excluding equities commissions of $977 million and $1.02 billion for the three months ended June 2010 and June 2009, respectively, and $1.86 billion and $2.00 billion for the six months ended June 2010 and June 2009, respectively, and the gains and losses on the instruments accounted for under the fair value option described above, Trading and principal investments in the condensed consolidated statements of earnings primarily represents gains and losses on Trading assets, at fair value and Trading liabilities, at fair value in the condensed consolidated statements of financial condition.

Loans and Loan Commitments

As of June 2010, the aggregate contractual principal amount of loans and long-term receivables for which the fair value option was elected exceeded the related fair value by $38.53 billion, including a difference of $33.75 billion related to loans with an aggregate fair value of $3.52 billion that were on nonaccrual status (including loans more than 90 days past due). As of December 2009, the aggregate contractual principal amount of loans and long-term receivables for which the fair value option was elected exceeded the related fair value by $41.96 billion, including a difference of $36.30 billion related to loans with an aggregate fair value of $4.28 billion that were on nonaccrual status (including loans more than 90 days past due). The aggregate contractual principal exceeds the related fair value primarily because the firm regularly purchases loans, such as distressed loans, at values significantly below contractual principal amounts.

As of June 2010 and December 2009, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of $1.51 billion and $879 million, respectively, and the related total contractual amount of these lending commitments was $46.89 billion and $44.05 billion, respectively.

Long-term Debt Instruments

The aggregate contractual principal amount of long-term debt instruments (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by $1.66 billion and $752 million as of June 2010 and December 2009, respectively.

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Investments in Funds That Calculate Net Asset Value Per Share

The firm s investments in funds that calculate net asset value per share primarily consist of investments in firm-sponsored funds where the firm co-invests with third-party investors. The private equity, private debt and real estate funds are primarily closed-end funds in which the firm s investments are not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated and it is estimated that substantially all of the underlying assets of these existing funds will be liquidated over the next 10 years. The firm s investments in hedge funds are generally redeemable on a quarterly basis with 91 days notice, subject to a maximum redemption level of 25% of the firm s initial investments at any quarter-end. The following table sets forth the fair value of the firm s investments in and unfunded commitments to funds that calculate net asset value per share:

	As of June 2010		As of December 2009	
	Fair Value of Investments	Unfunded Commitments	Fair Value of Investments	Unfunded Commitments
	(in millions)			
Private equity funds [1]	$ 7,317	$ 6,057	$ 8,229	$ 5,722
Private debt funds [2]	4,180	3,580	3,628	4,048
Hedge funds [3]	3,015		3,133	
Real estate and other funds [4]	910	2,369	939	2,398
Total	$ 15,422	$ 12,006	$ 15,929	$ 12,168

(1) These funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations, and growth investments.

(2) These funds generally invest in fixed income instruments and are focused on providing private high-yield capital for mid to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.

(3) These funds are primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage/special situations and capital structure arbitrage.

(4) These funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and direct property.

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Collateralized Transactions

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

In many cases, the firm is permitted to deliver or repledge these financial instruments in connection with entering into repurchase agreements, securities lending agreements and other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements. As of June 2010 and December 2009, the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or repledge was $590.15 billion and $561.77 billion, respectively, of which the firm delivered or repledged $419.39 billion and $392.89 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. Trading assets pledged to counterparties that have the right to deliver or repledge are included in Trading assets, at fair value in the condensed consolidated statements of financial condition and were $35.64 billion and $31.49 billion as of June 2010 and December 2009, respectively. Trading assets, 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 Trading assets, at fair value in the condensed consolidated statements of financial condition and were $112.89 billion and $109.11 billion as of June 2010 and December 2009, 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 $6.49 billion and $7.93 billion as of June 2010 and December 2009, 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 credit extension program; consolidated VIEs; collateralized central bank financings and other transfers of financial assets accounted for as financings rather than sales (primarily pledged bank loans and mortgage whole loans); and other structured financing arrangements.

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

	As of	
	June 2010	**December 2009**
	(in millions)	
Other secured financings (short-term) [1][2]	$ 13,432	$ 12,931
Other secured financings (long-term):		
2011	1,609	3,832
2012	4,816	1,726
2013	1,266	1,518
2014	2,055	1,617
2015	246	255
2016-thereafter	2,410	2,255
Total other secured financings (long-term) [3][4][5]	12,402	11,203
Total other secured financings [6][7]	$ 25,834	$ 24,134

(1) As of June 2010 and December 2009, consists of U.S. dollar-denominated financings of $4.40 billion and $6.47 billion (including $4.19 billion and $6.15 billion at fair value) and non-U.S. dollar-denominated financings of $9.03 billion and $6.46 billion (including $1.60 billion and $1.08 billion at fair value), respectively. As of June 2010 and December 2009, after giving effect to hedging activities, the U.S. dollar-denominated financings not at fair value had a weighted average interest rate of 4.18% and 3.44%, respectively, and the non-U.S. dollar-denominated financings not at fair value had a weighted average interest rate of 0.71% and 1.57%, respectively.

(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 June 2010 and December 2009, consists of U.S. dollar-denominated financings of $8.77 billion and $7.28 billion (including $7.37 billion and $5.90 billion at fair value) and non-U.S. dollar-denominated financings of $3.63 billion and $3.92 billion (including $2.72 billion and $2.10 billion at fair value), respectively. As of June 2010 and December 2009, after giving effect to hedging activities, the U.S. dollar-denominated financings not at fair value had a weighted average interest rate of 1.85% and 1.83%, respectively, and the non-U.S. dollar-denominated financings not at fair value had a weighted average interest rate of 2.77% and 2.30%, respectively.

(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) The aggregate contractual principal amount of other secured financings (long-term) for which the fair value option was elected, primarily consisting of transfers of financial assets accounted for as financings rather than sales, debt raised through the William Street credit extension program and certain other nonrecourse financings, exceeded the related fair value by $725 million as of June 2010.

(6) As of June 2010 and December 2009, $21.81 billion and $18.25 billion, respectively, of these financings were collateralized by trading assets and $4.02 billion and $5.88 billion, respectively, by other assets (primarily real estate and cash). Other secured financings include $9.77 billion and $10.63 billion of nonrecourse obligations as of June 2010 and December 2009, respectively.

(7) As of June 2010 and December 2009, other secured financings include $10.61 billion and $9.51 billion, respectively, related to transfers of financial assets accounted for as financings rather than sales. Such financings were collateralized by financial assets included in Trading assets, at fair value in the condensed consolidated statements of financial condition of $10.87 billion and $9.78 billion as of June 2010 and December 2009, respectively.

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Note 4. Securitization Activities and Variable Interest Entities

Securitization Activities

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

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

During the three months ended June 2010 and June 2009, the firm securitized $13.46 billion and $12.91 billion, respectively, of financial assets in which the firm had continuing involvement, including $13.46 billion and $12.41 billion, respectively, of residential mortgages, primarily in connection with government agency securitizations, and $0 and $496 million, respectively, of other financial assets. During the six months ended June 2010 and June 2009, the firm securitized $23.43 billion and $16.47 billion, respectively, of financial assets in which the firm had continuing involvement, including $23.42 billion and $15.88 billion, respectively, of residential mortgages, primarily in connection with government agency securitizations, and $14 million and $591 million, respectively, of other financial assets. Cash flows received on retained interests were $218 million and $106 million for the three months ended June 2010 and June 2009, respectively, and $417 million and $200 million for the six months ended June 2010 and June 2009, respectively.

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The following table sets forth certain information related to the firm s continuing involvement in securitization entities to which the firm sold assets, as well as the total outstanding principal amount of transferred assets in which the firm has continuing involvement, as of June 2010 and December 2009. The outstanding principal amount set forth in the table below is presented for the purpose of providing information about the size of the securitization entities in which the firm has continuing involvement, and is not representative of the firm s risk of loss. For retained or purchased interests, the firm s risk of loss is limited to the fair value of these interests.

	As of June 2010			As of December 2009		
	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests (1)	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests (1)
	(in millions)					
Residential mortgage-backed (2)	$ 60,564	$ 3,755	$ 8	$ 59,410	$ 3,956	$ 17
Commercial mortgage-backed	6,685	56	86	11,643	56	96
Other (3)	16,503	110	140	17,768	93	54
Total (4)	$ 83,752	$ 3,921	$ 234	$ 88,821	$ 4,105	$ 167

(1) Comprised of senior and subordinated interests in securitization-related entities purchased in connection with secondary market-making activities in which the firm also holds retained interests. In addition to these interests, the firm had other continuing involvement in the form of derivative transactions and guarantees with certain nonconsolidated VIEs for which the carrying value was a net liability of $95 million and $87 million as of June 2010 and December 2009, respectively. The notional amounts of these transactions are included in maximum exposure to loss in the nonconsolidated VIE table below.

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

(3) Primarily consists of CDOs backed by corporate and mortgage obligations and CLOs.

(4) Includes $8.08 billion of outstanding principal amount and $24 million of fair value of retained interests as of June 2010 related to securitization entities in which the firm s only continuing involvement is retained servicing, which is market-based and therefore not a variable interest.

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

	As of June 2010		As of December 2009	
	Type of Retained Interests		Type of Retained Interests	
	Mortgage-Backed	Other [1]	Mortgage-Backed	Other [1]
	($ in millions)			
Fair value of retained interests	$ 3,811	$ 110	$ 4,012	$ 93
Weighted average life (years)	5.0	2.3	4.4	4.4
Constant prepayment rate [2]	21.9%	N.M.	23.5%	N.M.
Impact of 10% adverse change [2]	$ (47)	N.M.	$ (44)	N.M.
Impact of 20% adverse change [2]	(96)	N.M.	(92)	N.M.
Discount rate [3]	7.8%	N.M.	8.4%	N.M.
Impact of 10% adverse change	$ (70)	N.M.	$ (76)	N.M.
Impact of 20% adverse change	(137)	N.M.	(147)	N.M.

(1) Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of June 2010 and December 2009. The firm s maximum exposure to adverse changes in the value of these interests is the firm s carrying value of $110 million and $93 million as of June 2010 and December 2009, respectively.

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

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

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

Variable Interest Entities

The firm, in the ordinary course of business, retains interests in VIEs in connection with its securitization activities. The firm also purchases and sells variable interests in VIEs, which primarily issue residential and commercial mortgage-backed 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 finance the purchase of assets by issuing debt and equity instruments.

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

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

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

	As of June 2010						
	Mortgage-backed [1]	**Corporate CDOs and CLOs** [1]	**Real estate, credit-related and other investing** [2]	**Other asset-backed** [1]	**Power-related** [3]	**Investment funds** [4]	**Total**
	(in millions)						
Assets in VIE	$ 73,779 [6]	$ 21,807	$ 13,865	$ 2,188	$ 553	$ 1,965	$ 114,157
Carrying Value of the Firm s Variable Interests							
Assets	$ 4,481	$ 1,052	$ 1,210	$ 109	$ 235	$ 7	$ 7,094
Liabilities	4	147	163	4	1		319
Maximum Exposure to Loss in Nonconsolidated VIEs [5]							
Retained interests	$ 3,786	$ 96	$	$ 14	$	$	$ 3,896
Purchased interests	511	191		87			789

Commitments and guarantees		1	301		37		339 [9]
Derivatives	3,829 [6][7]	6,884 [8]		1,145			11,858 [9]
Loans and investments	127		1,210		235	7	1,579
Total	$ 8,253	$ 7,172	$ 1,511	$ 1,246	$ 272	$ 7	$ 18,461

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	As of December 2009						
	Mortgage CDOs (1)	Corporate CDOs and CLOs (1)	Real estate, credit-related and other investing (2)	Other asset-backed (1)	Power-related (3)	Principal-protected notes (10)	Total
	(in millions)						
Assets in VIE	$ 9,114	$ 32,490	$ 22,618	$ 497	$ 592	$ 2,209	$ 67,520
Carrying Value of the Firm s Variable Interests							
Assets	$ 182	$ 834	$ 2,386	$ 16	$ 224	$ 12	$ 3,654
Liabilities	10	400	204	12	3	1,357	1,986
Maximum Exposure to Loss in Nonconsolidated VIEs (5)							
Retained and purchased interests	135	259					394
Commitments and guarantees		3	397		37		437 (9)
Derivatives	4,111 (7)	7,577 (8)		497		2,512	14,697 (9)
Loans and investments			2,425		224		2,649
Total	$ 4,246	$ 7,839	$ 2,822	$ 497	$ 261	$ 2,512	$ 18,177

(1) These VIEs are generally financed through the issuance of debt instruments collateralized by assets held by the VIE. Substantially all assets and liabilities held by the firm related to these VIEs are included in Trading assets, at fair value and Trading liabilities, at fair value, respectively, in the condensed consolidated statements of financial condition.

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

(3) These VIEs are financed through the issuance of debt instruments. Assets and liabilities held by the firm related to these VIEs are included in Other assets and Other liabilities and accrued expenses, respectively, in the condensed consolidated statements of financial condition.

(4) These VIEs are generally financed through the issuance of equity instruments. Assets and liabilities held by the firm related to these VIEs are included in Trading assets, at fair value and Other liabilities and accrued expenses, respectively, in the condensed consolidated statement of financial condition.

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

(6) Assets in VIE and maximum exposure to loss include $6.99 billion and $4.01 billion, respectively, related to CDOs backed by mortgage obligations as of June 2010.

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

(8) Primarily consists of total return swaps on CDOs and CLOs. The firm has generally transferred the risks related to the underlying securities through derivatives with non-VIEs.

(9) The aggregate amounts include $4.77 billion and $4.66 billion as of June 2010 and December 2009, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.

(10) Consists 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. Assets related to these VIEs are included in Trading assets, at fair value and liabilities related to these VIEs are included in Other secured financings, Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings or Unsecured long-term borrowings in the condensed consolidated statement of financial condition. Assets in VIE, carrying value of liabilities and maximum exposure to loss exclude $3.97 billion as of December 2009, associated with guarantees related to the firm s performance under borrowings from the VIE, which are recorded as liabilities in the condensed consolidated statement of financial condition. Substantially all of the liabilities included in the table above relate to additional borrowings from the VIE associated with principal-protected notes guaranteed by the firm. These VIEs were consolidated by the firm upon adoption of ASU No. 2009-17.

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The following tables set forth the carrying amount and classification of the firm s assets and liabilities in consolidated VIEs, excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with its variable interests. For June 2010, in accordance with ASU No. 2009-17, the following table excludes VIEs in which the firm holds a majority voting interest if (i) the VIE meets the definition of a business as defined in ASC 805 and (ii) the VIE s assets can be used for purposes other than the settlement of its obligations. For December 2009, prior to the adoption of ASU No. 2009-17, the following table excludes VIEs in which the firm holds a majority voting interest unless the activities of the VIE are primarily related to securitization, asset-backed financings or single-lessee leasing arrangements. The increase in total assets of consolidated VIEs from December 2009 to June 2010 is primarily related to (i) VIEs that are required to be disclosed in accordance with ASU No. 2009-17 that were not required to be disclosed under previous GAAP, as described above, and (ii) VIEs that were consolidated by the firm upon adoption of ASU No. 2009-17.

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

	As of June 2010				
	Real estate, credit-related and other investing (1)	Municipal bond securitizations (2)	CDOs, mortgage-backed and other asset-backed (3)	Principal-protected notes (4)	Total
	(in millions)				
Assets (5)					
Cash and cash equivalents	$ 314	$	$ 37	$ 148	$ 499
Cash and securities segregated for regulatory and other purposes	173				173
Receivables from brokers, dealers and clearing organizations	1				1
Receivables from customers and counterparties	4	6	46		56
Trading assets, at fair value	2,963	650	695	707	5,015
Other assets	3,718		530		4,248
Total	$ 7,173	$ 656	$ 1,308	$ 855	$ 9,992
Liabilities					
Other secured financings	$ 2,801	$ 761	$ 510	$ 3,142	$ 7,214
Payables to customers and counterparties	6		28		34

Trading liabilities, at fair value			111		111
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	263			2,593	2,856
Unsecured long-term borrowings	29			163	192
Other liabilities and accrued expenses	2,351		39		2,390
Total	$ 5,450	$ 761	$ 688	$ 5,898	$ 12,797

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	As of December 2009					
	Real estate, credit-related and other investing [1]	Municipal bond securitizations [2]	CDOs, mortgage-backed and other asset-backed [3]	Principal-protected notes [4]	Foreign exchange and commodities	Total
	(in millions)					
Assets						
Cash and cash equivalents	$ 13	$	$	$	$ 13	$ 26
Receivables from customers and counterparties	1					1
Trading assets, at fair value	721	679	639	214	134	2,387
Other assets	207				80	287
Total	$ 942	$ 679	$ 639	$ 214	$ 227	$ 2,701
Liabilities						
Securities sold under agreements to repurchase, at fair value	$	$	$ 432	$	$	$ 432
Other secured financings	620	782	151			1,553
Payables to customers and counterparties	1					1
Trading liabilities, at fair value					169	169
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings				214		214
Other liabilities and accrued expenses	59				10	69
Total	$ 680	$ 782	$ 583	$ 214	$ 179	$ 2,438

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

(2) These VIEs are generally financed through the issuance of debt instruments and the VIE liabilities are partially collateralized by the related VIE assets.

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

(4) These VIEs are financed through the issuance of debt instruments.

(5) A majority of these VIE assets can be used only to settle obligations of the VIE.

The firm did not have off-balance-sheet commitments to purchase or finance any CDOs held by structured investment vehicles as of June 2010 or December 2009.

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Note 5. Deposits

The following table sets forth deposits as of June 2010 and December 2009:

	As of	
	June 2010	**December 2009**
	(in millions)	
U.S. offices [1]	$ 30,461	$ 32,797
Non-U.S. offices [2]	6,563	6,621
Total	$ 37,024	$ 39,418

(1) Substantially all U.S. deposits were interest-bearing and were held at GS Bank USA.

(2) Substantially all non-U.S. deposits were interest-bearing and were held at Goldman Sachs Bank (Europe) PLC (GS Bank Europe).

Included in the above table are time deposits of $9.92 billion and $9.30 billion as of June 2010 and December 2009, respectively. The following table sets forth the maturities of time deposits as of June 2010:

	As of June 2010		
	U.S.	**Non-U.S.**	**Total**
		(in millions)	
2010	$ 1,343	$ 1,020	$ 2,363
2011	1,761	53	1,814
2012	1,018		1,018
2013	1,975		1,975
2014	495		495
2015-thereafter	2,253		2,253
Total	$ 8,845	$ 1,073	$ 9,918

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Note 6. Short-Term Borrowings

As of June 2010 and December 2009, short-term borrowings were $52.55 billion and $50.45 billion, respectively, comprised of $13.43 billion and $12.93 billion, respectively, included in Other secured financings in the condensed consolidated statements of financial condition and $39.12 billion and $37.52 billion, respectively, of unsecured short-term borrowings. See Note 3 for information on other secured financings.

Unsecured short-term borrowings 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 the fair value option. Short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations.

Unsecured short-term borrowings are set forth below:

	As of	
	June 2010	December 2009
	(in millions)	
Current portion of unsecured long-term borrowings [1]	$ 18,036	$ 17,928
Hybrid financial instruments	12,689	10,741
Promissory notes	2,238	2,119
Commercial paper	1,688	1,660
Other short-term borrowings	4,472	5,068
Total [2]	$ 39,123	$ 37,516

(1) Includes $3.73 billion and $1.73 billion as of June 2010 and December 2009, respectively, guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP).

(2) The weighted average interest rates for these borrowings, after giving effect to hedging activities, were 2.10% and 1.31% as of June 2010 and December 2009, respectively, and excluded financial instruments accounted for at fair value under the fair value option.

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Note 7. Long-Term Borrowings

As of June 2010 and December 2009, long-term borrowings were $190.98 billion and $196.29 billion, respectively, comprised of $12.40 billion and $11.20 billion, respectively, included in Other secured financings in the condensed consolidated statements of financial condition and $178.58 billion and $185.09 billion, respectively, of unsecured long-term borrowings. See Note 3 for information regarding other secured financings.

The firm s unsecured long-term borrowings extend through 2043 and consist principally of senior borrowings.

Unsecured long-term borrowings are set forth below:

	As of	
	June 2010	**December 2009**
	(in millions)	
Fixed rate obligations [1]	$ 118,569	$ 117,413
Floating rate obligations [2]	60,013	67,672
Total [3]	$ 178,582	$ 185,085

(1) As of June 2010 and December 2009, $83.45 billion and $79.12 billion, respectively, of the firm s fixed rate debt obligations were denominated in U.S. dollars and interest rates ranged from 1.20% to 10.04% and 1.63% to 10.04% as of June 2010 and December 2009, respectively. As of June 2010 and December 2009, $35.12 billion and $38.29 billion, respectively, of the firm s fixed rate debt obligations were denominated in non-U.S. dollars and interest rates ranged from 0.85% to 8.64% and 0.80% to 7.45%, respectively.

(2) As of June 2010 and December 2009, $32.87 billion and $32.26 billion, respectively, of the firm s floating rate debt obligations were denominated in U.S. dollars. As of June 2010 and December 2009, $27.14 billion and $35.41 billion, respectively, of the firm s floating rate debt obligations were denominated in non-U.S. dollars. Floating interest rates generally are based on LIBOR or the federal funds target rate. Equity-linked and indexed instruments are included in floating rate obligations.

(3) Includes $16.84 billion and $19.03 billion as of June 2010 and December 2009, respectively, guaranteed by the FDIC under the TLGP.

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

	As of June 2010
	(in millions)
2011	$ 11,647
2012	25,614
2013	22,187
2014	17,109
2015	13,518
2016-thereafter	88,507
Total (1)(2)(3)(4)	$ 178,582

(1) 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 are included as unsecured short-term borrowings in the condensed consolidated statements of financial condition.

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

(3) Amount includes an increase of $11.53 billion to the carrying amount of certain of the firm s unsecured long-term borrowings related to fair value hedges. The amounts related to the carrying value of the firm s unsecured long-term borrowings associated with fair value hedges by year of maturity are as follows: $50 million in 2011, $633 million in 2012, $850 million in 2013, $950 million in 2014, $477 million in 2015 and $8.57 billion in 2016 and thereafter.

(4) The aggregate contractual principal amount of unsecured long-term borrowings (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by $936 million.

The firm designates certain derivative contracts as fair value hedges to effectively convert a substantial portion of its unsecured long-term borrowings which are not accounted for at fair value into floating rate obligations. Accordingly, excluding the cumulative impact of changes in the firm s credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of June 2010 and December 2009. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to the widening of the firm s own credit spreads would be a reduction in the carrying value of total unsecured long-term borrowings of approximately 2% and less than 1% as of June 2010 and December 2009, respectively.

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

	As of			
	June 2010		December 2009	
	Amount	Rate	Amount	Rate
	($ in millions)			
Fixed rate obligations	$ 5,186	5.08%	$ 4,320	5.49%
Floating rate obligations (1)(2)	173,396	1.64	180,765	1.33
Total	$ 178,582	1.76	$ 185,085	1.42

(1) Includes fixed rate obligations that have been converted into floating rate obligations through hedge accounting.

(2) The weighted average interest rates as of June 2010 and December 2009 excluded financial instruments accounted for at fair value under the fair value option.

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Subordinated Borrowings

As of June 2010 and December 2009, unsecured long-term borrowings were comprised of subordinated borrowings with outstanding principal amounts of $19.25 billion and $19.16 billion, respectively, as set forth below.

Junior Subordinated Debt Issued to Trusts in Connection with Fixed-to-Floating and Floating Rate Normal Automatic Preferred Enhanced Capital Securities. In 2007, Group Inc. issued a total of $2.25 billion of remarketable junior subordinated debt to Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts), Delaware statutory trusts that, in turn, issued $2.25 billion of guaranteed perpetual Normal Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to Group Inc. Group Inc. also entered into contracts with the APEX Trusts to sell $2.25 billion of perpetual non-cumulative preferred stock to be issued by Group Inc. (the stock purchase contracts). The APEX 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 semi-annually on $1.75 billion of junior subordinated debt issued to Goldman Sachs Capital II at a fixed annual rate of 5.59% and the debt matures on June 1, 2043. The firm pays interest quarterly on $500 million of junior subordinated debt issued to Goldman Sachs Capital III at a rate per annum equal to three-month LIBOR plus 0.57% and the debt matures on September 1, 2043. In addition, the firm makes contract payments at a rate of 0.20% per annum on the stock purchase contracts held by the APEX Trusts. The firm has the right to defer payments on the junior subordinated debt 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 debt is junior in right of payment to all of Group Inc. s senior indebtedness and all of Group Inc. 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 Group Inc. s 6.345% Junior Subordinated Debentures due February 15, 2034, that, subject to certain exceptions, the firm would not redeem or purchase (i) Group Inc. s junior subordinated debt issued to the APEX Trusts prior to the applicable stock purchase date or (ii) APEX or shares of Group Inc. 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 accounted for the stock purchase contracts as equity instruments and, accordingly, recorded the cost of the stock purchase contracts as a reduction to additional paid-in capital. See Note 9 for information on the preferred stock that Group Inc. will issue in connection with the stock purchase contracts.

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

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The firm pays interest semi-annually 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 semi-annual 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 Group Inc. 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 Group Inc. s senior indebtedness and all of Group Inc. s subordinated borrowings, other than the junior subordinated debt issued in connection with the APEX.

Subordinated Debt. As of June 2010, the firm had $14.16 billion of other subordinated debt outstanding with maturities ranging from 2014 to 2038. The effective weighted average interest rate on this debt was 1.20%, after giving effect to fair value hedges that effectively convert fixed rate obligations into floating rate obligations. As of December 2009, the firm had $14.07 billion of other subordinated debt outstanding with maturities ranging from 2017 to 2038. The effective weighted average interest rate on this debt was 1.51%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. This debt is junior in right of payment to all of the firm s senior indebtedness.

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Note 8. Commitments, Contingencies and Guarantees

Commitments

The following table summarizes the firm s commitments as of June 2010 and December 2009:

	Commitment Amount by Period of Expiration as of June 2010				Total Commitments as of	
	Remainder of 2010	2011-2012	2013-2014	2015-Thereafter	June 2010	December 2009
	(in millions)					
Commitments to extend credit [1]						
Commercial lending:						
Investment-grade	$ 3,020	$ 5,704	$ 2,768	$ 31	$ 11,523	$ 11,415
Non-investment-grade	4,223	3,507	3,026	3,373	14,129	8,153
William Street credit extension program	2,693	18,146	4,714	412	25,965	25,218
Warehouse financing		62			62	12
Total commitments to extend credit	9,936	27,419	10,508	3,816	51,679	44,798
Forward starting resale and securities borrowing agreements	46,675				46,675	34,844
Forward starting repurchase and securities lending agreements	12,945				12,945	10,545
Underwriting commitments	157				157	1,811
Letters of credit [2]	913	561	187	4	1,665	1,804
Investment commitments [3]	2,136	9,015	155	1,062	12,368	13,240
Other	155	60	41	31	287	380
Total commitments	$ 72,917	$ 37,055	$ 10,891	$ 4,913	$ 125,776	$ 107,422

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

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

(3) Consists of the firm s commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages in connection with its merchant banking and other investing activities, consisting of $2.40 billion and $2.46 billion as of June 2010 and December 2009, respectively, related to real

estate private investments and $9.97 billion and $10.78 billion as of June 2010 and December 2009, respectively, related to corporate and other private investments. Such commitments include $11.35 billion and $11.38 billion as of June 2010 and December 2009, respectively, of commitments to invest in funds managed by the firm, which will be funded at market value on the date of investment.

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Commitments to Extend Credit. 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.

Commercial lending commitments. The firm s commercial lending commitments are generally extended in connection with contingent acquisition financing and other types of corporate lending as well as commercial real estate financing. The total commitment amount does not necessarily reflect the actual future cash flow requirements, as the firm may syndicate all or substantial portions of these commitments in the future, 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 short-term in nature, as borrowers often seek to replace them with other funding sources.

William Street credit extension program. Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are principally extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of GS Bank USA, GS Bank USA and other subsidiaries of GS Bank USA. 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 GS Bank USA. The assets and liabilities of Commitment Corp. and Funding Corp. are 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 approximately $950 million. In addition, subject to the satisfaction of certain conditions, upon the firm s request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of $1.13 billion, of which $375 million of protection had been provided as of both June 2010 and December 2009. 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. These arrangements are secured by the warehoused assets, primarily consisting of residential and commercial mortgages as of June 2010 and December 2009.

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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:

	As of June 2010 (in millions)
Remainder of 2010	$ 248
2011	488
2012	363
2013	304
2014	217
2015-thereafter	1,673
Total	$ 3,293

Contingencies

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

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 $6.08 billion and $6.35 billion of contract holder account balances as of June 2010 and December 2009, respectively, for such benefits. The weighted average attained age of these contract holders was 69 years and 68 years as of June 2010 and December 2009, respectively. The net amount at risk, representing guaranteed minimum death and income benefits in excess of contract holder account balances, was $1.88 billion and $1.96 billion as of June 2010 and December 2009, respectively. See Note 12 for more information on the firm s insurance liabilities.

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Guarantees

The firm enters into various derivative contracts that meet the definition of a guarantee under ASC 460. Disclosures about derivative contracts are not required if such contracts may be cash settled and the firm has no basis to conclude it is probable that the counterparties held, at inception, the underlying instruments related to the derivative contracts. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties and certain other counterparties. Accordingly, the firm has not included such contracts in the 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., standby letters of credit and other guarantees to enable clients to complete transactions and merchant banking fund-related guarantees). These guarantees represent obligations to make payments to beneficiaries if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary.

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

	Carrying Value of Net Liability	Maximum Payout/ Notional Amount by Period of Expiration (1)				
		2010	2011-2012	2013-2014	2015-Thereafter	Total
		(in millions)				
As of June 2010						
Derivatives (2)	$ 8,376	$ 105,946	$ 305,134	$ 53,399	$ 61,796	$ 526,275
Securities lending indemnifications (3)		28,659				28,659
Other financial guarantees (4)	174	322	568	300	947	2,137

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

(2) Because derivative contracts are accounted for at fair value, carrying value is considered the best indication of payment/performance risk for individual contracts. However, the carrying value excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement and the effect of netting of cash

posted pursuant to credit support agreements. These derivative contracts are risk managed together with derivative contracts that do not meet the definition of a guarantee under ASC 460 and, therefore, these amounts do not reflect the firm s overall risk related to its derivative activities. As of December 2009, the carrying value of the net liability related to derivative guarantees was $7.22 billion.

(3) Collateral held by the lenders in connection with securities lending indemnifications was $29.67 billion as of June 2010. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities on loan from the borrower, there is minimal performance risk associated with these guarantees.

(4) As of December 2009, the carrying value of the net liability related to other financial guarantees was $207 million.

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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 7 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. Group Inc. also fully and unconditionally guarantees the securities issued by GS Finance Corp., a wholly owned finance subsidiary of the firm, which is consolidated for accounting purposes.

In the ordinary course of business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates. The firm also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults. In connection with its prime brokerage and clearing businesses, the firm agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm s obligations in respect of such transactions are secured by the assets in the client s account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. In connection with joint venture investments, the firm may issue loan guarantees under which it may be liable in the event of fraud, misappropriation, environmental liabilities and certain other matters involving the borrower. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the condensed consolidated statements of financial condition as of June 2010 and December 2009.

The firm provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The firm may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions such as securities issuances, borrowings or derivatives. In addition, the firm may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws. These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these arrangements have been recognized in the condensed consolidated statements of financial condition as of June 2010 and December 2009.

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Note 9. Shareholders Equity

Common and Preferred Equity

On July 19, 2010, Group Inc. declared a dividend of $0.35 per common share to be paid on September 29, 2010 to common shareholders of record on September 1, 2010.

During the six months ended June 2010, the firm repurchased 13.2 million shares of its common stock at an average cost per share of $172.14, for a total cost of $2.27 billion. In addition, to satisfy minimum statutory employee tax withholding requirements related to the delivery of common stock underlying RSUs, the firm cancelled 6.1 million of RSUs with a total value of $962 million during the six months ended June 2010.

The firm s share repurchase program is intended to substantially offset increases in share count over time resulting from employee share-based compensation and to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm s issuance of shares resulting from employee share-based compensation as well as its current and projected capital position (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. Any repurchase of the firm s common stock requires approval by the Board of Governors of the Federal Reserve System (Federal Reserve Board).

Perpetual preferred stock issued and outstanding as of June 2010 is set forth in the following table:

Series	Shares Authorized	Shares Issued	Shares Outstanding	Dividend Rate	Earliest Redemption Date	Redemption Value (in millions)
A	50,000	30,000	29,999	3 month LIBOR + 0.75%, with floor of 3.75% per annum	April 25, 2010	$ 750
B	50,000	32,000	32,000	6.20% per annum	October 31, 2010	800
C	25,000	8,000	8,000	3 month LIBOR + 0.75%, with floor of 4.00% per annum	October 31, 2010	200
D	60,000	54,000	53,999	3 month LIBOR + 0.67%,	May 24, 2011	1,350

				with floor of 4.00% per annum		
G	50,000	50,000	50,000	10.00% per annum	October 1, 2008	5,500
	235,000	174,000	173,998			$ 8,600

Each share of non-cumulative Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock issued and outstanding has a par value of $0.01, has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at the firm s option, subject to the approval of the Federal Reserve Board, at a redemption price equal to $25,000 plus declared and unpaid dividends.

Each share of 10% Cumulative Perpetual Preferred Stock, Series G (Series G Preferred Stock) issued and outstanding has a par value of $0.01, has a liquidation preference of $100,000 and is redeemable at the firm s option, subject to the approval of the Federal Reserve Board, at a redemption price equal to $110,000 plus accrued and unpaid dividends. In connection with the issuance of the Series G Preferred Stock, the firm issued a five-year warrant to purchase up to 43.5 million shares of common stock at an exercise price of $115.00 per share. The warrant is exercisable at any time until October 1, 2013 and the number of shares of common stock underlying the warrant and the exercise price are subject to adjustment for certain dilutive events.

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All series of preferred stock are pari passu and have a preference over the firm s common stock upon liquidation. 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.

In 2007, the Board of Directors of Group Inc. (Board) authorized 17,500.1 shares of perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock), and 5,000.1 shares of perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock), in connection with the APEX issuance. See Note 7 for further information on the APEX issuance. Under the stock purchase contracts, Group Inc. 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 debt 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 semi-annually 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 0.77% and (ii) 4.00%. Dividends on Series F Preferred Stock, if declared, will be payable quarterly at a rate per annum equal to three-month LIBOR plus 0.77% 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 0.77% and (ii) 4.00%. The preferred stock may be redeemed at the option of the firm on the stock purchase dates or any day thereafter, subject to regulatory approval and certain covenant restrictions governing the firm s ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics.

On July 14, 2010, Group Inc. declared dividends of $239.58, $387.50, $255.56 and $255.56 per share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock, respectively, to be paid on August 10, 2010 to preferred shareholders of record on July 26, 2010. In addition, Group Inc. declared a dividend of $2,500 per share of Series G Preferred Stock to be paid on August 10, 2010 to preferred shareholders of record on July 26, 2010.

Accumulated Other Comprehensive Income

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

	As of	
	June 2010	**December 2009**
	(in millions)	
Currency translation adjustment, net of tax	$ (146)	$ (132)
Pension and postretirement liability adjustments, net of tax	(306)	(317)
Net unrealized gains on available-for-sale securities, net of tax [(1)]	134	87

Total accumulated other comprehensive loss, net of tax	$ (318)	$ (362)

(1) Consists of net unrealized gains of $138 million and $84 million on available-for-sale securities held by the firm s insurance subsidiaries as of June 2010 and December 2009, respectively, and net unrealized gains/(losses) of $(4) million and $3 million on available-for-sale securities held by investees accounted for under the equity method as of June 2010 and December 2009, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 10. Earnings Per Common Share

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

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions, except per share amounts)			
Numerator for basic and diluted EPS net earnings applicable to common shareholders	$ 453	$ 2,718	$ 3,749	$ 4,377
Denominator for basic EPS weighted average number of common shares	539.8	514.1	542.9	495.7
Effect of dilutive securities [1]				
Restricted stock units	14.2	15.8	13.2	12.6
Stock options and warrants	26.4	21.1	29.1	11.8
Dilutive potential common shares	40.6	36.9	42.3	24.4
Denominator for diluted EPS weighted average number of common shares and dilutive potential common shares	580.4	551.0	585.2	520.1
Basic EPS [2]	$ 0.82	$ 5.27	$ 6.87	$ 8.81
Diluted EPS	0.78	4.93	6.41	8.42

(1) The diluted EPS computations do not include the antidilutive effect of RSUs, stock options and warrants as follows:

	Three Months Ended June		Six Months Ended June	
	2010	2009	2010	2009
	(in millions)			
Number of antidilutive RSUs and common shares underlying antidilutive stock options and warrants	6.1	14.3	6.0	53.3

(2) Unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating earnings per common share. The impact of

applying this methodology was a reduction to basic earnings per common share of $0.02 for both the three months ended June 2010 and June 2009, and $0.04 and $0.02 for the six months ended June 2010 and June 2009, respectively.

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Note 11. Goodwill and Identifiable Intangible Assets

Goodwill

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

	As of June 2010	As of December 2009
	(in millions)	
Investment Banking		
Underwriting	$ 125	$ 125
Trading and Principal Investments		
FICC	298	265
Equities [1]	2,361	2,389
Principal Investments	84	84
Asset Management and Securities Services		
Asset Management [2]	563	563
Securities Services	117	117
Total	$ 3,548	$ 3,543

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

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

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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, which are included in Other assets in the condensed consolidated statements of financial condition:

		As of June 2010	As of December 2009
		(in millions)	
Customer lists [1]	Gross carrying amount	$ 1,104	$ 1,117
	Accumulated amortization	(497)	(472)
	Net carrying amount	$ 607	$ 645
Broadcast royalties [2]	Gross carrying amount	$ 560	$
	Accumulated amortization	(31)	
	Net carrying amount	$ 529	$
Commodities-related intangibles [3]	Gross carrying amount	$ 596	$ 40
	Accumulated amortization	(25)	(10)
	Net carrying amount	$ 571	$ 30
NYSE DMM rights	Gross carrying amount	$ 714	$ 714
	Accumulated amortization	(314)	(294)
	Net carrying amount	$ 400	$ 420
Insurance-related intangibles [4]	Gross carrying amount	$ 292	$ 292
	Accumulated amortization	(176)	(142)
	Net carrying amount	$ 116	$ 150
Exchange-traded fund (ETF) lead market maker rights	Gross carrying amount	$ 138	$ 138
	Accumulated amortization	(51)	(48)
	Net carrying amount	$ 87	$ 90

Other [5]	Gross carrying amount	$ 109	$ 130
	Accumulated amortization	(73)	(88)
	Net carrying amount	$ 36	$ 42
Total	Gross carrying amount	$ 3,513	$ 2,431
	Accumulated amortization	(1,167)	(1,054)
	Net carrying amount	$ 2,346	$ 1,377

(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) Represents television broadcast royalties held by a VIE consolidated upon adoption of ASU No. 2009-17.

(3) Primarily includes commodity-related customer contracts and relationships, permits and access rights acquired during the first quarter of 2010.

(4) Primarily includes VOBA related to the firm s insurance businesses.

(5) Primarily includes marketing-related assets and other contractual rights.

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Substantially all of the firm s identifiable intangible assets are considered to have finite lives and are amortized over their estimated lives. The weighted average remaining life of the firm s identifiable intangible assets is approximately 12 years. Depreciation and amortization in the condensed consolidated statements of earnings includes amortization related to identifiable intangible assets of $82 million and $24 million for the three months ended June 2010 and June 2009, respectively, and $126 million and $62 million for the six months ended June 2010 and June 2009, respectively.

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

	As of June 2010 (in millions)
Remainder of 2010	$ 134
2011	288
2012	273
2013	251
2014	220
2015	188

Note 12. Other Assets and Other Liabilities

Other Assets

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

	As of June 2010	As of December 2009
	(in millions)	
Property, leasehold improvements and equipment (1)(2)	$ 11,958	$ 11,380
Goodwill and identifiable intangible assets (3)	5,894	4,920
Income tax-related assets	6,292	7,937
Equity-method investments (4)	1,359	1,484
Miscellaneous receivables and other	3,697	3,747
Total	$ 29,200	$ 29,468

(1) Net of accumulated depreciation and amortization of $7.80 billion and $7.28 billion as of June 2010 and December 2009, respectively.

(2) Includes $5.99 billion and $5.90 billion as of June 2010 and December 2009, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities consolidated by the firm. The increase in property, leasehold improvements and equipment from December 2009 to June 2010 is primarily related to consolidated VIEs.

(3) See Note 11 for further information regarding the firm s goodwill and identifiable intangible assets.

(4) Excludes investments of $4.00 billion and $2.95 billion accounted for at fair value under the fair value option as of June 2010 and December 2009, respectively, which are included in Trading assets, at fair value in the condensed consolidated statements of financial condition. The increase in investments accounted for at fair value under the fair value option from December 2009 to June 2010 is primarily related to investments held by VIEs consolidated upon adoption of ASU No. 2009-17.

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Other Liabilities

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

	As of June 2010	As of December 2009
	(in millions)	
Compensation and benefits	$ 8,729	$ 11,170
Insurance-related liabilities [1]	11,411	11,832
Noncontrolling interests [2]	969	960
Income tax-related liabilities	2,193	4,022
Employee interests in consolidated funds	442	416
Subordinated liabilities issued by consolidated VIEs	1,844 [3]	612
Accrued expenses and other	4,812	4,843
Total	$ 30,400	$ 33,855

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

	As of June 2010	As of December 2009
	(in millions)	
Separate account liabilities	$ 3,689	$ 4,186
Liabilities for future benefits and unpaid claims	6,617	6,484
Contract holder account balances	810	874
Reserves for guaranteed minimum death and income benefits	295	288
Total insurance-related liabilities	$ 11,411	$ 11,832

Separate account liabilities are supported 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 condensed consolidated statements of financial condition.

Liabilities for future benefits and unpaid claims include liabilities arising from reinsurance provided by the firm to other insurers. The firm had a receivable of $1.34 billion and $1.29 billion as of June 2010 and December 2009, respectively, related to such reinsurance contracts, which is reported in Receivables from customers and counterparties in the condensed consolidated statements of financial condition. In addition, the firm has ceded risks to reinsurers related to certain of its liabilities for future benefits and unpaid claims and had a receivable of $869 million and $870 million as of June 2010 and December 2009, respectively, related to such reinsurance contracts, which is reported in Receivables from customers and counterparties in the condensed consolidated statements of financial condition. Contracts to cede risks to reinsurers do not relieve the firm from its obligations to contract holders. Liabilities for future benefits and unpaid claims include $1.93 billion and $1.84 billion carried at fair value under the fair value option as of June 2010 and December 2009, respectively.

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 based on total payments expected to be made less total fees expected to be assessed over the life of the contract.

(2) Includes $613 million and $598 million related to consolidated investment funds as of June 2010 and December 2009, respectively.

(3) Includes $1.29 billion related to entities consolidated upon adoption of ASU No. 2009-17.

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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 $1.15 billion and $1.19 billion for the six months ended June 2010 and June 2009, respectively. As of June 2010 and December 2009, the fees receivable from these funds were $751 million and $1.04 billion, 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 $13.68 billion and $13.84 billion as of June 2010 and December 2009, respectively.

The firm has provided voluntary financial support to certain of its funds that have experienced significant reductions in capital and liquidity or had limited access to the debt markets during the financial crisis. As of July 31, 2010, the firm had exposure to these funds in the form of loans and guarantees of $355 million, primarily related to certain real estate funds. In addition, as of July 31, 2010, the firm had outstanding commitments to extend credit to these funds of $151 million. The firm may provide additional voluntary financial support to these funds if they were to experience significant financial distress; however, such amounts are not expected to be material to the firm. 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 8 for the firm s investment commitments related to these funds.

Note 14. Income Taxes

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, Hong Kong, Korea and various states, such as New York. The tax years under examination vary by jurisdiction. The firm believes that within the twelve months subsequent to June 2010, certain audits have a reasonable possibility of being completed. The firm does not expect completion of these audits to have a material impact on the firm s financial condition but it may be material to the firm s operating results for a particular period, depending, in part, upon the operating results for that period.

Below is a table of the earliest tax years that remain subject to examination by major jurisdiction:

Jurisdiction	As of June 2010
U.S. Federal	2005 (1)
New York State and City	2004 (2)
United Kingdom	2005
Japan	2005 (3)
Hong Kong	2004
Korea	2003

(1) IRS examination of fiscal 2005, 2006 and 2007 began during 2008. IRS examination of fiscal 2003 and 2004 has been completed but the liabilities for those years are not yet final.

(2) New York State and City examination of fiscal 2004, 2005 and 2006 began in 2008.

(3) Japan National Tax Agency examination of fiscal 2005 through 2009 began during the first quarter of 2010.

All years subsequent to the above years remain open to examination by the taxing authorities. The firm believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

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Note 15. Regulation and Capital Adequacy

The Federal Reserve Board is the primary U.S. regulator of Group Inc., a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956. As a bank holding company, the firm is subject to consolidated regulatory capital requirements administered by the Federal Reserve Board. The firm s bank depository institution subsidiaries, including GS Bank USA, are subject to similar capital requirements. Under the Federal Reserve Board s capital adequacy requirements and the regulatory framework for prompt corrective action (PCA) that is applicable to GS Bank USA, the firm and its bank depository institution subsidiaries must meet specific capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory reporting practices. The firm and its bank depository institution subsidiaries capital amounts, as well as GS Bank USA s PCA classification, are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Many of the firm s subsidiaries, including GS&Co. and the firm s other broker-dealer subsidiaries, are subject to separate regulation and capital requirements as described below.

The following table sets forth information regarding Group Inc. s capital ratios as of June 2010 and December 2009 calculated in accordance with the Federal Reserve Board s regulatory capital requirements currently applicable to bank holding companies, which are based on the Capital Accord of the Basel Committee on Banking Supervision (Basel I). These ratios are used by the Federal Reserve Board and other U.S. federal banking agencies in the supervisory review process, including the assessment of the firm s capital adequacy.

	As of	
	June 2010	**December 2009**
	($ in millions)	
Tier 1 capital	$ 68,484	$ 64,642
Tier 2 capital	13,449	13,828
Total capital	81,933	78,470
Risk-weighted assets	451,247	431,890
Tier 1 capital ratio	15.2%	15.0%
Total capital ratio	18.2%	18.2%
Tier 1 leverage ratio	8.0%	7.6%

Risk-Weighted Assets (RWAs) under the Federal Reserve Board s risk-based capital guidelines are calculated based on the amount of market risk and credit risk. RWAs for market risk are determined by reference to the firm s VaR models, supplemented by other measures to capture risks not reflected in the firm s VaR models. Credit risk for on-balance sheet assets is based on the balance sheet value. For off-balance sheet exposures, including OTC derivatives and commitments, a credit equivalent amount is calculated based on the notional amount of each trade. All such assets and amounts are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or qualifying securities firm, or other entity (or if collateral is held, depending on the nature of the collateral).

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The firm s Tier 1 leverage ratio is defined as Tier 1 capital under Basel I divided by average adjusted total assets (which includes adjustments for disallowed goodwill and intangible assets, and the carrying value of equity investments in non-financial companies that are subject to deductions from Tier 1 capital).

Federal Reserve Board regulations require bank holding companies to maintain a minimum Tier 1 capital ratio of 4% and a minimum total capital ratio of 8%. The required minimum Tier 1 capital ratio and total capital ratio in order to be considered a well capitalized bank holding company under the Federal Reserve Board guidelines are 6% and 10%, respectively. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile and growth plans. The minimum Tier 1 leverage ratio is 3% for bank holding companies that have received the highest supervisory rating under Federal Reserve Board guidelines or that have implemented the Federal Reserve Board s risk-based capital measure for market risk. Other bank holding companies must have a minimum Tier 1 leverage ratio of 4%.

The firm is currently working to implement the requirements set out in the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee on Banking Supervision (Basel II) as applicable to it as a bank holding company. U.S. banking regulators have incorporated the Basel II framework into the existing risk-based capital requirements by requiring that internationally active banking organizations, such as Group Inc., transition to Basel II over several years.

The Dodd-Frank Wall Street Reform and Consumer Protection Act will subject the firm at a firmwide level to the same leverage and risk-based capital requirements that apply to depository institutions specifically, and directs banking regulators to impose additional capital requirements. The Federal Reserve Board will be required to implement the new leverage and risk-based capital regulation by January 2012. As a consequence of these changes, Tier 1 capital treatment for the firm s junior subordinated debt issued to trusts and the firm s cumulative preferred stock will be phased out over a three-year period beginning on January 1, 2013.

GS Bank USA, a New York State-chartered bank and a member of the Federal Reserve System and the FDIC, is regulated by the Federal Reserve Board and the New York State Banking Department (NYSBD) and is subject to minimum capital requirements that (subject to certain exceptions) are similar to those applicable to bank holding companies. GS Bank USA computes its capital ratios in accordance with the regulatory capital guidelines currently applicable to state member banks, which are based on Basel I as implemented by the Federal Reserve Board, for purposes of assessing the adequacy of its capital. In order to be considered a well capitalized depository institution under the Federal Reserve Board guidelines, GS Bank USA must maintain a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. In November 2008, the firm contributed subsidiaries into GS Bank USA. In connection with this contribution, GS Bank USA agreed with the Federal Reserve Board to minimum capital ratios in excess of these well capitalized levels. Accordingly, for a period of time, GS Bank USA is expected to maintain a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 11% and a Tier 1 leverage ratio of at least 6%.

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The following table sets forth information regarding GS Bank USA s capital ratios under Basel I as implemented by the Federal Reserve Board, as of June 2010 and December 2009:

	As of	
	June 2010	December 2009
Tier 1 capital ratio	17.5%	14.9%
Total capital ratio	22.3%	19.3%
Tier 1 leverage ratio	20.0%	15.4%

GS Bank USA is currently working to implement the Basel II framework. Similar to the firm s requirement as a bank holding company, GS Bank USA is required to transition to Basel II over the next several years.

The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The amount deposited by the firm s depository institution subsidiaries held at the Federal Reserve Bank was approximately $21.02 billion and $27.43 billion as of June 2010 and December 2009, respectively, which exceeded required reserve amounts by $20.33 billion and $25.86 billion as of June 2010 and December 2009, respectively. GS Bank Europe, a wholly owned credit institution, is regulated by the Irish Financial Services Regulatory Authority and is subject to minimum capital requirements. As of June 2010 and December 2009, GS Bank USA and GS Bank Europe were both in compliance with all regulatory capital requirements.

Transactions between GS Bank USA and its subsidiaries and Group Inc. and its subsidiaries and affiliates (other than, generally, subsidiaries of GS Bank USA) are regulated by the Federal Reserve Board. These regulations generally limit the types and amounts of transactions (including loans to and borrowings from GS Bank USA) that may take place and generally require those transactions to be on an arm s-length basis.

The firm s U.S. regulated broker-dealer subsidiaries include 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 effectively 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 June 2010, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of $10.37 billion, which exceeded the amount required by $8.51 billion. As of June 2010, GSEC had regulatory net capital, as defined by Rule 15c3-1, of $1.91 billion, which exceeded the amount required by $1.82 billion. 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 June 2010 and December 2009, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

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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 outside of the U.S. are regulated by the U.K. s Financial Services Authority (FSA) and certain are regulated by the Bermuda Monetary Authority. The firm s insurance subsidiaries were in compliance with all regulatory capital requirements as of June 2010 and December 2009.

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 FSA. GSJCL, the firm s regulated Japanese broker-dealer, is subject to the capital requirements imposed by Japan s Financial Services Agency. As of June 2010 and December 2009, 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 June 2010 and December 2009, 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. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board, the FDIC and the NYSBD have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator s opinion, payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization.

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. See Note 18 to the consolidated financial statements in Part II, Item 8 of the firm s Annual Report on Form 10-K for the fiscal year ended December 2009 for a discussion of the basis of presentation for the firm s business segments.

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Segment Operating Results

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

		As of or for the			
		Three Months Ended June		Six Months Ended June	
		2010	2009	2010	2009
		(in millions)			
Investment Banking	Net revenues	$ 917	$ 1,440	$ 2,101	$ 2,263
	Operating expenses	760	1,167	1,710	1,872