

The Goldman Sachs logo, consisting of the words "Goldman" and "Sachs" stacked vertically in a white, serif font, set against a black square background.

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# Consolidated Statement of Financial Condition

May 26, 2006

## Goldman, Sachs & Co.

Established 1869

New York Hong Kong London Tokyo  
Atlanta Auckland\* Bangalore Bangkok Beijing Boston  
Buenos Aires Calgary Chicago Dallas Dublin Frankfurt  
Geneva George Town Houston Jersey City Johannesburg  
Los Angeles Madrid Melbourne\* Mexico City Miami Milan  
Moscow Paris Philadelphia Princeton Salt Lake City  
San Francisco São Paulo Seattle Seoul Shanghai Singapore  
Stockholm Sydney\* Taipei Tampa Toronto Washington, D.C. Zurich

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# Goldman, Sachs & Co. and Subsidiaries

## Consolidated Statement of Financial Condition (unaudited)

As of May 26, 2006  
(in thousands)

### ASSETS

Cash and cash equivalents . . . . .	\$ 2,766,519
Cash and securities segregated in compliance with federal and other regulations . . . . .	43,657,459
Receivables from brokers, dealers and clearing organizations . . . . .	10,470,567
Receivables from customers and counterparties . . . . .	18,867,994
Securities borrowed . . . . .	269,522,202
Securities purchased under agreements to resell . . . . .	51,677,460
Financial instruments owned, at fair value . . . . .	73,104,285
Financial instruments owned and pledged as collateral, at fair value . . . . .	<u>23,710,266</u>
Total financial instruments owned, at fair value . . . . .	96,814,551
Other assets . . . . .	<u>5,424,479</u>
TOTAL ASSETS . . . . .	<u>\$ 499,201,231</u>

### LIABILITIES and PARTNERS' CAPITAL

Short-term borrowings . . . . .	\$ 47,154,018
Payables to brokers, dealers and clearing organizations . . . . .	11,694,066
Payables to customers and counterparties . . . . .	96,194,025
Securities loaned . . . . .	161,252,742
Securities sold under agreements to repurchase . . . . .	95,943,661
Financial instruments sold, but not yet purchased, at fair value . . . . .	61,880,891
Other liabilities and accrued expenses . . . . .	6,493,884
Long-term borrowings . . . . .	<u>1,334,333</u>
	481,947,620
Commitments, contingencies and guarantees	
Subordinated borrowings	12,500,000
Partners' capital	
Partners' capital . . . . .	4,730,311
Accumulated other comprehensive income . . . . .	<u>23,300</u>
Total partners' capital . . . . .	<u>4,753,611</u>
TOTAL LIABILITIES and PARTNERS' CAPITAL . . . . .	<u>\$ 499,201,231</u>

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

## Notes to Consolidated Statement of Financial Condition (unaudited)

### Note 1. Description of Business

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

The firm's activities are as follows:

- **Investment Banking.** The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, governments and individuals.
- **Trading.** The firm facilitates customer transactions with a diverse group of corporations, financial institutions, governments and individuals and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, and derivatives on such products.
- **Asset Management and Securities Services.** The firm provides investment advisory and financial planning services and offers investment products 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 mutual funds, pension funds, hedge funds, foundations, and high-net-worth individuals worldwide.

### Note 2. Significant Accounting Policies

#### ***Basis of Presentation***

The consolidated statement of financial condition has been prepared in accordance with generally accepted accounting principles that require management to make certain estimates and assumptions. The most important of these estimates and

assumptions relate to fair value measurements, the accounting for goodwill, 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.

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

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

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

**Variable Interest Entities.** VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46-R, "Consolidation of Variable Interest Entities," the firm consolidates all VIEs of which it is the primary beneficiary.

The firm determines whether it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the

VIE. Where qualitative analysis is not conclusive, the firm performs a quantitative analysis. For purposes of allocating a VIE's expected losses and expected residual returns to its variable interest holders, the firm utilizes the "top down" method. Under that method, the firm calculates its share of the VIE's expected losses and expected residual returns using the specific cash flows that would be allocated to it, based on contractual arrangements and/or the firm's position in the capital structure of the VIE, under various probability-weighted scenarios.

**QSPEs.** QSPEs are passive entities that are commonly used in mortgage and other securitization transactions. Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," sets forth the criteria an entity must satisfy to be a QSPE. These criteria include the types of assets a QSPE may hold, limits on asset sales, the use of derivatives and financial guarantees, and the level of discretion a servicer may exercise in attempting to collect receivables. These criteria may require management to make judgments about complex matters, including whether a derivative is considered passive and the degree of discretion a servicer may exercise. In accordance with SFAS No. 140 and FIN No. 46-R, the firm does not consolidate QSPEs.

**Equity-Method Investments.** When the firm does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting interest of 20% to 50%) and has an interest in common stock or in-substance common stock, the firm accounts for its interest in accordance with the equity method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock."

**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.

This consolidated statement of financial condition is unaudited and should be read in conjunction with the audited consolidated statement of financial condition incorporated by reference for the fiscal year ended November 25, 2005.

Unless specifically stated otherwise, all references to May 2006 refer to the firm's fiscal period ended, or the date, as the context requires, May 26, 2006.

**Repurchase Agreements and Collateralized Financing Arrangements.** Securities purchased under agreements to resell and securities sold under agreements to repurchase, principally U.S. government, federal agency and investment-grade foreign sovereign obligations, represent short-term collateralized financing transactions and are carried in the consolidated statement of financial condition at their contractual amounts plus accrued interest. These amounts are presented on a net-by-counterparty basis when the requirements of FIN No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements," or FIN No. 39, "Offsetting of Amounts Related to Certain Contracts" are satisfied. 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.

Securities borrowed and loaned are recorded based on the amount of cash collateral advanced or received. These transactions 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.

**Financial Instruments.** "Total financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" are reflected in the consolidated statement of financial condition on a trade date basis and consist of financial instruments carried at fair value or amounts that approximate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

In determining fair value, the firm separates its financial instruments into two categories — cash (i.e., nonderivative) trading instruments and derivative contracts.

**Cash Trading Instruments.** Fair values of the firm's cash trading instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued in this manner include U.S. government and agency securities, other sovereign government obligations, liquid mortgage products, investment-grade corporate bonds, listed equities, money market securities, state, municipal and provincial obligations.

Certain cash trading instruments trade infrequently and have little or no price transparency. Such instruments may include certain high-yield and distressed debt. The firm values these instruments initially at cost and generally does not adjust valuations unless there is substantive evidence supporting a change in the value of the underlying instrument or valuation assumptions (such as similar market transactions, changes in financial ratios or changes in the credit ratings of the underlying companies). Where there is evidence supporting a change in the value, the firm uses valuation methodologies such as the present value of known or estimated cash flows.

Cash trading instruments owned by the firm (long positions) are marked to bid prices, and instruments sold but not yet purchased (short positions) are marked to offer prices. If liquidating a position is expected to affect its prevailing market price, the valuation is adjusted generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine this adjustment.

**Derivative Contracts.** Fair values of the firm's derivative contracts consist of exchange-traded and over-the-counter (OTC) derivatives and are reflected net of cash that the firm has paid and received (for example, option premiums or cash paid or received pursuant to credit support agreements). Fair values of the firm's exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. The firm uses a variety of valuation models including the present value of known or estimated cash flows and option-pricing models. The valuation models used to derive the fair values of the firm's OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

The selection of a 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. Where possible, the firm verifies the values produced by its pricing models to market transactions. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model selection does not involve significant judgment because market prices are readily available. For OTC derivatives that trade in less liquid markets, model selection requires more judgment because such instruments tend to be more complex and pricing information is less available in these markets. As markets continue to

develop and more pricing information becomes available, the firm continues to review and refine the models it uses.

When appropriate, valuations are adjusted to reflect various factors such as liquidity, bid/offer spreads and credit considerations. These adjustments are generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine these adjustments.

In general, transfers of financial assets are accounted for as sales under SFAS No. 140 when the firm has relinquished control over transferred assets.

### ***Goodwill***

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of a reporting unit is less than its estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

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

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

Property and equipment placed in service prior to December 1, 2001 are depreciated under the accelerated cost recovery method. Property and equipment placed in service on or after December 1, 2001 are depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements for which the useful life of the improvement is shorter than the term of the lease are amortized under the accelerated cost recovery method if placed in service prior to December 1, 2001. All other leasehold improvements are amortized straight line 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 amortized on a straight-line basis over the useful life of the software.

Property, leasehold improvements and equipment are tested for potential impairment whenever events or changes in

circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

### ***Foreign Currency Translation***

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

### ***Income Taxes***

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. Effective November 29, 2003, GS&Co. elected to be taxed as a corporation for U.S. federal income tax purposes. As a corporation for tax purposes, the firm is subject to U.S. federal and various state and local income taxes on its earnings. The firm also continues to be subject to taxes in foreign jurisdictions on certain of its operations. Upon its election to be taxed as a corporation, the firm recognized a deferred tax benefit related to the revaluation of net deferred assets recorded as a partnership.

The firm's tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively, in the consolidated statement of financial condition. Tax provisions are computed in accordance with SFAS No. 109, "Accounting for Income Taxes." Contingent liabilities related to income taxes are recorded when the criteria for loss recognition under SFAS No. 5, "Accounting for Contingencies," as amended, have been met.

### ***Transactions with Related Parties***

The firm enters into transactions with Group Inc. and affiliates in the normal course of business as part of its trading, financing and general operations. In addition, certain revenue and expense amounts have been allocated to and from Group Inc. and affiliates.

Amounts outstanding to/from such affiliates are reflected in the consolidated statement of financial condition as set forth below (in millions):

### **Assets**

Receivables from brokers, dealers and clearing organizations . . . . .	\$ 4,501
Receivables from customers and counterparties . . . . .	197
Securities borrowed . . . . .	81,257
Securities purchased under agreements to resell . . . . .	9,604
Financial instruments owned, at fair value (derivatives) . . . . .	3,489
Other assets . . . . .	2,717

### **Liabilities**

Short-term borrowings . . . . .	\$ 44,208
Payables to brokers, dealers and clearing organizations . . . . .	8,005
Payables to customers and counterparties . . . . .	7,088
Securities loaned . . . . .	158,170
Securities sold under agreements to repurchase . . . . .	30,174
Financial instruments sold, but not yet purchased at fair value (derivatives) . . . . .	2,682
Long-term borrowings . . . . .	1,145
Subordinated borrowings . . . . .	12,500
Other Liabilities and accrued expenses . . . . .	7

The firm, from time to time, makes markets in debt issued by Group Inc. and certain affiliates. Included in "Total financial instruments owned, at fair value" are \$998 million of such issuances.

### ***Cash and Cash Equivalents***

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

### ***Note 3. Financial Instruments***

#### ***Fair Value of Financial Instruments***

The following table sets forth the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value (in millions):

**As of May 2006**

	<b>Assets</b>	<b>Liabilities</b>
Commercial paper, certificates of deposit, time deposits and other money market instruments . . . . .	\$ 2,589	\$ —
U.S. government, federal agency and sovereign obligations . . . . .	33,253	35,835
Corporate and other debt obligations . . . .	21,643	4,374
Mortgage whole loans and collateralized debt obligations . . . . .	8,040	19
Investment-grade corporate bonds . . . .	7,726	2,581
High-yield securities . . . . .	4,345	1,588
Preferred stock . . . . .	763	102
Other . . . . .	769	84
	<u>21,643</u>	<u>4,374</u>
Equities and convertible debentures . . . .	27,158	13,507
State, municipal and provincial obligations	3,081	126
Derivative contracts . . . . .	8,875	8,039
Other . . . . .	220	—
Total . . . . .	<u>\$ 96,819</u>	<u>\$ 61,881</u>

**Derivative Activities**

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

Substantially all of the firm's derivative transactions are entered into for trading purposes, to facilitate customer transactions, to take proprietary positions or as a means of risk management. Risk exposures are managed through diversification, by controlling position sizes and by establishing hedges in related securities or derivatives. For example, the firm may hedge a

portfolio of common stock by taking an offsetting position in a related equity-index futures contract.

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

	<b>As of May 2006</b>	
	<b>Assets</b>	<b>Liabilities</b>
Forward settlement contracts . . . . .	\$ 3,170	\$ 3,218
Swap agreements . . . . .	920	1,215
Option contracts . . . . .	4,785	3,606
Total . . . . .	<u>\$ 8,875</u>	<u>\$ 8,039</u>

**Securitization Activities**

The firm securitizes government and corporate bonds and 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 also acts as underwriter when other subsidiaries of Group Inc. securitize financial assets, and it may retain interest in these securitized financial assets.

The firm may retain interests in securitized financial assets that it securitized or in financial assets securitized by other subsidiaries of Group Inc. for which it acted as underwriter. Retained interests are accounted for at fair value and included in "Total financial instruments owned, at fair value" in the consolidated statement of financial condition.

During the six months ended May 2006, the firm securitized \$5.6 billion of residential mortgage-backed securities.

As of May 2006, the firm held \$1.5 billion of retained interests in QSPEs. The fair value of retained interests valued using quoted market prices in active markets was \$938 million as of May 2006.

The following table sets forth the weighted average key economic assumptions used in measuring retained interests for which fair value is based on alternative pricing sources with reasonable, little or no price transparency and the sensitivity of those fair values to immediate adverse changes of 10% and 20% in those assumptions (in millions):

	<b>As of May 2006</b>	
	<b>Type of Retained Interests</b>	
	<b>Mortgage-Backed and Corporate Debt and Other<sup>(3)</sup></b>	
Fair value of retained interests . . . . .	\$	526
Weighted average life (years) . . . . .		9.7
<b>Annual constant prepayment rate</b> . . . . .		16.66%
Impact of 10% adverse change . . . . .	\$	(14)
Impact of 20% adverse change . . . . .	\$	(18)
<b>Annual credit losses<sup>(1)</sup></b> . . . . .		1.58%
Impact of 10% adverse change <sup>(2)</sup> . . . . .	\$	(19)
Impact of 20% adverse change <sup>(2)</sup> . . . . .	\$	(31)
<b>Annual discount rate</b> . . . . .		9.10%
Impact of 10% adverse change . . . . .	\$	(29)
Impact of 20% adverse change . . . . .	\$	(55)

(1) Anticipated credit losses are computed only on positions in which expected credit loss is a key assumption in the determination of fair values.

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

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

The preceding table does not give effect to the offsetting benefit of other financial instruments that are held to hedge risks inherent in these retained interests. Changes in fair value based on a 10% adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In addition, the impact of a change in a particular assumption is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

In addition to the retained interests described above, the firm also held interests in residential mortgage QSPEs purchased in connection with secondary market-making activities. These purchased interests approximated \$6.1 billion as of May 2006.

### **Variable Interest Entities (VIEs)**

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

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

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

The following table sets forth the firm's total assets in consolidated VIEs in which the firm holds significant variable interests and the firm's maximum exposure to loss associated with these interests (in millions):

	<b>As of May 2006</b>	
Consolidated VIE assets . . . . .	\$	2,153
Maximum exposure to loss . . . . .		1,907

The following table sets forth the firm's total assets in non-consolidated VIEs in which the firm holds significant variable interests and the firm's maximum exposure to loss associated with these interests (in millions):



As of May 2006

VIE assets	
Collateralized debt obligations .....	\$ 23,384
Investments in loans and real estate .....	2,157
Mortgage-backed and other asset-backed .....	6,559
Total VIE assets .....	<u>\$ 32,100</u>

Maximum exposure to loss	
Collateralized debt obligations .....	\$ 226
Investments in loans and real estate .....	249
Mortgage-backed and other asset-backed .....	624
Total maximum exposure to loss .....	<u>\$ 1,099</u>

**Secured Borrowing and Lending Activities**

The firm obtains secured short-term financing principally through the use of repurchase agreements, securities lending agreements and other financings. In these transactions, the firm receives cash or securities in exchange for other securities, including U.S. government, federal agency and sovereign obligations, corporate debt and other debt obligations, equities and convertibles, letters of credit and other assets.

The firm obtains securities as collateral principally through the use of resale agreements, securities borrowing agreements, derivative transactions, customer margin loans and other secured borrowing activities to finance inventory positions, to meet customer needs and to satisfy settlement requirements. In many cases, the firm is permitted to sell or repledge securities held as collateral. These securities may be used to secure repurchase agreements, to enter into securities lending or derivative transactions, or to cover short positions. As of May 2006, the fair value of securities received as collateral by the firm that it was permitted to sell or repledge was \$442.4 billion, of which the firm sold or repledged \$404.9 billion.

The firm also pledges securities it owns. Counterparties may or may not have the right to sell or repledge the securities. Securities owned and pledged to counterparties that have the right to sell or repledge are reported as "Financial instruments owned and pledged as collateral, at fair value" in the consolidated statement of financial condition and were \$23.7 billion as of May 2006. Securities owned and pledged in connection with repurchase and securities lending agreements to counterparties that did not have the right to sell or repledge are included in "Financial instruments owned, at fair value" in the consolidated statement of financial condition and were \$47.7 billion as of May 2006.

In addition to repurchase and securities lending agreements, the firm also pledges securities and other assets it owns to counterparties that do not have the right to sell or repledge, in order to collateralize secured long-term borrowings. In connection with these transactions, the firm pledged assets of \$106 million as of May 2006. See Note 5 for further information regarding the firm's secured long-term borrowings.

**Note 4. Short-Term Borrowings**

The firm generally obtains short-term borrowings, on a secured basis, primarily from Group Inc. and on an unsecured basis through bank loans. The carrying value of these short-term obligations approximates fair value due to their short-term nature.

**Note 5. Long-Term Borrowings**

The firm obtains long-term borrowings, primarily from Group Inc. As of May 2006, long-term borrowings were \$1.3 billion, of which \$1.1 billion were from Group Inc. Other long-term borrowings by fiscal maturity date are set forth below (in millions):

2007 .....	\$ -
2008 .....	144
2009 .....	33
2010 .....	12
2011 .....	-
2012–thereafter .....	-
Total .....	<u>\$ 189</u>

**Note 6. Subordinated Borrowings**

As of May 2006, the firm borrowed \$3.0 billion from Group Inc. under two subordinated loan agreements which mature on September 30, 2007. In addition, the firm has a \$12.5 billion revolving subordinated loan agreement with Group Inc., which also matures on September 30, 2007. As of May 2006, \$9.5 billion was drawn down under this agreement.

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

**Commitments**

**Forward Secured Financings.** The firm had commitments to enter into forward secured financing transactions, including certain repurchase and resale agreements and secured borrowing and lending arrangements, of \$3.8 billion as of May 2006.

**Commitments to Extend Credit.** In connection with its lending activities, the firm had outstanding commitments of \$50 million as of May 2006. 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, the total commitment amount does not necessarily reflect the actual future cash flow requirements. The firm accounts for these commitments at fair value.

**Letters of Credit.** The firm provides letters of credit issued by various banks to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements. Letters of credit outstanding were \$4.8 billion as of May 2006.

**Leases.** The firm has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through fiscal 2011. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. Future minimum rental payments, net of minimum sublease rentals are set forth below (in millions):

**Minimum rental payments**

Remainder 2006.....	\$	26
2007.....		51
2008.....		35
2009.....		13
2010.....		10
2011.....		1
Total.....	\$	<u>136</u>

In addition, the firm bears rental and other costs relating to properties of which the firm is the main occupant, but for which the lease commitments are in the name of Group Inc.

**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.

**Guarantees**

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

In connection with certain asset sales and securitization transactions, the firm guarantees the collection of contractual cash flows. In addition, the firm provides other guarantees, on a limited basis, to enable clients to enhance their credit standing and complete transactions.

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 May 2006 (in millions):

	Carrying Value	Maximum Payout/Notional Amount by Period of Expiration <sup>(2)</sup>				Total
		2006	2007–2008	2009–2010	2011– Thereafter	
Derivatives <sup>(1)</sup>	\$ 67	\$5,242	\$270	\$–	\$919	\$6,431
Guarantees of the collection of contractual cash flows	–	20	2	–	–	22

(1) The carrying value excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement.

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

In the normal course of its business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates. The firm also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults. In connection with its prime brokerage and clearing businesses, the firm agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the consolidated statement of financial condition as of May 2006.

The firm provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations

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

#### Note 8. Employee Benefit Plans

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

#### **Defined Benefit Pension Plans and Postretirement Plans**

Group Inc. maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan has been closed to new participants and no further benefits will be accrued to existing participants. Employees of certain non-U.S. subsidiaries of the firm participate in various local defined benefit pension plans. These plans generally provide benefits based on years of credited service and a percentage of the employee's eligible compensation. In addition, Group Inc. has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under the U.S. benefits program. Group Inc. does not project the plans' benefit obligations and fair value of assets for the employees of participating subsidiaries.

**Stock Incentive Plan**

Group Inc. sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (the Amended SIP), which provides for grants of incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards. In the second quarter of fiscal 2003, the Amended SIP was approved by Group Inc.'s shareholders, effective for grants after April 1, 2003, and no further awards were or will be made under the original plan after that date, although awards granted under the original plan prior to that date remain outstanding.

**Restricted Stock Units and Stock Options**

Group Inc. issued restricted stock units to employees of the firm under the Amended SIP, primarily in connection with year-end compensation and acquisitions. The subsequent amortization of the cost of these restricted stock units is allocated to the firm by Group Inc. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain other requirements outlined in the award agreements.

As of November 2004, all stock options granted to employees in May 1999 in connection with Group Inc.'s initial public offering are fully vested and exercisable. Stock options granted to employees subsequent to Group Inc.'s initial public offering generally vest as outlined in the applicable stock option agreement and first become exercisable on the third anniversary of the grant date. Year-end stock options for 2005 become exercisable in January 2009 and expire on November 27, 2015. Shares received on exercise prior to January 2010 will not be transferable until January 2010. All employee stock option agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. In general, all stock options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation in certain circumstances in accordance with the terms of the Amended SIP and the applicable stock option agreement.

GS&Co. is a registered U.S. broker-dealer and futures commission merchant subject to Rule 15c3-1 of the Securities and Exchange Commission (SEC) and Rule 1.17 of the Commodity Futures Trading Commission, which specify uniform minimum net capital requirements, as defined, for their registrants. GS&Co. has elected to compute net capital in accordance with the "Alternative Net Capital Requirement," as permitted by Rule 15c3-1. As of May 2006, GS&Co. had net capital in excess of its minimum capital requirements. In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of May 2006, GS&Co. had tentative net capital and net capital in excess of both the minimum and notification requirements.

Certain other subsidiaries of GS&Co. are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of May 2006, these subsidiaries were in compliance with their local capital adequacy requirements.

As of May 2006, GS&Co. made a computation related to the reserve requirement for Proprietary Accounts of Introducing Brokers (PAIB) that indicated the Company's PAIB debits exceeded its PAIB credits. The amount held on deposit in the Reserve Bank at May 2006 was \$300.4 million.

During the second fiscal quarter of 2005, Group Inc. became regulated by the SEC as a consolidated supervised entity (CSE). As such, it is subject to group-wide supervision and examination by the SEC and is subject to minimum capital requirements on a consolidated basis. As of May 2006, Group Inc. was in compliance with the CSE capital requirements.

This statement of financial condition filed pursuant to rule 17a-5 of the Securities and Exchange Commission is available for inspection at the principal office of the firm and at the New York regional office of the Commission.

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