GOLDMAN SACHS GROUP INC/
Form 10-Q
April 04, 2007

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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 February 23, 2007

or

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

For the transition period 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.)**
85 Broad Street, New York, NY	**10004**
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer 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 March 23, 2007 there were 408,469,518 shares of the registrant s common stock outstanding.

THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE FISCAL QUARTER ENDED FEBRUARY 23, 2007

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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 February	
	2007	**2006**
	(in millions, except per share amounts)	
Revenues		
Investment banking	$ 1,716	$ 1,470
Trading and principal investments	9,073	6,687
Asset management and securities services	1,133	1,554
Interest income	10,358	7,535
Total revenues	22,280	17,246
Interest expense	9,550	6,813
Revenues, net of interest expense	12,730	10,433
Operating expenses		
Compensation and benefits	6,111	5,314
Brokerage, clearing, exchange and distribution fees	551	418
Market development	132	100
Communications and technology	151	124
Depreciation and amortization	132	125
Amortization of identifiable intangible assets	51	34
Occupancy	204	193
Professional fees	161	109
Cost of power generation	84	85
Other expenses	294	242
Total non-compensation expenses	1,760	1,430
Total operating expenses	7,871	6,744
Pre-tax earnings	4,859	3,689

Provision for taxes	1,662	1,210
Net earnings	3,197	2,479
Preferred stock dividends	49	26
Net earnings applicable to common shareholders	$ 3,148	$ 2,453
Earnings per common share		
Basic	$ 7.08	$ 5.36
Diluted	6.67	5.08
Dividends declared and paid per common share	$ 0.35	$ 0.25
Average common shares outstanding		
Basic	444.5	457.3
Diluted	471.9	483.3

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	
	February 2007	**November 2006**
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	$ 6,887	$ 6,293
Cash and securities segregated for regulatory and other purposes	78,284	80,990
Receivables from brokers, dealers and clearing organizations	12,964	13,223
Receivables from customers and counterparties	96,305	79,790
Collateralized agreements:		
Securities borrowed	241,270	219,342
Financial instruments purchased under agreements to resell, at fair value	81,886	82,126
Financial instruments owned, at fair value	334,232	298,563
Financial instruments owned and pledged as collateral, at fair value	38,660	35,998
Total financial instruments owned, at fair value	372,892	334,561
Other assets	22,007	21,876
Total assets	$ 912,495	$ 838,201
Liabilities and shareholders equity		
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	$ 54,062	$ 47,904
Payables to brokers, dealers and clearing organizations	6,422	6,293
Payables to customers and counterparties	215,299	217,581
Collateralized financings:		
Securities loaned	26,334	22,208
Financial instruments sold under agreements to repurchase, at fair value	192,665	147,492
Other secured financings	47,875	50,424
Financial instruments sold, but not yet purchased, at fair value	166,481	155,805
Other liabilities and accrued expenses	33,725	31,866
Unsecured long-term borrowings	132,732	122,842
Total liabilities	875,595	802,415
Commitments, contingencies and guarantees		

Shareholders equity		
Preferred stock, par value $0.01 per share; 150,000,000 shares authorized, 124,000 shares issued and outstanding as of both February 2007 and November 2006, with liquidation preference of $25,000 per share	3,100	3,100
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 611,277,969 and 599,697,200 shares issued as of February 2007 and November 2006, respectively, and 411,316,967 and 412,666,084 shares outstanding as of February 2007 and November 2006, respectively	6	6
Restricted stock units and employee stock options	5,819	6,290
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	21,013	19,731
Retained earnings	30,859	27,868
Accumulated other comprehensive income	18	21
Common stock held in treasury, at cost, par value $0.01 per share; 199,961,002 and 187,031,116 shares as of February 2007 and November 2006, respectively	(23,915)	(21,230)
Total shareholders equity	36,900	35,786
Total liabilities and shareholders equity	$ 912,495	$ 838,201

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)

	Period Ended	
	February 2007	**November 2006**
	(in millions, except per share amounts)	
Preferred stock		
Balance, beginning of year	$ 3,100	$ 1,750
Issued		1,350
Balance, end of period	3,100	3,100
Common stock, par value $0.01 per share		
Balance, beginning of year	6	6
Issued		
Balance, end of period	6	6
Restricted stock units and employee stock options		
Balance, beginning of year	6,290	3,415
Issuance and amortization of restricted stock units and employee stock options	846	3,787
Delivery of common stock underlying restricted stock units	(1,284)	(781)
Forfeiture of restricted stock units and employee stock options	(28)	(129)
Exercise of employee stock options	(5)	(2)
Balance, end of period	5,819	6,290
Additional paid-in capital		
Balance, beginning of year	19,731	17,159
Issuance of common stock, including proceeds from exercise of employee stock options	1,613	2,432
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(927)	(375)
Preferred stock issuance costs		(1)
Excess net tax benefit related to share-based compensation	596	653
Cash settlement of share-based compensation		(137)
Balance, end of period	21,013	19,731
Retained earnings		
Balance, beginning of year, as previously reported	27,868	19,085
Cumulative effect of adjustment from adoption of SFAS No. 157, net of tax	51	
Cumulative effect of adjustment from adoption of SFAS No. 159, net of tax	(45)	
Balance, beginning of year, after cumulative effect of adjustments	27,874	19,085
Net earnings	3,197	9,537
	(163)	(615)

Dividends and dividend equivalents declared on common stock and restricted stock units		
Dividends declared on preferred stock	(49)	(139)
Balance, end of period	30,859	27,868
Accumulated other comprehensive income/(loss)		
Balance, beginning of year	21	
Currency translation adjustment, net of tax	5	45
Minimum pension liability adjustment, net of tax		(27)
Net gains/(losses) on cash flow hedges, net of tax	2	(7)
Net unrealized gains/(losses) on available-for-sale securities, net of tax	(2)	10
Reclassification to retained earnings from adoption of SFAS No. 159, net of tax	(8)	
Balance, end of period	18	21
Common stock held in treasury, at cost		
Balance, beginning of year	(21,230)	(13,413)
Repurchased	(2,688)	(7,817)
Reissued	3	
Balance, end of period	(23,915)	(21,230)
Total shareholders equity	$ 36,900	$ 35,786

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)

	Three Months Ended February	
	2007	**2006**
	(in millions)	
Cash flows from operating activities		
Net earnings	$ 3,197	$ 2,479
Non-cash items included in net earnings		
Depreciation and amortization	204	175
Amortization of identifiable intangible assets	68	44
Share-based compensation	362	343
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	2,664	(1,009)
Net receivables from brokers, dealers and clearing organizations	390	(2,400)
Net payables to customers and counterparties	(18,822)	(5,282)
Securities borrowed, net of securities loaned	(17,802)	(8,645)
Financial instruments sold under agreements to repurchase, net of financial instruments purchased under agreements to resell	45,413	5,377
Financial instruments owned, at fair value	(36,937)	(14,878)
Financial instruments sold, but not yet purchased, at fair value	10,676	4,466
Other, net	(3,435)	(313)
Net cash used for operating activities	(14,022)	(19,643)
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(580)	(674)
Proceeds from sales of property, leasehold improvements and equipment	12	24
Business acquisitions, net of cash acquired	(55)	(270)
Proceeds from sales of investments	199	
Net cash used for investing activities	(424)	(920)
Cash flows from financing activities		
Unsecured short-term borrowings, net	1,652	3,178
Other secured financings (short-term), net	241	760
Proceeds from issuance of other secured financings (long-term)	400	3,792
Repayment of other secured financings (long-term), including the current portion	(1,134)	(1,118)
Proceeds from issuance of unsecured long-term borrowings	17,741	14,447
Repayment of unsecured long-term borrowings, including the current portion	(3,325)	(2,893)
Derivative contracts with a financing element, net	1,495	620
Common stock repurchased	(2,685)	(2,577)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(212)	(148)
Proceeds from issuance of common stock	308	644
Excess tax benefit related to share-based compensation	559	181

Cash settlement of share-based compensation		(13)
Net cash provided by financing activities	15,040	16,873
Net increase/(decrease) in cash and cash equivalents	594	(3,690)
Cash and cash equivalents, beginning of year	6,293	10,261
Cash and cash equivalents, end of period	$ 6,887	$ 6,571

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were $9.51 billion and $7.11 billion during the three months ended February 2007 and February 2006, respectively.

Cash payments for income taxes, net of refunds, were $1.51 billion and $659 million during the three months ended February 2007 and February 2006, respectively.

Non-cash activities:
The firm issued $17 million of common stock in connection with business acquisitions for the three months ended February 2007.

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 February	
	2007	**2006**
	(in millions)	
Net earnings	$ 3,197	$ 2,479
Currency translation adjustment, net of tax	5	17
Net gains/(losses) on cash flow hedges, net of tax	2	1
Net unrealized gains/(losses) on available-for-sale securities, net of tax	(2)	(3)
Comprehensive income	$ 3,202	$ 2,494

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

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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 services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

The firm s activities are divided into three segments:

Investment Banking. The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.

Trading and Principal Investments. The firm facilitates client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, the firm engages in specialist and market-making activities on equities and options exchanges and clears client transactions on major stock, options and futures exchanges worldwide. In connection with the firm s merchant banking and other investing activities, the firm makes principal investments directly and through funds that the firm raises and manages.

Asset Management and Securities Services. The firm provides investment advisory and financial planning services and offers investment products (primarily through separate accounts and 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, 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.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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

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

The firm determines whether it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, the firm performs a quantitative analysis. For purposes of allocating a VIE s expected losses and expected residual returns to its variable interest holders, the firm utilizes the top down method. Under that method, the firm calculates its share of the VIE s expected losses and expected residual returns using the specific cash flows that would be allocated to it, based on contractual arrangements and/or the firm s position in the capital structure of the VIE, under various probability-weighted scenarios.

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

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

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 does not hold a majority of the economic interests in any fund. The firm has generally provided the third-party investors with rights to remove the firm as the general partner or to terminate the funds (see Recent Accounting Developments below for a discussion of the impact of Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights). These fund investments are included in Financial instruments owned, at fair value in the condensed consolidated

statements of financial condition.

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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 incorporated by reference in the firm s Annual Report on Form 10-K for the fiscal year ended November 24, 2006. The condensed consolidated financial information as of November 24, 2006 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.

Unless specifically stated otherwise, all references to February 2007 and February 2006 refer to the firm s fiscal periods ended, or the dates, as the context requires, February 23, 2007 and February 24, 2006, respectively. All references to November 2006, unless specifically stated otherwise, refer to the firm s fiscal year ended, or the date, as the context requires, November 24, 2006. All references to 2007, unless specifically stated otherwise, refer to the firm s fiscal year ending, or the date, as the context requires, November 30, 2007. 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 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.

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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

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

Basis of Fair Value Measurement

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

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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

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

Cash Instruments. The firm s cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy. As required by SFAS No. 157, the firm does not adjust the quoted price for such instruments, even in situations where the firm holds a large position and a sale could reasonably impact the quoted price. The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid listed equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within level 2 of the fair value hierarchy.

Certain cash instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include certain corporate bank loans and mortgage whole loans, highly distressed debt, and private equity and real estate investments. Where the firm is unable to substantiate the significant valuation inputs and assumptions to corroborative market data, the transaction price is used

as management s best estimate of fair value at inception. 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 inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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

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

Derivative Contracts. Derivative contracts can be exchange-traded or over-the-counter (OTC). Exchange-traded derivatives are generally valued based on quoted market prices. Exchange-traded derivatives that are valued using unadjusted quoted prices in active markets are classified within level 1 of the fair value hierarchy. Some exchange-traded derivatives are valued within portfolios using models that calibrate to broker or dealer quotations or market transactions in either the listed or OTC markets. In such cases, exchange-traded derivatives are classified within level 2 of the fair value hierarchy.

OTC derivatives are valued using models. 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. Where possible, the firm verifies the values produced by its pricing models to market transactions. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment. Such instruments are typically classified within level 2 of the fair value hierarchy.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Further, complex structures often involve multiple product types requiring additional complex inputs such as correlations and volatilities. Such instruments are classified within level 3 of the fair value hierarchy. Where the firm does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, management believes that transaction price is the best estimate of fair value at inception. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. The valuations of these less liquid OTC derivatives are typically impacted by level 1 and/or level 2 inputs that can be observed in the market, as well as unobservable level 3 inputs. Subsequent to initial recognition, the firm updates the level 1 and level 2 inputs to reflect observable market changes. 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. As markets continue to develop and more pricing information becomes available, the firm continues to review and refine the models used.

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

Collateralized Agreements and Financings. Collateralized agreements consist of resale agreements and securities borrowed. Collateralized financings consist of repurchase agreements, securities loaned and other secured financings. Interest on collateralized agreements and collateralized financings is recognized in Interest income or Interest expense,

respectively, over the life of the transaction.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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

Securities Borrowed and Loaned. Securities borrowed and loaned are generally collateralized by cash, securities or letters of credit. The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate. Securities borrowed and loaned related to the firm s Securities Services business, substantially all of which are transacted on-demand, are recorded based on the amount of cash collateral advanced or received plus accrued interest. These transactions exhibit little, if any, sensitivity to changes in interest rates. The firm s remaining securities borrowed and loaned transactions, which are related to the firm s financing and matched book activities, are recorded at fair value as allowed by SFAS No. 159. Prior to the adoption of SFAS No. 159, these transactions were recorded based on the amount of cash collateral advanced or received plus accrued interest. These securities borrowed and loaned transactions are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy.

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

Hybrid Financial Instruments. Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and do not require settlement by physical delivery of non-financial assets (e.g., physical commodities). If the firm elects to bifurcate the embedded derivative, it is accounted for at fair value and the host contract is accounted for at amortized cost, adjusted for the effective portion of any fair value hedge accounting relationships. If the firm does not elect to bifurcate, the entire

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hybrid financial instrument is accounted for at fair value under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. The primary reasons for electing the fair value option for hybrid financial instruments were mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations. See Notes 3, 4 and 5 for additional information about hybrid financial instruments.

Transfers of Financial Assets. In general, transfers of financial assets are accounted for as sales under SFAS No. 140 when the firm has relinquished control over the transferred assets. For transfers accounted for as sales, any related gains or losses are recognized in net revenues. Transfers that are not accounted for as sales are accounted for as collateralized financings, with the related interest expense recognized in net revenues over the life of the transaction.

Power Generation. Power generation revenues associated with the firm s consolidated power generation facilities are included in Trading and principal investments in the condensed consolidated statements of earnings when power is delivered. These revenues were $118 million and $112 million for the periods ended February 2007 and February 2006, respectively. Direct employee costs associated with the firm s consolidated power generation facilities of $21 million and $13 million for the periods ended February 2007 and February 2006, respectively, are included in Compensation and benefits. The other direct costs associated with these power generation facilities and related contractual assets are included in Cost of power generation.

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

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

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

Premiums earned for providing property catastrophe reinsurance are recognized within 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 claims that have been incurred but not reported, are recognized within 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.

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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

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

The firm pays cash dividend equivalents on outstanding restricted stock units. Dividend equivalents paid on restricted stock units accounted for under SFAS No. 123 and SFAS No. 123-R are charged to retained earnings when paid. SFAS No. 123-R requires dividend equivalents paid on restricted stock units expected to be forfeited to be included in compensation expense. Prior to the adoption of SFAS No. 123-R, dividend equivalents paid on restricted stock units that were later forfeited by employees were reclassified to compensation expense from retained earnings. The tax benefit related to dividend equivalents paid on restricted stock units is accounted for as a reduction of income tax expense.

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. Additional paid-in capital is adjusted to the extent of the difference between the current value of the award and the grant-date value of the award.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of an operating segment 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.

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Identifiable Intangible Assets

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

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment, net of accumulated depreciation and amortization, are included in Other assets in the condensed consolidated statements 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 on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter. Certain costs of software developed or obtained for internal use are capitalized and amortized on a straight-line basis over the useful life of the software.

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

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

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statement of financial condition, and revenues and expenses are translated at average rates of exchange for the year. Gains or losses on translation of the financial statements of a non-U.S. operation, when the

functional currency is other than the U.S. dollar, are included, net of hedges and taxes, in the condensed consolidated statements of comprehensive income. The firm seeks to reduce its net investment exposure to fluctuations in foreign

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exchange rates through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts, hedge effectiveness is assessed based on changes in forward exchange rates; accordingly, forward points are reflected as a component of the currency translation adjustment in the condensed consolidated statements of comprehensive income. For foreign currency-denominated debt, hedge effectiveness is assessed based on changes in spot rates. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are included in the condensed consolidated statements of earnings.

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the firm s assets and liabilities. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. The firm s tax assets and liabilities are presented as a component of Other assets and Other liabilities and accrued expenses, respectively, in the condensed consolidated statements of financial condition. Tax provisions are computed in accordance with SFAS No. 109, Accounting for Income Taxes. Contingent liabilities related to income taxes are recorded when the criteria for loss recognition under SFAS No. 5, Accounting for Contingencies, as amended, have been met (see Recent Accounting Developments below for a discussion of the impact of FIN No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, on SFAS No. 109).

Earnings Per Common Share (EPS)

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

Cash and Cash Equivalents

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

Recent Accounting Developments

EITF Issue No. 04-5. In June 2005, the EITF reached consensus on Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, which requires general partners to consolidate their partnerships or to provide limited partners with rights to remove the general partner or to terminate the partnership. The firm, as the general partner of numerous merchant banking and asset management partnerships, was required to adopt the provisions of EITF Issue No. 04-5 (i) immediately for partnerships formed or modified after June 29, 2005 and (ii) in the first quarter of 2007 for partnerships formed on or before June 29, 2005 that have not been modified. The firm has generally provided limited partners in these funds with rights to remove the firm as the general partner or to terminate the partnerships. Therefore, the adoption of EITF Issue No. 04-5 did not have a material effect on the firm s financial condition, results

of operations or cash flows in 2006 or in the first quarter of 2007.

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

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

SFAS No. 157 nullifies the guidance included in EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, that prohibited the recognition of a day one gain or loss on derivative contracts (and hybrid financial instruments measured at fair value under SFAS No. 155) where the firm was unable to verify all of the significant model inputs to observable market data and/or verify the model to market transactions. However, SFAS No. 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model.

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

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

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

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SFAS No. 158. In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132-R. SFAS No. 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS No. 158 also requires an entity to recognize changes in the funded status of a defined benefit pension and postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006. The firm will adopt SFAS No. 158 as of the end of 2007. The firm does not expect that the adoption of SFAS No. 158 will have a material effect on its financial condition, results of operations or cash flows.

SFAS No. 159. On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

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

- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper;
- certain other secured financings;
- certain unsecured long-term borrowings, including those resulting from prepaid physical commodity transactions;
- resale and repurchase agreements;
- securities borrowed and loaned related to the firm s financing and matched book activities; and
- securities held by the firm s bank subsidiary (previously accounted for as available-for-sale).

The primary reasons for electing the fair value option were mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations. The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of $45 million, net of tax, substantially all of which related to applying the fair value option to prepaid physical commodity transactions. The effect of SFAS No. 159 was not material to the firm s financial condition, results of operations or cash flows for the first quarter of 2007.

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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:

	As of			
	February 2007		November 2006	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 15,193 (1)	$	$ 14,723 (1)	$
U.S. government, federal agency and sovereign obligations	69,673	54,850	64,383	51,200
Corporate and other debt obligations				
Mortgage whole loans and collateralized debt obligations	46,259	449	41,017	253
Investment-grade corporate bonds	19,404	5,138	17,485	4,745
Bank loans	28,171	786	28,196	1,154
High-yield securities	12,310	2,190	11,054	2,064
Preferred stock	7,397	87	7,927	118
Other	1,346	240	1,267	241
	114,887	8,890	106,946	8,575
Equities and convertible debentures	96,762	35,624	75,355	30,323
State, municipal and provincial obligations	4,135	702	3,688	
Derivative contracts	69,407 (2)	66,409 (3)	67,543 (2)	65,496 (3)
Physical commodities	2,835	6	1,923	211
Total	$ 372,892	$ 166,481	$ 334,561	$ 155,805

(1) Includes $6.58 billion and $6.93 billion as of February 2007 and November 2006, respectively, of money market instruments held by William Street Funding Corporation to support the William Street credit extension program (see Note 6 for further information regarding the William Street program).

(2)

Net of cash received pursuant to credit support agreements of $25.81 billion and $24.06 billion as of February 2007 and November 2006, respectively.

(3) Net of cash paid pursuant to credit support agreements of $15.92 billion and $16.00 billion as of February 2007 and November 2006, respectively.

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The following tables set forth the firm s financial assets and liabilities that were accounted for at fair value as of February 2007 by level within the fair value hierarchy (see Note 2 for further information on the fair value hierarchy). As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Assets at Fair Value As of February 2007				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
Cash instruments	$ 121,213	$ 144,424	$ 37,848 [3]	$	$ 303,485
Derivative contracts	133	87,215	9,785	(27,726) [4]	69,407
Financial instruments owned, at fair value	121,346	231,639	47,633	(27,726)	372,892
Securities segregated for regulatory and other purposes [1]	5,840	37,573			43,413
Securities borrowed [2]		77,969			77,969
Financial instruments purchased under agreements to resell, at fair value		81,886			81,886
Collateralized agreements		159,855			159,855
Total assets at fair value	$ 127,186	$ 429,067	$ 47,633	$ (27,726)	$ 576,160

[1] Primarily includes securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

[2] Excludes securities borrowed related to the firm s Securities Services business, which are accounted for based on the amount of cash collateral advanced plus accrued interest.

[3] Does not reflect the firm s economic exposure to level 3 assets because the amount in the above table includes amounts that are attributable to minority investors or financed by non-recourse debt. The firm s economic exposure to level 3 cash instruments is $20.38 billion, which is comprised of cash trading instruments with little or no price transparency and principal investments with no recent third-party transaction.

(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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	Liabilities at Fair Value As of February 2007				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
Cash instruments	$ 90,840	$ 9,008	$ 224	$	$ 100,072
Derivative contracts	232	74,564	9,444	(17,831)[5]	66,409
Financial instruments sold, but not yet purchased, at fair value	91,072	83,572	9,668	(17,831)	166,481
Securities loaned [1]		1,711			1,711
Financial instruments sold under agreements to repurchase, at fair value		192,665			192,665
Other secured financings [2]		18,516			18,516
Collateralized financings		212,892			212,892
Unsecured short-term borrowings [3]		33,208	1,580		34,788
Unsecured long-term borrowings [4]		13,422	777		14,199
Total liabilities at fair value	$ 91,072	$ 343,094	$ 12,025	$ (17,831)	$ 428,360

[1] Excludes securities loaned related to the firm s Securities Services business, which are accounted for based on the amount of cash collateral received plus accrued interest.

[2] Primarily includes transfers accounted for as financings under SFAS No. 140 and debt raised through the firm s William Street program.

[3] Primarily includes promissory notes, commercial paper and hybrid financial instruments.

[4] Primarily includes hybrid financial instruments.

[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.

See Note 2 for a discussion of the types of financial assets and liabilities that are classified within level 3 of the fair value hierarchy as well as the firm s valuation policies for such instruments.

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The following table sets forth a summary of changes in the fair value of the firm s level 3 financial assets and liabilities. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. For example, a hypothetical derivative contract with level 1, level 2 and significant level 3 inputs would be classified as a level 3 financial instrument in its entirety. Subsequently, even if only level 1 and level 2 inputs are adjusted, the resulting gain or loss is classified as level 3. Further, level 3 instruments are frequently hedged with instruments that are classified as level 1 or level 2 and, accordingly, gains or losses reported as level 3 in the table below may be offset by gains or losses attributable to instruments classified in level 1 or 2 of the fair value hierarchy. See Note 2 for further discussion of level 3 instruments.

	Level 3 Financial Assets and Liabilities Three Months Ended February 2007				
	Cash Instruments - Assets	**Cash Instruments - Liabilities**	**Derivative Contracts - Net**	**Unsecured Short-Term Borrowings**	**Unsecured Long-Term Borrowings**
			(in millions)		
Balance, beginning of year	$ 29,905	$ (223)	$ 580	$ (1,007)	$ (135)
Total gains/(losses) (realized and unrealized)	1,905 [2]	(1) [1]	481 [1]	(61) [1]	34 [1]
Purchases, issuances and settlements	7,059	(4)	(227)	(703)	(472)
Transfers in and/or out of level 3	(1,021)	4	(493)	191	(204)
Balance, end of period	$ 37,848	$ (224)	$ 341	$ (1,580)	$ (777)
Change in unrealized gains/(losses) relating to instruments still held at the reporting date [1]	$ 1,083 [3]	$ (25)	$ 193	$ (61)	$ 34

[1] Substantially all is reported in Trading and principal investments in the condensed consolidated statements of earnings.

[2] Includes approximately $1.60 billion and $303 million reported in Trading and principal investments and Interest income, respectively, in the condensed consolidated statements of earnings.

[3] Includes approximately $500 million of gains on the firm s private principal investments recognized as a result of the adoption of SFAS No. 157.

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The following table sets forth the gains and losses included in earnings during the three months ended February 2007 related to financial assets and liabilities for which the firm has elected to apply the fair value option under SFAS No. 155 and SFAS No. 159. Substantially all of these gains and losses would have otherwise been recognized because they primarily relate to borrowings that contain bifurcatable embedded derivatives accounted for at fair value under SFAS No. 133 and were largely offset by gains and losses on related instruments that were accounted for at fair value under other generally accepted accounting principles.

	Three Months Ended February 2007 (in millions)
Unsecured short-term borrowings	$ (244)
Other secured financings	(130)
Unsecured long-term borrowings	(792)
Other [1]	6
Total [2]	$ (1,160)

[1] Includes resale and repurchase agreements; securities borrowed and loaned related to the firm s financing and matched book activities; and securities held in the firm s bank subsidiary (previously accounted for as available-for-sale).

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

Derivative Activities

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

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

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

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

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In addition, the firm applies cash flow hedge accounting to a limited number of foreign currency forward contracts that hedge currency exposure on certain forecasted transactions in its consolidated power generation facilities. See Note 2 for information regarding the firm s policy on foreign currency forward contracts used to hedge its net investment in non-U.S. operations.

The firm applies a long-haul method to substantially all of its hedge accounting relationships to perform an ongoing assessment of the effectiveness of these relationships in achieving offsetting changes in fair value or offsetting cash flows attributable to the risk being hedged. The firm utilizes a dollar-offset method, which compares the change in the fair value of the hedging instrument to the change in the fair value of the hedged item, excluding the effect of the passage of time, to prospectively and retrospectively assess hedge effectiveness. The firm s prospective dollar-offset assessment utilizes scenario analyses to test hedge effectiveness via simulations of numerous parallel and slope shifts of the relevant yield curve. Parallel shifts change the interest rate of all maturities by identical amounts. Slope shifts change the curvature of the yield curve. For both the prospective assessment, in response to each of the simulated yield curve shifts, and the retrospective assessment, a hedging relationship is deemed to be effective if the fair value of the hedging instrument and the hedged item change inversely within a range of 80% to 125%.

For fair value hedges, gains or losses on derivative transactions are recognized in Interest expense in the 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. For cash flow hedges, the effective portion of gains or losses on derivative transactions is reported as a component of Other comprehensive income in the condensed consolidated statements of comprehensive income. Gains or losses related to hedge ineffectiveness for all hedges are generally included in Interest expense. These gains or losses and the component of gains or losses on derivative transactions excluded from the assessment of hedge effectiveness (e.g., the effect of the passage of time on fair value hedges of the firm s borrowings) were not material to the firm s results of operations for the three months ended February 2007 or February 2006. Gains and losses on derivatives used for trading purposes are included in Trading and principal investments in the condensed consolidated statements of earnings.

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

	As of			
	February 2007		November 2006	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Forward settlement contracts	$ 12,282	$ 14,222	$ 11,751	$ 14,335
Swap agreements	30,108	22,679	28,012	22,471
Option contracts	27,017	29,508	27,780	28,690
Total	$ 69,407	$ 66,409	$ 67,543	$ 65,496

The fair value of derivatives accounted for as qualifying hedges under SFAS No. 133 consisted of $2.11 billion and $2.66 billion in assets as of February 2007 and November 2006, respectively, and $931 million and $551 million in liabilities as of February 2007 and November 2006, respectively.

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The firm also has embedded derivatives that have been bifurcated from related borrowings under SFAS No. 133. Such derivatives, which are classified in unsecured short-term and unsecured long-term borrowings, had a carrying value of $973 million and $1.13 billion (excluding the debt host contract) as of February 2007 and November 2006, respectively. See Notes 4 and 5 for further information regarding the firm s unsecured borrowings.

Securitization Activities

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

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

During the three months ended February 2007, the firm securitized $31.69 billion of financial assets, consisting of $16.89 billion in residential mortgage securitizations and $14.80 billion in other securitizations, primarily collateralized debt obligations (CDOs). During the three months ended February 2006, the firm securitized $19.25 billion of financial assets, consisting of $18.15 billion in residential mortgage securitizations and $1.10 billion in CDOs and other securitizations. Cash flows received on retained interests were approximately $175 million and $211 million for the three months ended February 2007 and February 2006, respectively.

As of February 2007 and November 2006, the firm held $9.81 billion and $7.08 billion of retained interests, respectively, including $4.51 billion and $5.18 billion, respectively, held in QSPEs.

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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 February 2007 Type of Retained Interests			As of November 2006 Type of Retained Interests		
	Mortgage-Backed	CDOs	Corporate Debt [3]	Mortgage-Backed	CDOs	Corporate Debt [3]
	($ in millions)					
Fair value of retained interests	$ 3,347	$ 5,345	$ 1,118	$ 4,013	$ 1,973	$ 1,097
Weighted average life (years)	5.5	5.4	1.9	6.0	7.0	2.2
Constant prepayment rate	22.7%	25.0%	N/A	21.2%	24.5%	N/A
Impact of 10% adverse change	$ (137)	$ (5)	$	$ (121)	$ (2)	$
Impact of 20% adverse change	(240)	(11)		(221)	(6)	
Anticipated credit losses [1]	3.9%	2.3%	N/A	2.0%	2.0%	N/A
Impact of 10% adverse change [2]	$ (98)	$ (2)	$	$ (81)	$ (3)	$
Impact of 20% adverse change [2]	(176)	(3)		(155)	(4)	
Discount rate	10.5%	6.1%	3.9%	9.4%	6.9%	2.4%
Impact of 10% adverse change	$ (109)	$ (169)	$ (8)	$ (136)	$ (35)	$ (9)
Impact of 20% adverse change	(214)	(327)	(16)	(266)	(70)	(17)

[1] Anticipated credit losses are computed only on positions in which expected credit loss is a key assumption in the determination of fair value.

[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 mitigate risks inherent in these retained interests. Changes in fair value based on an adverse variation in assumptions generally

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

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

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Variable Interest Entities (VIEs)

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

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

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

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

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	As of February 2007					
		Maximum Exposure to Loss in Nonconsolidated VIEs [1]				
	VIE Assets	Purchased and Retained Interests	Commitments and Guarantees	Derivatives [3]	Loans and Investments	Total
			(in millions)			
Collateralized debt obligations	$ 54,773	$ 5,567	$	$ 11,269	$	$ 16,836
Real estate, credit-related and other investing [2]	16,262		119	6	2,088	2,213
Municipal bond securitizations	1,135		1,135			1,135
Mortgage-backed and other asset-backed	98			70		70
Power-related	3,537	2	249		630	881
Principal-protected notes	4,463			2,950		2,950
Asset repackagings and credit-linked notes	1,632			529		529
Total	$ 81,900	$ 5,569	$ 1,503	$ 14,824	$ 2,718	$ 24,614

	As of November 2006					
		Maximum Exposure to Loss in Nonconsolidated VIEs [1]				
	VIE Assets	Purchased and Retained Interests	Commitments and Guarantees	Derivatives [3]	Loans and Investments	Total
			(in millions)			
Collateralized debt obligations	$ 37,610	$ 2,406	$	$ 9,782	$	$ 12,188
Real estate, credit-related and other investing [2]	16,300		113	8	2,088	2,209
Municipal bond securitizations	1,182		1,182			1,182
Mortgage-backed and other asset-backed	8,239	477		66		543
Power-related	3,422	10	73		597	680
Principal-protected notes	4,363			3,437		3,437
Asset repackagings and credit-linked notes	1,360			355		355

Total	$ 72,476	$ 2,893	$ 1,368	$ 13,648	$ 2,685	$ 20,594

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

(2) The firm obtains interests in these VIEs in connection with making proprietary investments in real estate, distressed loans and other types of debt, mezzanine instruments and equities. The transactions included in the above table do not expose the firm to a majority of the VIE s expected losses or expected residual returns and, consequently, the firm is not the primary beneficiary of the VIE. In certain cases, the firm is the primary beneficiary in these types of transactions (see table of consolidated VIEs below).

(3) Derivatives related to CDOs consist of total return swaps on investment-grade securities issued by VIEs and out-of-the-money written put options on investment-grade collateral held by VIEs. Derivatives related to principal-protected notes consist of out-of-the-money written put options that provide principal protection to clients invested in various fund products, with risk to the firm mitigated through portfolio rebalancing. Derivatives related to asset repackagings and credit-linked notes consist of interest rate swaps, equity swaps, commodity swaps and purchased credit default protection, through which the firm creates structured notes designed for specific needs of investors. The derivative transactions included in the above table do not expose the firm to a majority of the VIE s expected losses or expected residual returns and, consequently, the firm is not the primary beneficiary of the VIE. In certain cases, the firm is the primary beneficiary in these types of transactions (see table of consolidated VIEs below).

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

	As of February 2007		As of November 2006	
	VIE Assets [1]	Maximum Exposure to Loss [2]	VIE Assets [1]	Maximum Exposure to Loss [2]
	(in millions)			
Real estate, credit-related and other investing	$ 2,329	$ 1,057	$ 3,077	$ 1,368
Municipal bond securitizations	3,351	3,351	2,715	2,715
Mortgage-backed and other asset-backed	68	4	1,537	20
Foreign exchange and commodities	491	431	433	340
Principal-protected notes	1,077	998	894	774
Asset repackagings and credit-linked notes	304	17	388	36
Total	$ 7,620	$ 5,858	$ 9,044	$ 5,253

[1] Consolidated VIE assets include assets financed on a nonrecourse basis.

[2] Such amounts do not represent the anticipated losses in connection with these transactions.

Collateralized Transactions

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

In many cases, the firm is permitted to deliver or repledge these financial instruments in connection with entering into repurchase agreements, securities lending agreements and other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements. As of February 2007 and November 2006, the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or repledge was $823.14 billion and $746.08 billion, respectively, of which the firm delivered or repledged $713.93 billion and $639.87 billion, respectively.

The firm also pledges assets that it owns to counterparties who may or may not have the right to deliver or repledge them. Financial instruments owned and pledged to counterparties that have the right to deliver or repledge are reported as Financial instruments owned and pledged as collateral, at fair value in the condensed consolidated statements of

financial condition and were $38.66 billion and $36.00 billion as of February 2007 and November 2006, respectively. Financial instruments owned and pledged in connection with repurchase agreements, securities lending agreements and other secured financings to counterparties that did not have the right to sell or repledge are included in Financial instruments owned, at fair value in the condensed consolidated statements of financial condition and were $144.98 billion and $134.31 billion as of February 2007 and November 2006, respectively. Other assets (primarily real estate, power generation facilities and related assets, and cash) owned and pledged in connection with other secured financings to counterparties that did not have the right to sell or repledge were $5.20 billion and $5.34 billion as of February 2007 and November 2006, respectively.

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In addition to repurchase agreements and securities lending agreements, the firm obtains secured funding through the use of other arrangements. Other secured financings include arrangements that are nonrecourse, that is, only the subsidiary that executed the arrangement or a subsidiary guaranteeing the arrangement is obligated to repay the financing. Other secured financings consist of liabilities related to the firm s William Street program, consolidated variable interest entities, collateralized central bank financings, transfers of financial assets that are accounted for as financings rather than sales (primarily pledged bank loans and mortgage whole loans), consolidated power generation facilities and other structured financing arrangements.

Other secured financings are set forth in the table below:

	As of	
	February 2007	**November 2006**
	(in millions)	
Other secured financings (short-term) [1][2][3]	$ 23,605	$ 24,290
Other secured financings (long-term):		
2008	5,252	5,535
2009	775	877
2010	1,763	1,894
2011	5,029	5,105
2012	1,874	1,928
2013-thereafter	9,577	10,795
Total other secured financings (long-term) [4][5][6]	24,270	26,134
Total other secured financings [7]	$ 47,875	$ 50,424

(1) As of February 2007, consists of U.S. dollar-denominated financings of $14.41 billion with a weighted average interest rate of 5.08% and non-U.S. dollar-denominated financings of $9.20 billion with a weighted average interest rate of 1.48%. As of November 2006, consists of U.S. dollar-denominated financings of $14.28 billion with a weighted average interest rate of 5.22% and non-U.S. dollar-denominated financings of $10.01 billion with a weighted average interest rate of 2.00%.

(2) Includes $12.13 billion and $3.30 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of February 2007 and November 2006, respectively.

(3) 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.

(4) As of February 2007, consists of U.S. dollar-denominated financings of $15.64 billion with a weighted average interest rate of 5.64% and non-U.S. dollar-denominated financings of $8.63 billion with a weighted average interest rate of 3.40%. As of November 2006, consists of U.S. dollar-denominated financings of $16.97 billion with a weighted average interest rate of 5.61% and non-U.S. dollar-denominated financings of $9.16 billion with a weighted average interest rate of 3.81%.

(5) 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.

(6) Includes $6.39 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of February 2007.

(7) As of February 2007, $44.65 billion of these financings were collateralized by financial instruments and $3.23 billion by other assets (primarily real estate, power generation facilities and related assets, and cash). As of November 2006, $47.22 billion of these financings were collateralized by financial instruments and $3.20 billion by other assets. Other secured financings include $19.00 billion and $19.79 billion of nonrecourse obligations as of February 2007 and November 2006, respectively.

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Note 4. Unsecured Short-Term Borrowings

The firm obtains unsecured short-term borrowings primarily through the issuance of promissory notes, commercial paper and hybrid financial instruments. As of February 2007 and November 2006, these borrowings were $54.06 billion and $47.90 billion, respectively. Such amounts include the portion of unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder. The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under SFAS No. 155 or SFAS No. 159. Short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations.

Unsecured short-term borrowings are set forth below:

	As of	
	February 2007	**November 2006**
	(in millions)	
Promissory notes	$ 11,765	$ 13,811
Commercial paper	1,592	1,489
Current portion of unsecured long-term borrowings	18,922	14,115
Hybrid financial instruments	15,878	14,060
Other short-term borrowings	5,905	4,429
Total [1][2]	$ 54,062	$ 47,904

(1) Includes $34.79 billion and $10.22 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of February 2007 and November 2006, respectively.

(2) The weighted average interest rates for these borrowings were 5.05% and 5.13% as of February 2007 and November 2006, respectively. The weighted average interest rates, after giving effect to hedging activities, were 5.21% and 5.16% as of February 2007 and November 2006, respectively. The weighted average interest rates as of February 2007 and November 2006 excluded hybrid financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

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Note 5. Unsecured Long-Term Borrowings

The firm obtains unsecured long-term borrowings that consist principally of senior borrowings with maturities extending to 2039. As of February 2007 and November 2006, these borrowings were $132.73 billion and $122.84 billion, respectively.

Unsecured long-term borrowings are set forth below:

	As of	
	February 2007	November 2006
	(in millions)	
Fixed rate obligations [1]		
U.S. dollar	$ 42,435	$ 41,719
Non-U.S. dollar	23,545	22,854
Floating rate obligations [2]		
U.S. dollar	44,201	38,342
Non-U.S. dollar	22,551	19,927
Total [3]	$ 132,732	$ 122,842

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

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

(3) Includes $14.20 billion and $7.25 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of February 2007 and November 2006, respectively, primarily consisting of hybrid financial instruments.

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

	As of					
	February 2007 [1][2]			November 2006 [1][2]		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
	(in millions)					

2008	$ 9,055	$ 2,056	$ 11,111	$ 14,848	$ 3,038	$ 17,886
2009	16,112	2,632	18,744	12,398	2,978	15,376
2010	5,990	4,872	10,862	5,034	4,945	9,979
2011	5,826	4,337	10,163	5,675	4,389	10,064
2012	7,199	2,925	10,124	4,500	2,098	6,598
2013-thereafter	42,454	29,274	71,728	37,606	25,333	62,939
Total	$ 86,636	$ 46,096	$ 132,732	$ 80,061	$ 42,781	$ 122,842

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

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The firm enters into derivative contracts, such as interest rate futures contracts, interest rate swap agreements, currency swap agreements, and equity-linked and indexed contracts, to effectively convert a substantial portion of its unsecured long-term borrowings into U.S. dollar-based floating rate obligations. Accordingly, the carrying value of unsecured long-term borrowings approximated fair value as of February 2007 and November 2006.

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

	As of			
	February 2007		November 2006	
	Amount	Rate	Amount	Rate
	($ in millions)			
Fixed rate obligations	$ 1,964	6.16%	$ 1,997	6.13%
Floating rate obligations [1][2]	130,768	5.78	120,845	5.75
Total	$ 132,732	5.79	$ 122,842	5.75

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

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

Subordinated Borrowings

Unsecured long-term borrowings include $9.61 billion and $7.51 billion of subordinated borrowings as of February 2007 and November 2006, respectively, as set forth below.

Subordinated Notes. As of February 2007, the firm had $6.77 billion of subordinated notes outstanding with maturities ranging from 2008 to 2036. The effective weighted average interest rate on these subordinated notes was 6.07%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. As of November 2006, the firm had $4.67 billion of subordinated notes outstanding with maturities ranging from 2007 to 2036 and with an effective weighted average interest rate of 6.24%. These notes are junior in right of payment to all of the firm s senior indebtedness.

Junior Subordinated Debentures. The firm issued $2.84 billion of junior subordinated debentures in its first quarter of 2004 to Goldman Sachs Capital Trust I (the Trust), a Delaware statutory trust created for the exclusive purposes of (i) issuing $2.75 billion of guaranteed preferred beneficial interests and $85 million of common beneficial interests in the Trust, (ii) investing the proceeds from the sale to purchase junior subordinated debentures issued by the firm and

(iii) engaging in only those other activities necessary or incidental to these purposes. The preferred beneficial interests were purchased by third parties, and, as of February 2007 and November 2006, the firm held all the common beneficial interests. The Trust is a wholly owned finance subsidiary of the firm for regulatory and legal purposes but is not consolidated for accounting purposes.

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

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The Trust is not permitted to pay any distributions on the common beneficial interests held by the firm unless all dividends payable on the preferred beneficial interests have been paid in full. These notes are junior in right of payment to all of the firm s senior indebtedness and all of the firm s subordinated notes (described above). See Note 6 for information regarding the firm s guarantee of the preferred beneficial interests issued by the Trust.

Note 6. Commitments, Contingencies and Guarantees

Commitments

Forward Starting Collateralized Agreements and Financings. The firm had forward starting resale agreements and securities borrowing agreements of $18.43 billion and $18.29 billion as of February 2007 and November 2006, respectively. The firm had forward starting repurchase agreements and securities lending agreements of $30.59 billion and $17.15 billion as of February 2007 and November 2006, respectively.

Commitments to Extend Credit. In connection with its lending activities, the firm had outstanding commitments to extend credit of $87.64 billion and $100.48 billion as of February 2007 and November 2006, respectively. The firm s commitments to extend credit are agreements to lend to counterparties that have fixed termination dates and are contingent on the satisfaction of all conditions to borrowing set forth in the contract. Since these commitments may expire unused or be reduced or cancelled at the counterparty s request, the total commitment amount does not necessarily reflect the actual future cash flow requirements. The firm accounts for these commitments at fair value.

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

	As of	
	February 2007	**November 2006**
	(in millions)	
William Street program	$ 19,256	$ 18,831
Other commercial lending commitments		
Investment-grade	13,880	7,604
Non-investment-grade	39,119	57,017
Warehouse financing	15,388	17,026
Total commitments to extend credit	$ 87,643	$ 100,478

William Street program. Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are primarily extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of the firm, and, to a lesser extent, by William Street Credit Corporation, another consolidated

wholly owned subsidiary of Group Inc. A majority of the commitments extended by Commitment Corp. are supported by funding raised by William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are also legally separated from other assets and liabilities of the firm. The assets of Commitment Corp. and of Funding Corp. will not be available to their respective shareholders until the claims of their respective creditors have been paid. In addition, no affiliate of either Commitment Corp. or Funding Corp.,

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except in limited cases as expressly agreed in writing, is responsible for any obligation of either entity. With respect to substantially all of the William Street commitments, Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection that is generally limited to 95% of the first loss the firm realizes on approved loan commitments, up to a maximum of $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon the firm s request, SMFG will provide protection for 70% of the second loss on such commitments, up to a maximum of $1.13 billion. The firm also uses other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.

Other commercial lending commitments. In addition to the commitments issued under the William Street credit extension program, the firm extends other credit commitments, primarily in connection with contingent acquisition financing and other types of corporate lending. The total commitment amount does not necessarily reflect the actual future cash flow requirements, as the firm often syndicates all or substantial portions of these commitments, the commitments may expire unused, or the commitments may be cancelled or reduced at the request of the counterparty. In addition, commitments that are extended for contingent acquisition financing are often short-term in nature, as borrowers often replace them with other funding sources.

Warehouse financing. The firm provides financing for the warehousing of financial assets to be securitized, primarily in connection with CDOs and mortgage securitizations. These financings are expected to be repaid from the proceeds of the related securitizations for which the firm may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of mortgage-backed and other asset-backed securities, residential and commercial mortgages and corporate debt instruments.

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 $6.05 billion and $5.73 billion as of February 2007 and November 2006, respectively.

Merchant Banking Commitments. The firm acts as an investor in merchant banking transactions, which includes making long-term investments in equity and debt instruments in privately negotiated transactions, corporate acquisitions and real estate transactions. In connection with these activities, the firm had commitments to invest up to $12.44 billion and $6.36 billion in corporate and real estate investment funds as of February 2007 and November 2006, respectively.

Construction-Related Commitments. As of February 2007 and November 2006, the firm had construction-related commitments of $1.88 billion and $1.63 billion, respectively, including commitments of $986 million and $1.07 billion, respectively, related to the development of wind energy projects. Construction-related commitments also include outstanding commitments of $835 million and $500 million as of February 2007 and November 2006, respectively, related to the firm s new world headquarters in New York City, which is expected to cost between $2.3 billion and $2.5 billion.

Underwriting Commitments. As of February 2007 and November 2006, the firm had commitments to purchase $1.07 billion and $2.62 billion, respectively, of securities in connection with its underwriting activities.

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Other. The firm had other purchase commitments of $388 million and $393 million as of February 2007 and November 2006, respectively. In addition, the firm had other investment commitments of $1.40 billion and $1.88 billion as of February 2007 and November 2006, respectively.

In March 2007, the firm entered into an agreement to sell its interest in Horizon Wind Energy LLC to Energias de Portugal, S.A., subject to the receipt of regulatory approvals and other closing conditions. The transaction is expected to close during the firm s third quarter of 2007, and depending on the level of net revenues in such period, the resulting gain may be material to the firm s results of operations.

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, and rent charged to operating expense are set forth below:

	(in millions)
Minimum rental payments	
Remainder of 2007	$ 469
2008	412
2009	418
2010	335
2011	278
2012-thereafter	2,165
Total	$ 4,077

Contingencies

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

In connection with its insurance business, the firm is contingently liable to provide guaranteed minimum death and income benefits to certain contract holders and has established a reserve related to $7.96 billion and $8.04 billion of contract holder account balances as of February 2007 and November 2006, respectively, for such benefits. The weighted average attained age of these contract holders was 71 years and 70 years as of February 2007 and November

2006, respectively. The net amount at risk, representing guaranteed minimum death benefits in excess of contract holder account balances, was $1.12 billion and $1.27 billion as of February 2007 and November 2006, respectively. See Note 10 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 FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Such derivative contracts include credit default and total return swaps, written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. FIN No. 45 does not require disclosures about derivative contracts if such contracts may be cash settled and the firm has no basis to conclude it is probable that the counterparties held, at inception, the underlying instruments related to the derivative contracts. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank end users and certain other users. Accordingly, the firm has not included such contracts in the tables below.

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

In connection with the firm s establishment of the Trust, Group Inc. effectively provided for the full and unconditional guarantee of the beneficial interests in the Trust held by third parties. Timely payment by Group Inc. of interest on the junior subordinated debentures and other amounts due and performance of its other obligations under the transaction documents will be sufficient to cover payments due by the Trust on its beneficial interests. As a result, management believes that it is unlikely the firm will have to make payments related to the Trust other than those required under the junior subordinated debentures and in connection with certain expenses incurred by the Trust.

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

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

	As of February 2007 Maximum Payout/Notional Amount by Period of Expiration [6]				
	Remainder of 2007	2008-2009	2010-2011	2012-Thereafter	Total
	(in millions)				
Derivatives [1]	$ 382,262	$ 552,858	$ 469,145	$ 459,728	$ 1,863,993
Securities lending indemnifications [2]	23,765				23,765
Performance bonds [3]	14,067				14,067
Guarantees of trust preferred beneficial interest [4]	87	349	349	6,676	7,461
Other financial guarantees [5]	581	109	71	95	856

	As of November 2006 Maximum Payout/Notional Amount by Period of Expiration [6]				
	2007	2008-2009	2010-2011	2012-Thereafter	Total
	(in millions)				
Derivatives [1]	$ 379,256	$ 428,258	$ 460,088	$ 399,449	$ 1,667,051
Securities lending indemnifications [2]	19,023				19,023
Performance bonds					
Guarantees of trust preferred beneficial interest [4]	174	349	349	6,676	7,548
Other financial guarantees [5]	592	99	76	86	853

[1] The aggregate carrying value of these derivatives as of February 2007 was an asset of $4.31 billion, consisting of contracts with an asset value of $13.50 billion and contracts with a liability value of $9.19 billion. The aggregate carrying value of these derivatives as of November 2006 was an asset of $1.12 billion, consisting of contracts with an asset value of $11.06 billion and contracts with a liability value of $9.94 billion. The carrying value excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement.

[2] Collateral held by the lenders in connection with securities lending indemnifications was $24.61 billion and $19.70 billion as of February 2007 and November 2006, respectively.

(3) Excludes collateral of $4.51 billion related to these obligations.

(4) Includes the guarantee of all payments scheduled to be made over the life of the Trust, which could be shortened in the event the firm redeems the junior subordinated debentures issued to fund the Trust. See Note 5 for further information regarding the Trust.

(5) The carrying value of these guarantees was a liability of $14 million and $15 million as of February 2007 and November 2006, respectively.

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

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

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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 February 2007 and November 2006.

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

Note 7. Shareholders Equity

On March 12, 2007, the Board of Directors of Group Inc. (the Board) declared a dividend of $0.35 per common share with respect to the firm s first quarter of 2007 to be paid on May 24, 2007, to common shareholders of record on April 24, 2007.

During the three months ended February 2007, the firm repurchased 13.0 million shares of its common stock at a total cost of $2.69 billion. The average price paid per share for repurchased shares was $207.26 for the three months ended February 2007. In addition, to satisfy minimum statutory employee tax withholding requirements related to the delivery of common stock underlying restricted stock units, the firm cancelled 4.7 million restricted stock units with a total value of $927 million in the first quarter of 2007.

The firm s share repurchase program is intended to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases and is influenced by the firm s overall capital position (i.e., the comparison of the firm s capital requirements to its available capital), general market conditions and the prevailing price and trading volumes of the firm s common stock.

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

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

Each share of preferred stock 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 at a redemption price equal to $25,000 plus declared and unpaid dividends. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. The firm s ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the firm fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period. All preferred stock also has a preference over the firm s common stock upon liquidation.

On March 12, 2007, the Board declared a dividend per preferred share of $369.15, $387.50, $369.15 and $364.31 for Series A, Series B, Series C and Series D preferred stock, respectively, to be paid on May 10, 2007 to preferred shareholders of record on April 25, 2007.

The following table sets forth the firm s accumulated other comprehensive income by type:

	As of	
	February 2007	November 2006
	(in millions)	
Currency translation adjustment, net of tax	$ 34	$ 29
Minimum pension liability adjustment, net of tax	(38)	(38)
Net gains on cash flow hedges, net of tax	4	2
Net unrealized gains on available-for-sale securities, net of tax	18(1)	28

Total accumulated other comprehensive income, net of tax	$ 18	$ 21

(1) Consists of net unrealized gains of $1 million on available-for-sale securities held by the firm s insurance subsidiaries and net unrealized gains of $17 million on available-for-sale securities held by investees accounted for under the equity method.

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Note 8. Earnings Per Common Share

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

	Three Months Ended February	
	2007	2006
	(in millions, except per share amounts)	
Numerator for basic and diluted EPS net earnings applicable to common shareholders	$ 3,148	$ 2,453
Denominator for basic EPS weighted average number of common shares	444.5	457.3
Effect of dilutive securities [1]		
Restricted stock units	11.7	10.9
Stock options	15.7	15.1
Dilutive potential common shares	27.4	26.0
Denominator for diluted EPS weighted average number of common shares and dilutive potential common shares	471.9	483.3
Basic EPS	$ 7.08	$ 5.36
Diluted EPS	6.67	5.08

[1] There were no anti-dilutive securities during the three months ended February 2007 or February 2006.

Note 9. Goodwill and Identifiable Intangible Assets

Goodwill

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

	As of	
	February 2007	November 2006

	(in millions)	
Investment Banking		
Financial Advisory	$	$
Underwriting	125	125
Trading and Principal Investments		
FICC	133	136
Equities [1]	2,381	2,381
Principal Investments	4	4
Asset Management and Securities Services		
Asset Management [2]	421	421
Securities Services	117	117
Total	$ 3,181	$ 3,184

[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:

		As of	
		February 2007	**November 2006**
		(in millions)	
Customer lists [1]	Gross carrying amount	$ 1,034	$ 1,034
	Accumulated amortization	(310)	(297)
	Net carrying amount	$ 724	$ 737
Power contracts [2]	Gross carrying amount	$ 697	$ 750
	Accumulated amortization	(92)	(83)
	Net carrying amount	$ 605	$ 667
New York Stock Exchange (NYSE)	Gross carrying amount	$ 714	$ 714
	Accumulated amortization	(182)	(172)
specialist rights	Net carrying amount	$ 532	$ 542
Insurance-related assets [3]	Gross carrying amount	$ 419	$ 396
	Accumulated amortization	(50)	(34)
	Net carrying amount	$ 369	$ 362
Exchange-traded fund (ETF)	Gross carrying amount	$ 138	$ 138
	Accumulated amortization	(34)	(33)

specialist rights	Net carrying amount	$ 104	$ 105
Other [4]	Gross carrying amount	$ 336	$ 335
	Accumulated amortization	(258)	(246)
	Net carrying amount	$ 78	$ 89
Total	Gross carrying amount	$ 3,338	$ 3,367
	Accumulated amortization	(926)	(865)
	Net carrying amount	$ 2,412	$ 2,502

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

(2) Primarily relates to above-market power contracts of consolidated power generation facilities related to Cogentrix Energy, Inc. and National Energy & Gas Transmission, Inc. (NEGT). Substantially all of these power contracts have been pledged to counterparties in connection with the firm s secured financings. The weighted average remaining life of these power contracts is approximately 11 years.

(3) Consists of VOBA and DAC. VOBA represents the present value of estimated future gross profits of the variable annuity and variable life insurance business acquired in 2006. DAC results from commissions paid by the firm to the primary insurer (ceding company) on life and annuity reinsurance agreements as compensation to place the business with the firm and to cover the ceding company s acquisition expenses. VOBA and DAC are amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The weighted average remaining amortization period for VOBA and DAC is seven years as of February 2007.

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

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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 useful lives. The weighted average remaining life of the firm s identifiable intangibles is approximately 12 years.

Amortization expense associated with identifiable intangible assets was $68 million and $44 million for the three months ended February 2007 and February 2006, respectively. Amortization expense associated with the firm s consolidated power generation facilities is reported within Cost of power generation in the condensed consolidated statements of earnings.

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

	(in millions)
Remainder of 2007	$ 199
2008	225
2009	210
2010	201
2011	193
2012	180

Note 10. Other Assets and Other Liabilities

Other Assets

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

	As of	
	February 2007	**November 2006**
	(in millions)	
Goodwill and identifiable intangible assets [1]	$ 5,593	$ 5,686
Property, leasehold improvements and equipment [2]	7,311	6,990
Equity-method investments	2,950	2,764
Income tax-related assets	3,029	3,427
Miscellaneous receivables and other	3,124	3,009
Total	$ 22,007	$ 21,876

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

(2) Net of accumulated depreciation and amortization of $5.26 billion and $5.06 billion as of February 2007 and November
2006, respectively.

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Other Liabilities

Other liabilities and accrued expenses primarily includes insurance-related liabilities, minority interest in consolidated entities, compensation and benefits, income tax-related liabilities, litigation and regulatory liabilities, deferred revenue and other payables. The following table sets forth the firm s other liabilities and accrued expenses by type:

	As of	
	February 2007	**November 2006**
	(in millions)	
Insurance-related liabilities [(1)]	$ 11,459	$ 11,471
Minority interest [(2)]	10,526	4,759
Compensation and benefits	6,255	9,165
Income tax-related liabilities	1,817	2,639
Accrued expenses and other payables	3,668	3,832
Total	$ 33,725	$ 31,866

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

	As of	
	February 2007	**November 2006**
	(in millions)	
Separate account liabilities	$ 7,925	$ 7,957
Liabilities for future benefits and unpaid claims	2,175	2,123
Contract holder account balances	1,116	1,134
Reserves for guaranteed minimum death and income benefits	243	257
Total insurance-related liabilities	$ 11,459	$ 11,471

Separate account liabilities are offset by separate account assets, representing segregated contract holder funds under variable annuity and variable 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 for $1.36 billion and $1.33 billion as of February 2007 and November 2006, 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 $784 million and $786 million as of February 2007 and November 2006, 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.

Reserves for guaranteed minimum death and income benefits represent a liability for the expected value of guaranteed benefits in excess of projected annuity account balances. These reserves are computed in accordance with AICPA Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts, and are based on total payments expected to be made less total fees expected to be assessed over the life of the contract.

(2) Includes $9.11 billion and $3.31 billion related to consolidated investment funds as of February 2007 and November 2006, respectively.

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Note 11. Employee Benefit Plans

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

Defined Benefit Pension Plans and Postretirement Plans

Employees of certain non-U.S. subsidiaries participate in various defined benefit pension plans. These plans generally provide benefits based on years of credited service and a percentage of the employee s eligible compensation. The firm also maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan has been closed to new participants and no further benefits will be accrued to existing participants. In addition, the firm has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs.

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

	Three Months Ended February	
	2007	2006
	(in millions)	
U.S. pension		
Service cost	$	$
Interest cost	6	5
Expected return on plan assets	(8)	(7)
Net amortization		2
Total	$ (2)	$
Non-U.S. pension		
Service cost	$ 18	$ 14
Interest cost	8	6
Expected return on plan assets	(8)	(7)
Net amortization	2	3
Total	$ 20	$ 16
Postretirement		
Service cost	$ 5	$ 4
Interest cost	5	5
Net amortization	4	5

Total	$ 14	$ 14

The firm expects to contribute a minimum of $33 million to its pension plans and $9 million to its postretirement plans in 2007.

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Note 12. 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 $1.04 billion and $1.22 billion for the three months ended February 2007 and February 2006, respectively. As of February 2007 and November 2006, the fees receivable from these funds were $575 million and $362 million, respectively. Additionally, the firm may invest alongside the third-party investors in certain funds. The aggregate carrying value of the firm s interests in these funds was $5.23 billion and $3.94 billion as of February 2007 and November 2006, respectively. In the ordinary course of business, the firm may also engage in other activities with these funds, including, among others, securities lending, trade execution, trading and custody. See Note 6 for the firm s commitments related to these funds.

Note 13. Regulation

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

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

Goldman Sachs Bank USA (GS Bank), a wholly owned industrial bank, is regulated by the Federal Deposit Insurance Corporation and the State of Utah Department of Financial Institutions and is subject to minimum capital requirements. As of February 2007, GS Bank was in compliance with all regulatory capital requirements. GS Bank had approximately $12.81 billion of interest-bearing deposits as of February 2007, which are included in Payables to customers and counterparties in the condensed consolidated statements of financial condition.

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

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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

adequacy requirements promulgated by authorities of the countries in which they operate. As of February 2007 and November 2006, these subsidiaries were in compliance with their local capital adequacy requirements.

Note 14. Business Segments

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

Basis of Presentation

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

The cost drivers of the firm taken as a whole compensation, headcount and levels of business activity are broadly similar in each of the firm s business segments. Compensation and benefits expenses within the firm s segments reflect, among other factors, the overall performance of the firm as well as the performance of individual business units. Consequently, pre-tax margins in one segment of the firm s business may be significantly affected by the performance of the firm s other business segments. The timing and magnitude of changes in the firm s bonus accruals can have a significant effect on segment results in a given period.

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

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

Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.

Net revenues in the firm s segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. Net interest is included within segment net revenues as it is consistent with the way in which management assesses segment performance.

Overhead expenses not directly allocable to specific segments are allocated ratably based on direct segment expenses.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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

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 February	
		2007	**2006**
		(in millions)	
Investment Banking	Net revenues	$ 1,716	$ 1,471
	Operating expenses	1,294	1,189
	Pre-tax earnings	$ 422	$ 282
	Segment assets	$ 3,883	$ 4,717
Trading and Principal Investments	Net revenues	$ 9,417	$ 6,982
	Operating expenses	5,394	4,427
	Pre-tax earnings	$ 4,023	$ 2,555
	Segment assets	$ 621,281	$ 548,746
Asset Management and Securities Services	Net revenues	$ 1,597	$ 1,980
	Operating expenses	1,183	1,099
	Pre-tax earnings	$ 414	$ 881

	Segment assets	$ 287,331	$ 205,358
Total	Net revenues [1]	$ 12,730	$ 10,433
	Operating expenses [2]	7,871	6,744
	Pre-tax earnings [3]	$ 4,859	$ 3,689
	Total assets	$ 912,495	$ 758,821

[1] Net revenues include net interest as set forth in the table below:

	Three Months Ended February	
	2007	**2006**
	(in millions)	
Investment Banking	$	$ 1
Trading and Principal Investments	344	295
Asset Management and Securities Services	464	426
Total net interest	$ 808	$ 722

[2] Includes net provisions for a number of litigation and regulatory proceedings of $29 million for the three months ended February 2006 that have not been allocated to the firm s segments.

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

	Three Months Ended February	
	2007	**2006**
	(in millions)	
Investment Banking	$ 33	$ 31
Trading and Principal Investments	197	149
Asset Management and Securities Services	42	39
Total depreciation and amortization	$ 272	$ 219

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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

Geographic Information

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. Accordingly, management believes that profitability by geographic region is not necessarily meaningful. In addition, as a significant portion of the firm s activities require cross-border coordination in order to facilitate the needs of the firm s clients, the methodology for allocating the firm s profitability to geographic regions is dependent on the judgment of management.

Geographic results are generally allocated as follows:

Investment Banking: location of the client and investment banking team.

Fixed Income, Currency and Commodities, and Equities: location of the trading desk.

Principal Investments: location of the investment.

Asset Management: location of the sales team.

Securities Services: location of the primary market for the underlying security.

The following table sets forth the total net revenues of the firm and its consolidated subsidiaries by geographic region allocated on the methodology described above:

	Three Months Ended February	
	2007	**2006**
	(in millions)	
Net revenues		
Americas [1]	$ 6,263	$ 5,438
EMEA [2]	4,167	3,017
Asia	2,300	1,978
Total net revenues	$ 12,730	$ 10,433

[1] Substantially all relates to U.S. results.

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

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Report of Independent Registered Public Accounting Firm

To the Directors and Shareholders of
The Goldman Sachs Group, Inc.:

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of February 23, 2007, the related condensed consolidated statements of earnings for the three months ended February 23, 2007 and February 24, 2006, the condensed consolidated statement of changes in shareholders equity for the three months ended February 23, 2007, the condensed consolidated statements of cash flows for the three months ended February 23, 2007 and February 24, 2006, and the condensed consolidated statements of comprehensive income for the three months ended February 23, 2007 and February 24, 2006. These condensed consolidated interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of November 24, 2006 and the related consolidated statements of earnings, changes in shareholders equity, cash flows and comprehensive income for the year then ended, management s assessment of the effectiveness of the Company s internal control over financial reporting as of November 24, 2006 and the effectiveness of the Company s internal control over financial reporting as of November 24, 2006; and in our report dated January 31, 2007, we expressed unqualified opinions thereon. The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of November 24, 2006, and the condensed consolidated statement of changes in shareholders equity for the year ended November 24, 2006, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 26, 2007

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Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations

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Introduction

Goldman Sachs is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

Our activities are divided into three segments:

Investment Banking. We provide a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, governments and individuals.

Trading and Principal Investments. We facilitate client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals and take proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, we engage in specialist and market-making activities on equities and options exchanges and we clear client transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investing activities, we make principal investments directly and through funds that we raise and manage.

Asset Management and Securities Services. We provide investment advisory and financial planning services and offer investment products (primarily through separate accounts and funds) across all major asset classes to a diverse group of institutions and individuals worldwide and provide 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.

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended November 24, 2006. References herein to the Annual Report on Form 10-K are to our Annual Report on Form 10-K for the fiscal year ended November 24, 2006.

Unless specifically stated otherwise, all references to February 2007 and February 2006 refer to our fiscal periods ended, or the dates, as the context requires, February 23, 2007 and February 24, 2006, respectively. All references to November 2006, unless specifically stated otherwise, refer to our fiscal year ended, or the date, as the context requires, November 24, 2006. All references to 2007, unless specifically stated otherwise, refer to our fiscal year ending, or the date, as the context requires, November 30, 2007.

When we use the terms Goldman Sachs, we, us and our, we mean The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, and its consolidated subsidiaries.

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Executive Overview

Our diluted earnings per common share were $6.67 for the first quarter of 2007, compared with $5.08 for the first quarter of 2006. Annualized return on average tangible common shareholders equity[1] was 44.7% and annualized return on average common shareholders equity was 38.0% for the first quarter of 2007.

During the first quarter of 2007, we generated record quarterly net revenues, net earnings and diluted earnings per common share, reflecting strong performance across all of our segments and regions. Net revenues in Trading and Principal Investments increased compared with the first quarter of 2006, reflecting significantly higher net revenues in Principal Investments, Fixed Income, Currency and Commodities (FICC) and Equities. The increase in Principal Investments reflected significantly higher gains and overrides from corporate and real estate principal investments. Net revenues in Principal Investments included approximately $500 million in gains in the first quarter of 2007 related to our adoption of SFAS No. 157, Fair Value Measurements. The increase in FICC reflected higher net revenues in credit products and mortgages, while net revenues in commodities, interest rate products and currencies were also strong. During the quarter, FICC operated in an environment characterized by strong customer-driven activity and favorable market opportunities. In addition, although the subprime sector within the mortgage market experienced significant weakness, the broader credit environment remained strong. The increase in Equities was primarily due to significantly higher net revenues in shares and principal strategies, reflecting strong results across all regions, while net revenues in derivatives were also strong. During the quarter, Equities operated in an environment characterized by rising equity prices, strong customer-driven activity and favorable market opportunities. In our trading businesses, we increased our market risk, particularly in Equities, to capitalize on these favorable opportunities for our clients and ourselves. Net revenues in Investment Banking increased compared with the first quarter of 2006, reflecting significantly higher net revenues in debt underwriting, as financing activity remained strong, particularly in leveraged finance. In addition, net revenues in Financial Advisory were higher, reflecting continued strong activity levels from both corporate clients and financial sponsors. Our investment banking backlog increased during the quarter.[2] Net revenues in Asset Management and Securities Services were lower than the first quarter of 2006, primarily due to significantly lower incentive fees, partially offset by higher asset management and other fees, and continued growth in securities lending and margin lending. During the quarter, assets under management increased $43 billion or 6% to a record $719 billion, with net asset inflows of $35 billion.

Though we generated record operating results in the first quarter of 2007, our business, by its nature, does not produce predictable earnings. Our results in any given period may be materially affected by conditions in global financial markets and economic conditions generally. For a further discussion of the factors that may affect our future operating results, see Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K.

[1] Annualized return on average tangible common shareholders equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly tangible common shareholders equity. See Results of Operations Financial Overview below for further information regarding our calculation of annualized return on average tangible common shareholders equity.

[2] Our investment banking backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not.

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Business Environment

Global economic conditions remained generally favorable during our first quarter of fiscal 2007, with global economic growth remaining solid, although it appeared to slow toward the end of our quarter. Business and consumer confidence remained at generally high levels across the world s major economies, particularly reflecting the impact of generally lower energy prices during much of the quarter. Global equity markets broadly moved higher during our first quarter, with particularly strong gains in China. In the fixed income markets, yield curves in both the U.S. and Europe remained relatively flat. In addition, although the subprime sector within the U.S. mortgage market experienced significant weakness, corporate credit spreads narrowed further. In Investment Banking, corporate and financial sponsor activity remained strong, as mergers and acquisitions and debt origination levels, particularly leveraged loan activity, remained at high levels.

In the U.S., economic growth, although lower than in recent quarters, remained solid, particularly in the first half of our fiscal quarter, aided by the combination of generally lower energy prices and unusually warm weather. Unemployment remained at low levels, ending our fiscal quarter essentially unchanged from the end of fiscal 2006. While inflationary pressures appeared to be contained, as reflected in measures of core inflation, signs of pressure reemerged toward the end of our fiscal quarter. The U.S. Federal Reserve left its federal funds target rate unchanged at 5.25% during our fiscal quarter. Long-term bond yields rose slightly, with the 10-year U.S. Treasury note yield ending the quarter up 13 basis points at 4.68%. The S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index increased by 4%, 3% and 2%, respectively, during our fiscal quarter.

In Europe, the pace of economic growth appears to have accelerated slightly during our fiscal quarter, with an increase in employment driving stronger domestic demand. The modest acceleration in economic growth was evident in surveys of business activity, which remained at high levels during our fiscal quarter. The European Central Bank increased its main refinancing operations rate by 25 basis points during the fiscal quarter to 3.50%, its highest level in more than five years. In the U.K., although financial conditions became less accommodative, the economy showed continued modest growth. Inflationary pressures also increased during the quarter. The Bank of England raised its official bank rate by 25 basis points to 5.25%, its highest level since 2001. Equity markets in both the U.K. and continental Europe rose sharply and long-term bond yields increased during our fiscal quarter.

In Japan, real gross domestic product appears to have accelerated, particularly in the first half of our first quarter, driven by an increase in both capital expenditure and domestic demand. Unemployment levels remained low, though wages declined on a year-on-year basis. During the quarter, the Bank of Japan raised its target overnight call rate by 25 basis points to 0.50% and the yield on 10-year Japanese government bonds increased slightly. The Nikkei 225 Index ended the fiscal quarter 16% higher.

In China, economic growth remained solid, primarily driven by continued strength in net exports. While the People s Bank of China maintained the one-year benchmark lending rate at 6.12%, it raised the reserve requirement ratio by 50 basis points during our fiscal quarter. The Shanghai Composite Index continued its sharp increase during our fiscal quarter. Elsewhere in Asia, growth in exports and industrial activity softened, though growth appeared to recover toward the end of our fiscal quarter. Equity markets across the region broadly ended our fiscal quarter higher.

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Critical Accounting Policies

Fair Value

The use of fair value to measure financial instruments, with related unrealized gains or losses generally recognized in Trading and principal investments in our condensed consolidated statements of earnings, is fundamental to our financial statements and is our most critical accounting policy. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that we own (long positions) are marked to bid prices, and instruments that we have sold, but not yet purchased (short positions) are marked to offer prices.

We adopted SFAS No. 157, Fair Value Measurements, as of the beginning of 2007. See Notes 2 and 3 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on SFAS No. 157, including the impact of adoption.

In determining fair value, we separate our Financial instruments, at fair value and Financial instruments sold, but not yet purchased, at fair value into two categories: cash instruments and derivative contracts, as set forth in the following table:

Financial Instruments by Category
(in millions)

	As of February 2007		As of November 2006	
	Financial Instruments Owned, at Fair Value	Financial Instruments Sold, but not Yet Purchased, at Fair Value	Financial Instruments Owned, at Fair Value	Financial Instruments Sold, but not Yet Purchased, at Fair Value
Cash trading instruments	$ 274,781	$ 96,800	$ 247,031	$ 87,244
SMFG	4,662	3,272 (5)	4,505	3,065 (5)
ICBC	5,898 (1)		5,194 (1)	
Other principal investments	6,019 (2)		4,263 (2)	
Principal investments	16,579	3,272	13,962	3,065
Cash instruments	291,360	100,072	260,993	90,309
Exchange-traded	12,383	12,227	14,407	13,851
Over-the-counter	57,024	54,182	53,136	51,645
Derivative contracts	69,407 (3)	66,409 (6)	67,543 (3)	65,496 (6)
Total	$ 360,767 (4)	$ 166,481	$ 328,536 (4)	$ 155,805

(1) Includes interests of $3.73 billion and $3.28 billion as of February 2007 and November 2006, respectively, held by investment funds managed by Goldman Sachs. The fair value of our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC), which trade on The Stock Exchange of Hong Kong, includes the effect of foreign exchange revaluation.

(2) The following table sets forth the principal investments (in addition to our investments in SMFG and ICBC) included within the Principal Investments component of our Trading and Principal Investments segment:

	As of February 2007			As of November 2006		
	Corporate	Real Estate	Total	Corporate	Real Estate	Total
		(in millions)			(in millions)	
Private	$ 3,939	$ 1,103	$ 5,042	$ 2,741	$ 555	$ 3,296
Public	939	38	977	934	33	967
Total	$ 4,878	$ 1,141	$ 6,019	$ 3,675	$ 588	$ 4,263

(3) Net of cash received pursuant to credit support agreements of $25.81 billion and $24.06 billion as of February 2007 and November 2006, respectively.

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(4) Excludes assets related to consolidated investment funds of $12.13 billion and $6.03 billion as of February 2007 and November 2006, respectively, for which Goldman Sachs is not at risk.

(5) Represents an economic hedge on the shares of common stock underlying our investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG).

(6) Net of cash paid pursuant to credit support agreements of $15.92 billion and $16.00 billion as of February 2007 and November 2006, respectively.

Cash Instruments. Cash instruments include cash trading instruments, public principal investments and private principal investments.

Cash Trading Instruments. Our cash trading instruments are generally valued using quoted market prices in active markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, liquid mortgage products, active listed equities and most money market securities. The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid listed equities, state, municipal and provincial obligations, and certain physical commodities.

Certain cash trading instruments trade infrequently and therefore have little or no price transparency. Such instruments include certain corporate bank loans and mortgage whole loans, highly distressed debt, and private equity and real estate investments. Where we are unable to substantiate the significant valuation inputs and assumptions to corroborative market data, the transaction price is used as management s best estimate of fair value at inception. 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 inception, we change inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

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

Public Principal Investments. Our public principal investments held within the Principal Investments component of our Trading and Principal Investments segment tend to be large, concentrated holdings resulting from initial public offerings or other corporate transactions, and are valued based on quoted market prices. For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used.

Our two most significant public principal investments are our investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG) and our investment in the ordinary shares of Industrial and

Commercial Bank of China Limited (ICBC).

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Our investment in SMFG is valued using a model that is principally based on SMFG s common stock price. As of February 2007, the conversion price of our SMFG convertible preferred stock into shares of SMFG common stock was ¥318,800. This price is subject to downward adjustment if the price of SMFG common stock at the time of conversion is less than the conversion price (subject to a floor of ¥105,100). As a result of downside protection on the conversion stock price, the relationship between changes in the fair value of our investment and changes in SMFG s common stock price would be nonlinear for a significant decline in the SMFG common stock price. As of February 2007, we had hedged approximately 70% of the common stock underlying our investment in SMFG and there were no restrictions on our ability to hedge the remaining 30%.

Our investment in ICBC is valued using the quoted market prices adjusted for transfer restrictions. The ordinary shares acquired from ICBC are subject to transfer restrictions that, among other things, prohibit any sale, disposition or other transfer until April 28, 2009. From April 28, 2009 to October 20, 2009, we may transfer up to 50% of the aggregate ordinary shares of ICBC that we owned as of October 20, 2006. We may transfer our remaining shares after October 20, 2009. A portion of our interest is held by investment funds managed by Goldman Sachs.

Private Principal Investments. Our private principal investments held within the Principal Investments component of our Trading and Principal Investments segment include investments in private equity, debt and real estate. By their nature, these investments have little or no price transparency. We value such instruments initially at transaction price and adjust the valuation when evidence is available to support such adjustments. Such evidence includes transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

Derivative Contracts. Derivative contracts can be exchange-traded or over-the-counter (OTC). Exchange-traded derivatives are generally valued based on quoted market prices. Some exchange-traded derivatives are valued within portfolios using models that calibrate to broker or dealer quotations or market transactions in either the listed or OTC markets.

OTC derivatives are valued using models. 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. We generally use similar models to value similar instruments. Where possible, we verify the values produced by our pricing models to market transactions. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

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. Further, complex structures often involve multiple product types requiring additional complex inputs such as correlations and volatilities. Where we do not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, management believes that transaction price is the best estimate of fair value at inception. 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 initial recognition, we only update valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other evidence such as empirical market data. In circumstances where we cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different

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estimate of fair value. As markets continue to develop and more pricing information becomes available, we continue to review and refine the models used. See Derivatives below for a further information on our OTC derivatives.

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

Other Financial Assets and Financial Liabilities. In addition to Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, we have elected to account for certain of our other financial assets and financial liabilities at fair value under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140, or SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Such financial assets and financial liabilities include (i) certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments; (ii) certain other secured financings; (iii) certain unsecured long-term borrowings, including those resulting from prepaid physical commodity transactions; (iv) resale and repurchase agreements; (v) securities borrowed and securities loaned related to our financing and matched book activities; and (vi) securities held by our bank subsidiary (previously accounted for as available-for-sale). See Recent Accounting Developments below for a discussion of the impact of adopting SFAS No. 159.

Controls Over Valuation of Financial Instruments. A control infrastructure, independent of the trading and investing functions, is fundamental to ensuring that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important in valuing instruments with lower levels of price transparency.

We employ an oversight structure that includes appropriate segregation of duties. Senior management, independent of the trading functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies to our Audit Committee. We seek to maintain the necessary resources to ensure that control functions are performed to the highest standards. We employ procedures for the approval of new transaction types and markets, price verification, review of daily profit and loss, and review of valuation models by personnel with appropriate technical knowledge of relevant products and markets. These procedures are performed by personnel independent of the revenue-producing units. For trading and principal investments with little or no price transparency, we employ, where possible, procedures that include comparisons with similar observable positions, analysis of actual to projected cash flows, comparisons with subsequent sales and discussions with senior business leaders. See Market Risk below for a further discussion of how we manage the risks inherent in our trading and principal investing businesses.

Goodwill and Identifiable Intangible Assets

As a result of our acquisitions, principally SLK LLC (SLK) in 2000, The Ayco Company, L.P. (Ayco) in 2003, Cogentrix Energy, Inc. (Cogentrix) in 2004, National Energy & Gas Transmission, Inc. (NEGT) in 2005 and our variable annuity and variable life insurance business in 2006, we have acquired goodwill and identifiable intangible assets. Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date.

Goodwill. We test the goodwill in each of our operating segments for impairment at least annually in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, by comparing the estimated fair value of each operating segment with its estimated net book value. We derive the fair value of each of our operating segments primarily based on price-earnings multiples. We derive the net book value of our operating segments by estimating the amount of shareholders equity required to support the activities of each operating segment. Our last annual impairment test was performed during our 2006 fourth quarter and no impairment was identified.

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The following table sets forth the carrying value of our goodwill by operating segment:

Goodwill by Operating Segment
(in millions)

	As of	
	February 2007	**November 2006**
Investment Banking		
Financial Advisory	$	$
Underwriting	125	125
Trading and Principal Investments		
FICC	133	136
Equities [1]	2,381	2,381
Principal Investments	4	4
Asset Management and Securities Services		
Asset Management [2]	421	421
Securities Services	117	117
Total	$ 3,181	$ 3,184

[1] Primarily related to SLK.

[2] Primarily related to Ayco.

Identifiable Intangible Assets. We amortize our identifiable intangible assets over their estimated useful lives in accordance with SFAS No. 142, and test for potential impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

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The following table sets forth the carrying value and range of remaining useful lives of our identifiable intangible assets by major asset class:

Identifiable Intangible Assets by Asset Class
($ in millions)

	As of February 2007		As of November 2006
	Carrying Value	Range of Remaining Useful Lives (in years)	Carrying Value
Customer lists [1]	$ 724	5 - 18	$ 737
Power contracts [2]	605	2 - 22	667
New York Stock Exchange (NYSE) specialist rights	532	15	542
Insurance-related assets [3]	369	7	362
Exchange-traded fund (ETF) specialist rights	104	21	105
Other [4]	78	1 - 9	89
Total	$ 2,412		$ 2,502

(1) Primarily includes our clearance and execution and NASDAQ customer lists related to SLK and financial counseling customer lists related to Ayco.

(2) Primarily relates to above-market power contracts of consolidated power generation facilities related to Cogentrix and NEGT. Substantially all of these power contracts have been pledged to counterparties in connection with our secured financings.

(3) Consists of the value of business acquired (VOBA) and deferred acquisition costs (DAC). VOBA represents the present value of estimated future gross profits of the variable annuity and variable life insurance business acquired in 2006. DAC results from commissions paid by Goldman Sachs to the primary insurer (ceding company) on life and annuity reinsurance agreements as compensation to place the business with us and to cover the ceding company s acquisition expenses. VOBA and DAC are amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The seven-year useful life represents the weighted average remaining amortization period of the underlying contracts (certain of which extend for approximately 30 years).

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

A prolonged period of weakness in global equity markets and the trading of securities in multiple markets and on multiple exchanges could adversely impact our businesses and impair the value of our goodwill and/or identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets,

including (i) changes in market structure that could adversely affect our specialist businesses, (ii) an adverse action or assessment by a regulator, (iii) a default event under a power contract or physical damage or other adverse events impacting the underlying power generation facilities, or (iv) adverse actual experience on the contracts in our variable annuity and variable life insurance business.

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Use of Estimates

The use of generally accepted accounting principles requires management to make certain estimates. In addition to the estimates we make in connection with fair value measurements and the accounting for goodwill and identifiable intangible assets, the use of estimates is also important in determining provisions for potential losses that may arise from litigation and regulatory proceedings and tax audits.

A substantial portion of our compensation and benefits represents discretionary bonuses, which are determined at year end. We believe the most appropriate way to allocate estimated annual discretionary bonuses among interim periods is in proportion to the net revenues earned in such periods. In addition to the level of net revenues, our overall compensation expense in any given year is also influenced by, among other factors, prevailing labor markets, business mix and the structure of our share-based compensation programs. Our ratio of compensation and benefits to net revenues was 48.0% for the first quarter of 2007 compared with 50.9% for the first quarter of 2006.

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings and tax audits to the extent that such losses are probable and can be estimated, in accordance with SFAS No. 5, Accounting for Contingencies. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. See Legal Proceedings in Part I, Item 3 of the Annual Report on Form 10-K, and in Part II, Item 1 of this Quarterly Report on Form 10-Q for information on our judicial, regulatory and arbitration proceedings.

Results of Operations

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. See Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K for a further discussion of the impact of economic and market conditions on our results of operations.

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Financial Overview

The following table sets forth an overview of our financial results:

Financial Overview
($ in millions, except per share amounts)

	Three Months Ended February	
	2007	**2006**
Net revenues	$ 12,730	$ 10,433
Pre-tax earnings	4,859	3,689
Net earnings	3,197	2,479
Net earnings applicable to common shareholders	3,148	2,453
Diluted earnings per common share	6.67	5.08
Annualized return on average common shareholders equity[1]	38.0%	36.4%
Annualized return on average tangible common shareholders equity[2]	44.7%	44.4%

(1) Annualized return on average common shareholders equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders equity.

(2) Tangible common shareholders equity equals total shareholders equity less preferred stock, goodwill and identifiable intangible assets, excluding power contracts. Identifiable intangible assets associated with power contracts are not deducted from total shareholders equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders equity.

We believe that annualized return on average tangible common shareholders equity is meaningful because it measures the performance of businesses consistently, whether they were acquired or developed internally. Annualized return on average tangible common shareholders equity is computed by dividing annualized net earnings applicable to common shareholders by average monthly tangible common shareholders equity.

The following table sets forth a reconciliation of average total shareholders equity to average tangible common shareholders equity:

	Average for the Three Months Ended February	
	2007	**2006**
	(in millions)	
Total shareholders equity	$ 36,258	$ 28,724
Preferred stock	(3,100)	(1,750)

Common shareholders equity	$ 33,158	$ 26,974
Goodwill and identifiable intangible assets, excluding power contracts	(5,002)	(4,896)
Tangible common shareholders equity	$ 28,156	$ 22,078

Net Revenues

Three Months Ended February 2007 versus February 2006. Our net revenues were $12.73 billion for the first quarter of 2007, an increase of 22% compared with the first quarter of 2006, reflecting strong performance across all of our segments and regions. Net revenues in Trading and Principal Investments increased compared with the first quarter of 2006, reflecting significantly higher net revenues in Principal Investments, FICC and Equities. The increase in Principal Investments reflected significantly higher gains and overrides from corporate and real estate principal investments. Net revenues in Principal Investments included approximately $500 million in gains in the first quarter of 2007 related to our adoption of SFAS No. 157, Fair Value Measurements. The increase in FICC reflected higher net revenues in credit products and mortgages, while net revenues in commodities, interest rate products and currencies were also strong. During the quarter, FICC operated in an environment characterized by strong customer-driven activity and favorable market opportunities. In addition, although the subprime sector within the mortgage market experienced significant weakness, the broader credit environment remained strong. The increase in Equities was primarily due to

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significantly higher net revenues in shares and principal strategies, reflecting strong results across all regions, while net revenues in derivatives were also strong. During the quarter, Equities operated in an environment characterized by rising equity prices, strong customer-driven activity and favorable market opportunities. In our trading businesses, we increased our market risk, particularly in Equities, to capitalize on these favorable opportunities for our clients and ourselves. Net revenues in Investment Banking increased compared with the first quarter of 2006, reflecting significantly higher net revenues in debt underwriting, as financing activity remained strong, particularly in leveraged finance. In addition, net revenues in Financial Advisory were higher, reflecting continued strong activity levels from both corporate clients and financial sponsors. Net revenues in Asset Management and Securities Services were lower than the first quarter of 2006, primarily due to significantly lower incentive fees, partially offset by higher asset management and other fees, and continued growth in securities lending and margin lending. During the quarter, assets under management increased $43 billion or 6% to a record $719 billion, with net asset inflows of $35 billion.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. A substantial portion of our compensation expense represents discretionary bonuses that are significantly impacted by, among other factors, the level of net revenues, prevailing labor markets, business mix and the structure of our share-based compensation programs. During the first quarter of 2007, our ratio of compensation and benefits to net revenues was 48.0% compared with 50.9% for the first quarter of 2006. See Use of Estimates above for more information on our ratio of compensation and benefits to net revenues.

The following table sets forth our operating expenses and number of employees:

Operating Expenses and Employees
($ in millions)

	Three Months Ended February	
	2007	**2006**
Compensation and benefits [1]	$ 6,111	$ 5,314
Brokerage, clearing, exchange and distribution fees	551	418
Market development	132	100
Communications and technology	151	124
Depreciation and amortization	132	125
Amortization of identifiable intangible assets	51	34
Occupancy	204	193
Professional fees	161	109
Cost of power generation	84	85
Other expenses	294	242
Total non-compensation expenses	1,760	1,430
Total operating expenses	$ 7,871	$ 6,744
Employees at period end [2]	26,959	23,641

(1) Compensation and benefits includes $35 million and $51 million for the three months ended February 2007 and February 2006, respectively, attributable to consolidated entities held for investment purposes. Consolidated entities held for investment purposes are entities that are held strictly for capital appreciation, have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses.

(2) Excludes 4,994 and 8,171 employees as of February 2007 and February 2006, respectively, of consolidated entities held for investment purposes (see footnote 1 above).

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The following table sets forth non-compensation expenses of consolidated entities held for investment purposes and our remaining non-compensation expenses by line item:

Non-Compensation Expenses
(in millions)

	Three Months Ended February	
	2007	2006
Non-compensation expenses of consolidated investments [1]	$ 87	$ 99
Non-compensation expenses excluding consolidated investments		
Brokerage, clearing, exchange and distribution fees	551	418
Market development	130	92
Communications and technology	150	123
Depreciation and amortization	118	112
Amortization of identifiable intangible assets	50	34
Occupancy	189	169
Professional fees	160	105
Cost of power generation	84	85
Other expenses	241	193
Subtotal	1,673	1,331
Total non-compensation expenses, as reported	$ 1,760	$ 1,430

[1] Consolidated entities held for investment purposes are entities that are held strictly for capital appreciation, have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses. For example, these investments include consolidated entities that hold real estate assets, such as hotels, but exclude investments in entities that primarily hold financial assets. We believe that it is meaningful to review non-compensation expenses excluding expenses related to these consolidated entities in order to evaluate trends in non-compensation expenses related to our principal business activities. Revenues related to such entities are included in Trading and principal investments in the condensed consolidated statements of earnings.

Three Months Ended February 2007 versus February 2006. Operating expenses of $7.87 billion increased 17% compared with the first quarter of 2006. Compensation and benefits expenses of $6.11 billion increased 15% compared with the first quarter of 2006, reflecting the impact of higher net revenues. The ratio of compensation and benefits to net revenues for the quarter was 48.0% compared with 50.9% for the first quarter of 2006. Employment levels increased 2% during the quarter.

Non-compensation expenses were $1.76 billion, 23% higher than the first quarter of 2006. Excluding non-compensation expenses related to consolidated entities held for investment purposes, non-compensation expenses were 26% higher than the first quarter of 2006, primarily due to higher brokerage, clearing, exchange and distribution fees, reflecting higher transaction volumes in Equities, and increased professional fees, reflecting increased levels of business activity. Other expenses also increased, primarily due to growth in our insurance business.

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Provision for Taxes

The provision for taxes for the quarter ended February 2007 was $1.66 billion. The effective income tax rate was 34.2% for the first quarter of 2007, down from 34.5% for fiscal year 2006 and up from 32.8% for the first quarter of 2006. The increase from the first quarter of 2006 was primarily due to a reduction in the impact of permanent benefits due to higher levels of earnings, and changes in the geographic mix of earnings.

Segment Operating Results

The following table sets forth the net revenues, operating expenses and pre-tax earnings of our segments:

Segment Operating Results
(in millions)

		Three Months Ended February	
		2007	**2006**
Investment Banking	Net revenues	$ 1,716	$ 1,471
	Operating expenses	1,294	1,189
	Pre-tax earnings	$ 422	$ 282
Trading and Principal Investments	Net revenues	$ 9,417	$ 6,982
	Operating expenses	5,394	4,427
	Pre-tax earnings	$ 4,023	$ 2,555
Asset Management and Securities Services	Net revenues	$ 1,597	$ 1,980
	Operating expenses	1,183	1,099
	Pre-tax earnings	$ 414	$ 881
Total	Net revenues	$ 12,730	$ 10,433
	Operating expenses [(1)]	7,871	6,744
	Pre-tax earnings	$ 4,859	$ 3,689

(1) Includes net provisions for a number of litigation and regulatory proceedings of $29 million for the three months ended February 2006 that have not been allocated to our segments.

Net revenues in our segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. See Note 14 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our segments.

The cost drivers of Goldman Sachs taken as a whole compensation, headcount and levels of business activity are broadly similar in each of our business segments. Compensation and benefits expenses within our segments reflect, among other factors, the overall performance of Goldman Sachs as well as the performance of individual business units. Consequently, pre-tax margins in one segment of our business may be significantly affected by the performance of our other business segments. The timing and magnitude of changes in our bonus accruals can have a significant effect on segment results in a given period. A discussion of segment operating results follows.

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Investment Banking

Our Investment Banking segment is divided into two components:

Financial Advisory. Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs.

Underwriting. Underwriting includes public offerings and private placements of a wide range of securities and other financial instruments.

The following table sets forth the operating results of our Investment Banking segment:

Investment Banking Operating Results
(in millions)

	Three Months Ended February	
	2007	**2006**
Financial Advisory	$ 861	$ 736
Equity underwriting	266	283
Debt underwriting	589	452
Total Underwriting	855	735
Total net revenues	1,716	1,471
Operating expenses	1,294	1,189
Pre-tax earnings	$ 422	$ 282

The following table sets forth our financial advisory and underwriting transaction volumes:

Goldman Sachs Global Investment Banking Volumes [(1)]
(in billions)

	Three Months Ended February	
	2007	**2006**
Announced mergers and acquisitions	$ 337	$ 285
Completed mergers and acquisitions	324	272
Equity and equity-related offerings [(2)]	13	16

Debt offerings [3]	86	83

[1] Source: Thomson Financial. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period.

[2] Includes public common stock offerings, convertible offerings, rights offerings and Rule 144A issues.

[3] Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues.

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Three Months Ended February 2007 versus February 2006. Net revenues in Investment Banking of $1.72 billion for the first quarter of 2007 increased 17% compared with the first quarter of 2006. Net revenues in Financial Advisory of $861 million increased 17% compared with first quarter of 2006, primarily reflecting growth in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $855 million increased 16% compared with the first quarter of 2006, reflecting significantly higher net revenues in debt underwriting, primarily due to an increase in leveraged finance activity, as the financing environment remained favorable. Our investment banking backlog increased during the quarter. (1)

Operating expenses of $1.29 billion for the first quarter of 2007 increased 9% compared with the first quarter of 2006, primarily due to increased compensation and benefits expenses resulting from a higher accrual of discretionary compensation. Pre-tax earnings of $422 million in the first quarter of 2007 increased 50% compared with the first quarter of 2006.

Trading and Principal Investments

Our Trading and Principal Investments segment is divided into three components:

> **FICC.** We make markets in and trade interest rate and credit products, mortgage-related securities and loan products, currencies and commodities, structure and enter into a wide variety of derivative transactions and engage in proprietary trading and investing.
>
> **Equities.** We make markets in, trade and act as a specialist for equities and equity-related products, structure and enter into equity derivative transactions and engage in proprietary trading and insurance activities. We also execute and clear client transactions on major stock, options and futures exchanges worldwide.
>
> **Principal Investments.** We make real estate and corporate principal investments, including our investments in the convertible preferred stock of SMFG and the ordinary shares of ICBC. We generate net revenues from returns on these investments and from the increased share of the income and gains derived from our merchant banking funds when the return on a fund s investments, over the life of the fund, exceeds certain threshold returns (overrides).

Substantially all of our inventory is marked-to-market daily and, therefore, its value and our net revenues are subject to fluctuations based on market movements. In addition, net revenues derived from our principal investments in privately held concerns and in real estate may fluctuate significantly depending on the revaluation or sale of these investments in any given period. We also regularly enter into large transactions as part of our trading businesses. The number and size of such transactions may affect our results of operations in a given period.

Net revenues from Principal Investments do not include management fees generated from our merchant banking funds. These management fees are included in the net revenues of the Asset Management and Securities Services segment.

(1) Our investment banking backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not.

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The following table sets forth the operating results of our Trading and Principal Investments segment:

Trading and Principal Investments Operating Results
(in millions)

	Three Months Ended February	
	2007	**2006**
FICC	$ 4,604	$ 3,838
Equities trading	2,163	1,607
Equities commissions	924	842
Total Equities	3,087	2,449
SMFG	161	405
ICBC	227	
Gross gains	1,351	301
Gross losses [1]	(228)	(101)
Net other corporate and real estate investments	1,123	200
Overrides	215	90
Total Principal Investments	1,726	695
Total net revenues	9,417	6,982
Operating expenses	5,394	4,427
Pre-tax earnings	$ 4,023	$ 2,555

[1] A substantial portion relates to interest expense on our principal investments.

Three Months Ended February 2007 versus February 2006. Net revenues in Trading and Principal Investments of $9.42 billion for the first quarter of 2007 increased 35% compared with the first quarter of 2006. Net revenues in FICC of $4.60 billion increased 20% compared with the first quarter of 2006, reflecting higher net revenues in credit products and mortgages. Net revenues in commodities and interest rate products were strong, but essentially unchanged from the same prior year period. Net revenues in currencies were also strong, but lower compared with the first quarter of 2006. During the quarter, FICC operated in an environment characterized by strong customer-driven activity and favorable market opportunities. In addition, although the subprime sector within the mortgage market experienced significant weakness, the broader credit environment remained strong. Net revenues in Equities of

$3.09 billion increased 26% compared with the first quarter of 2006, primarily due to significantly higher net revenues in shares and principal strategies, reflecting strong results across all regions. Net revenues in derivatives were also strong, but essentially unchanged compared with the first quarter of 2006. During the quarter, Equities operated in an environment characterized by rising equity prices, strong customer-driven activity and favorable market opportunities. Principal Investments recorded net revenues of $1.73 billion, reflecting gains and overrides from corporate and real estate principal investments, including a $227 million gain related to our investment in the ordinary shares of ICBC and a $161 million gain related to our investment in the convertible preferred stock of SMFG. Net revenues in Principal Investments included approximately $500 million in gains in the first quarter of 2007 related to our adoption of SFAS No. 157, Fair Value Measurements.

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Operating expenses of $5.39 billion for the first quarter of 2007 increased 22% compared with the first quarter of 2006, primarily due to increased compensation and benefits expenses resulting from a higher accrual of discretionary compensation as well as higher non-compensation expenses. Excluding non-compensation expenses related to consolidated entities held for investment purposes, the increase in non-compensation expenses was primarily due to higher brokerage, clearing, exchange and distribution fees, reflecting higher transaction volumes in Equities, and higher professional fees due to increased levels of business activity. Other expenses also increased, primarily due to higher levels of business activity, including growth in our insurance business. Pre-tax earnings of $4.02 billion in the first quarter of 2007 increased 57% compared with the first quarter of 2006.

Asset Management and Securities Services

Our Asset Management and Securities Services segment is divided into two components:

Asset Management. Asset Management provides investment advisory and financial planning services and offers investment products (primarily through separate accounts and funds) across all major asset classes to a diverse group of institutions and individuals worldwide and primarily generates revenues in the form of management and incentive fees.

Securities Services. Securities Services 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, and generates revenues primarily in the form of interest rate spreads or fees.

Assets under management typically generate fees as a percentage of asset value. In certain circumstances, we are 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 recognized when the performance period ends and they are no longer subject to adjustment. We have numerous incentive fee arrangements, many of which have annual performance periods that end on December 31. For that reason, incentive fees have been seasonally weighted to our first quarter. Based on investment performance in calendar 2006, our incentive fees were significantly lower in the first quarter of 2007 than they were in the first quarter of 2006.

The following table sets forth the operating results of our Asset Management and Securities Services segment:

Asset Management and Securities Services Operating Results
(in millions)

	Three Months Ended February	
	2007	**2006**
Management and other fees	$ 982	$ 750
Incentive fees	90	739
Total Asset Management	1,072	1,489
Securities Services	525	491
Total net revenues	1,597	1,980

Operating expenses	1,183	1,099
Pre-tax earnings	$ 414	$ 881

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Assets under management include our mutual funds, alternative investment funds and separately managed accounts for institutional and individual investors. Substantially all assets under management are valued as of calendar month end.

The following table sets forth our assets under management by asset class:

Assets Under Management by Asset Class
(in billions)

	As of February 28,		As of November 30,	
	2007	2006	2006	2005
Alternative investments [1]	$ 147	$ 119	$ 145	$ 110
Equity	230	181	215	167
Fixed income	213	165	198	154
Total non-money market assets	590	465	558	431
Money markets	129	106	118	101
Total assets under management	$ 719	$ 571	$ 676	$ 532

[1] Primarily includes hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies.

The following table sets forth a summary of the changes in our assets under management:

Changes in Assets Under Management
(in billions)

	Three Months Ended February 28	
	2007	2006
Balance, beginning of year	$ 676	$ 532
Net asset inflows/(outflows)		
Alternative investments	2	7
Equity	11	5
Fixed income	11	8
Total non-money market net asset inflows/(outflows)	24	20
Money markets	11	5

Total net asset inflows/(outflows)	35	25 [1]
Net market appreciation/(depreciation)	8	14
Balance, end of period	$ 719	$ 571

[1] Includes $3 billion of net asset inflows in connection with our December 30, 2005 acquisition of our variable annuity and variable life insurance business.

Three Months Ended February 2007 versus February 2006. Net revenues in Asset Management and Securities Services of $1.60 billion decreased 19% compared with the first quarter of 2006. Asset Management net revenues of $1.07 billion decreased 28% compared with the first quarter of 2006, reflecting significantly lower incentive fees, partially offset by a 31% increase in management and other fees. Incentive fees were $90 million for the first quarter of 2007 compared with $739 million for the same prior year period. During the quarter, assets under management increased $43 billion to $719 billion, reflecting non-money market net asset inflows of $24 billion, primarily in equity and fixed income assets, money market net assets inflows of $11 billion and market appreciation of $8 billion, in equity and fixed income assets. Securities Services net revenues of $525 million increased 7% compared with the first quarter of 2006, as our prime brokerage business

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generated strong results, reflecting continued growth in customer balances in securities lending and margin lending.

Operating expenses of $1.18 billion for the first quarter of 2007 increased 8% compared with the first quarter of 2006, primarily due to increased compensation and benefits expenses and higher distribution fees. Pre-tax earnings of $414 million in the first quarter of 2007 decreased by 53% compared with the first quarter of 2006.

Geographic Data

See Note 14 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a summary of our net revenues by geographic region.

Equity Capital

The level and composition of our equity capital are principally determined by our consolidated regulatory capital requirements, subsidiary capital requirements and rating agency guidelines. The equity capital we hold may also be influenced by the business environment, conditions in the financial markets and an assessment of potential future losses during an extremely adverse business and market environment. As of February 2007, our total shareholders equity was $36.90 billion (consisting of common shareholders equity of $33.80 billion and preferred stock of $3.10 billion) compared with total shareholders equity of $35.79 billion as of November 2006 (consisting of common shareholders equity of $32.69 billion and preferred stock of $3.10 billion). In addition to total shareholders equity, we consider the $2.75 billion of junior subordinated debt issued to a trust (see below) part of our equity capital, as it qualifies as capital for regulatory and certain rating agency purposes.

Consolidated Regulatory Capital Requirements

Goldman Sachs is regulated by the U.S. Securities and Exchange Commission (SEC) as a Consolidated Supervised Entity (CSE) and, as such, is subject to group-wide supervision and examination by the SEC and to minimum capital adequacy standards on a consolidated basis. Minimum capital adequacy standards are principally driven by the amount of our market risk, credit risk and operational risk as calculated by methodologies approved by the SEC. Eligible sources of regulatory capital include common equity and certain types of preferred stock, debt and hybrid instruments, including our junior subordinated debt issued to a trust. The recognition of preferred stock, debt and hybrid instruments as regulatory capital is subject to limitations. Goldman Sachs was in compliance with the CSE capital adequacy standards as of February 2007 and November 2006.

Subsidiary Capital Requirements

Many of our principal subsidiaries are subject to separate regulation and capital requirements in the United States and/or elsewhere. Goldman, Sachs & Co. and Goldman Sachs Execution & Clearing, L.P. are registered U.S. broker-dealers and futures commissions merchants, and their primary regulators include the SEC, the Commodity Futures Trading Commission, the Chicago Board of Trade, the NYSE, the National Association of Securities Dealers, Inc. and the National Futures Association. Goldman Sachs International, our regulated U.K. broker-dealer, is subject to regulation primarily by the U.K. s Financial Services Authority. Goldman Sachs Japan Co., Ltd., our regulated Japanese broker-dealer, is subject to regulation by Japan s Financial Services Agency. Several other subsidiaries of Goldman Sachs are regulated by securities, investment advisory, banking, and other regulators and authorities around the world, such as the Federal Financial Supervisory Authority (BaFin) and the Bundesbank in Germany, Banque de France and the Autorité des Marchés Financiers in France, Banca d Italia and the Commissione Nazionale per le Società e la Borsa (CONSOB) in Italy, the Swiss Federal Banking Commission, the Securities and Futures Commission in Hong Kong, the Monetary Authority of Singapore and the China Securities Regulatory Commission. Goldman Sachs Bank USA (GS Bank), a wholly owned industrial bank, is regulated by the Federal

Deposit

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Insurance Corporation and the State of Utah Department of Financial Institutions and is subject to minimum capital requirements. As of February 2007 and November 2006, these subsidiaries were in compliance with their local capital requirements.

As discussed above, many of our subsidiaries are subject to regulatory capital requirements in jurisdictions throughout the world. Subsidiaries not subject to separate regulation may hold capital to satisfy local tax guidelines, rating agency requirements or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based upon its underlying risk. See Liquidity and Funding Risk Conservative Liability Structure below for a discussion of our potential inability to access funds from our subsidiaries.

Equity investments in subsidiaries are generally funded with parent company equity capital. As of February 2007, Group Inc. s equity investment in subsidiaries was $35.58 billion compared with its total shareholders equity of $36.90 billion.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is managed primarily through the use of derivative contracts. In addition, we generally manage the non-trading exposure to foreign exchange risk that arises from transactions denominated in currencies other than the transacting entity s functional currency.

See Note 13 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our regulated subsidiaries.

Rating Agency Guidelines

The credit rating agencies assign credit ratings to the obligations of The Goldman Sachs Group, Inc., which directly issues or guarantees substantially all of Goldman Sachs senior unsecured obligations. The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See Liquidity and Funding Risk Credit Ratings below for further information regarding our credit ratings.

Equity Capital Management

Our objective is to maintain a sufficient level and optimize the composition of our equity capital. We manage our capital through repurchases of our common stock and issuances of preferred stock, junior subordinated debt issued to a trust and subordinated debt.

Share Repurchase Program. We use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases and is influenced by our overall capital position (i.e., the comparison of our capital requirements to our available capital), general market conditions and the prevailing price and trading volumes of our common stock.

The following table sets forth the level of share repurchases for the first quarters ended February 2007 and February 2006:

	As of February	
	2007	**2006**

	(in millions, except per share amounts)	
Number of shares repurchased	12.97	19.13
Total cost	$ 2,688	$ 2,578
Average cost per share	$ 207.26	$ 134.75

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As of February 2007, we were authorized to repurchase up to 39.6 million additional shares of common stock pursuant to our repurchase program. See Unregistered Sales of Equity Securities and Use of Proceeds in Part II, Item 2 of this Quarterly Report on Form 10-Q for additional information on our repurchase program.

Preferred Stock. As of February 2007, Goldman Sachs had 124,000 shares of perpetual non-cumulative preferred stock outstanding in four series as set forth in the following table:

Preferred Stock by Series

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

Each share of preferred stock 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 our option at a redemption price equal to $25,000 plus declared and unpaid dividends. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. Our ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, our common stock is subject to certain restrictions in the event that we fail to pay or set aside full dividends on our preferred stock for the latest completed dividend period. All preferred stock also has a preference over our common stock upon liquidation.

Junior Subordinated Debt Issued to a Trust. We issued $2.84 billion of junior subordinated debentures in the first quarter of 2004 to Goldman Sachs Capital Trust I (the Trust), a Delaware statutory trust that, in turn, issued $2.75 billion of guaranteed preferred beneficial interests to third parties and $85 million of common beneficial interests to Goldman Sachs. The junior subordinated debentures are included in Unsecured long-term borrowings in the condensed consolidated statements of financial condition. The inherent characteristics of preferred beneficial interests issued by the Trust, including their long-term nature, our ability to defer coupon interest for up to ten consecutive semiannual periods and their subordinated nature in our capital structure, are such that they qualify as regulatory capital for CSE purposes and, thus, are part of our equity capital.

Subordinated Debt. Although not part of our shareholders equity, subordinated debt may be used to meet a portion of our consolidated minimum capital requirements as a CSE. As of February 2007, we had outstanding subordinated debt of $6.77 billion.

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Capital Ratios and Metrics

The following table sets forth information on our assets, shareholders equity, leverage ratios and book value per common share:

	As of	
	February 2007	**November 2006**
	($ in millions, except per share amounts)	
Total assets	$ 912,495	$ 838,201
Adjusted assets [1]	606,139	541,033
Total shareholders equity	36,900	35,786
Tangible equity capital [2]	34,662	33,517
Leverage ratio [3]	24.7x	23.4x
Adjusted leverage ratio [4]	17.5x	16.1x
Debt to equity ratio [5]	3.6x	3.4x
Common shareholders equity	33,800	32,686
Tangible common shareholders equity [6]	28,812	27,667
Book value per common share [7]	$ 77.12	$ 72.62
Tangible book value per common share [8]	65.74	61.47

[1] Adjusted assets excludes (i) low-risk collateralized assets generally associated with our matched book and securities lending businesses (which we calculate by adding our securities borrowed and financial instruments purchased under agreements to resell, at fair value, and then subtracting our nonderivative short positions), (ii) cash and securities we segregate for regulatory and other purposes and (iii) goodwill and identifiable intangible assets, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total assets in order to be consistent with the calculation of tangible equity capital and the adjusted leverage ratio (see footnote 2 below).

The following table sets forth a reconciliation of total assets to adjusted assets:

		As of	
		February 2007	**November 2006**
		(in millions)	
Total assets		$ 912,495	$ 838,201
Deduct:	Securities borrowed	(241,270)	(219,342)
	Financial instruments purchased under agreements to resell, at fair value	(81,886)	(82,126)

Add:	Financial instruments sold, but not yet purchased, at fair value	166,481	155,805
	Less derivative liabilities	(66,409)	(65,496)
	Subtotal	100,072	90,309
Deduct:	Cash and securities segregated for regulatory and other purposes	(78,284)	(80,990)
	Goodwill and identifiable intangible assets, excluding power contracts	(4,988)	(5,019)
Adjusted assets		$ 606,139	$ 541,033

(2) Tangible equity capital equals total shareholders equity and junior subordinated debt issued to a trust less goodwill and identifiable intangible assets, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total shareholders equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders equity. We consider junior subordinated debt issued to a trust to be a component of our tangible equity capital base due to the inherent characteristics of these securities, including the long-term nature of the securities, our ability to defer coupon interest for up to ten consecutive semiannual periods and the subordinated nature of the obligations in our capital structure.

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The following table sets forth the reconciliation of total shareholders equity to tangible equity capital:

	As of	
	February 2007	November 2006
	(in millions)	
Total shareholders equity	$ 36,900	$ 35,786
Add: Junior subordinated debt issued to a trust	2,750	2,750
Deduct: Goodwill and identifiable intangible assets, excluding power contracts	(4,988)	(5,019)
Tangible equity capital	$ 34,662	$ 33,517

(3) Leverage ratio equals total assets divided by total shareholders equity.

(4) Adjusted leverage ratio equals adjusted assets divided by tangible equity capital. We believe that the adjusted leverage ratio is a more meaningful measure of our capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital and reflects the tangible equity capital deployed in our businesses.

(5) Debt to equity ratio equals unsecured long-term borrowings divided by total shareholders equity.

(6) Tangible common shareholders equity equals total shareholders equity less preferred stock, goodwill and identifiable intangible assets, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total shareholders equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders equity.

The following table sets forth a reconciliation of total shareholders equity to tangible common shareholders equity:

	As of	
	February 2007	November 2006
	(in millions)	
Total shareholders equity	$ 36,900	$ 35,786
Deduct: Preferred stock	(3,100)	(3,100)
Common shareholders equity	33,800	32,686
Deduct: Goodwill and identifiable intangible assets, excluding power contracts	(4,988)	(5,019)
Tangible common shareholders equity	$ 28,812	$ 27,667

(7)

Book value per common share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 438.3 million and 450.1 million as of February 2007 and November 2006, respectively.

(8) Tangible book value per common share is computed by dividing tangible common shareholders equity by the number of common shares outstanding, including restricted stock units granted to employees with no future service requirements.

Contractual Obligations and Commitments

Goldman Sachs has contractual obligations to make future payments related to our unsecured long-term borrowings, secured long-term financings, long-term noncancelable lease agreements and purchase obligations and has commitments under a variety of commercial arrangements.

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The following table sets forth our contractual obligations by fiscal maturity date as of February 2007:

Contractual Obligations
(in millions)

	Remainder of 2007	2008-2009	2010-2011	2012-Thereafter	Total
Unsecured long-term borrowings [1][2][3]	$	$ 29,855	$21,025	$81,852	$132,732
Secured long-term financings [1][2][4]		6,027	6,792	11,451	24,270
Minimum rental payments	469	830	613	2,165	4,077
Purchase obligations [5]	1,345	875	22	24	2,266

(1) Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holder are excluded from this table and are treated as short-term obligations. See Note 3 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our secured financings.

(2) Obligations that are repayable prior to maturity at the option of Goldman Sachs are reflected at their contractual maturity dates. Obligations that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

(3) Includes $14.20 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of February 2007, primarily consisting of hybrid financial instruments.

(4) These obligations are reported within Other secured financings in the condensed consolidated statements of financial condition and include $6.39 billion accounted for at fair value under SFAS No. 155 and SFAS No. 159 as of February 2007.

(5) Primarily includes construction-related obligations.

As of February 2007, our unsecured long-term borrowings were $132.73 billion and consisted principally of senior borrowings with maturities extending to 2039. See Note 5 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our unsecured long-term borrowings.

As of February 2007, our future minimum rental payments, net of minimum sublease rentals, under noncancelable leases were $4.08 billion. These lease commitments, principally for office space, expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 6 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. We may incur exit costs in 2007 and thereafter to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

As of February 2007 and November 2006, we had construction-related obligations of $1.88 billion and $1.63 billion, respectively, including purchase obligations of $986 million and $1.07 billion, respectively, related to the development of wind energy projects. Construction-related obligations also include outstanding purchase obligations of $835 million and $500 million as of February 2007 and November 2006, respectively, related to our new world headquarters in New York City, which is expected to cost between $2.3 billion and $2.5 billion.

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In March 2007, we entered into an agreement to sell our interest in Horizon Wind Energy LLC to Energias de Portugal, S.A., subject to the receipt of regulatory approvals and other closing conditions. The transaction is expected to close during our third quarter of 2007, and depending on the level of net revenues in such period, the resulting gain may be material to our results of operations.

The following table sets forth our commitments as of February 2007:

Commitments
(in millions)

	Commitment Amount by Fiscal Period of Expiration				
	Remainder of 2007	**2008-2009**	**2010-2011**	**2012-Thereafter**	**Total**
Commitments to extend credit					
William Street program	$ 1,477	$ 2,464	$ 11,801	$ 3,514	$ 19,256
Other commercial lending:					
Investment-grade	2,400	7,551	3,531	398	13,880
Non-investment-grade	579	5,892	8,597	24,051	39,119
Warehouse financing	14,090	1,298			15,388
Total commitments to extend credit	18,546	17,205	23,929	27,963	87,643
Forward starting resale and securities borrowing agreements	18,425				18,425
Forward starting repurchase and securities lending agreements	30,593				30,593
Commitments under letters of credit issued by banks to counterparties	5,500	377		169	6,046
Merchant banking commitments	4,212	3,208	2,764	2,252	12,436
Underwriting commitments	1,066				1,066
Other investment commitments	420	708	158	112	1,398
Total	$ 78,762	$ 21,498	$ 26,851	$ 30,496	$ 157,607

Our 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. In connection with our lending activities, we had outstanding commitments to extend credit of $87.64 billion as of February 2007 compared with $100.48 billion as of November 2006. 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. Our commercial lending commitments outside the William Street credit extension program are generally extended in connection with contingent acquisition financing and other types of corporate lending. We may seek to reduce our credit risk on these commitments by syndicating all or substantial portions of commitments to other investors. In addition, commitments that are extended for contingent acquisition financing are often short-term in nature, as borrowers often replace them with other funding sources.

Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are primarily extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of Goldman Sachs, and, to a lesser extent, by William Street Credit Corporation, another consolidated wholly owned subsidiary of Group Inc. A majority of the commitments extended by Commitment Corp. are supported by funding raised by William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are also legally separated from other assets and liabilities of Goldman Sachs. With respect to substantially all of the William Street commitments, SMFG provides us with credit loss protection that is generally limited to 95% of the first loss we realize on approved loan commitments, up to a maximum of $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon our request, SMFG will provide protection for 70% of the second loss on such commitments, up to a

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maximum of $1.13 billion. We also use other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.

Our commitments to extend credit also include financing for the warehousing of financial assets to be securitized, primarily in connection with collateralized debt obligations (CDOs) and mortgage securitizations, which are expected to be repaid from the proceeds of the related securitizations for which we may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of mortgage-backed and other asset-backed securities, residential and commercial mortgages and corporate debt instruments.

See Note 6 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our commitments, contingencies and guarantees.

Market Risk

The potential for changes in the market value of our trading and investing positions is referred to as market risk. Such positions result from market-making, specialist, proprietary trading and investing, and underwriting activities.

Categories of market risk include exposures to interest rates, equity prices, currency rates and commodity prices. A description of each market risk category is set forth below:

Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads.

Equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.

Currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates.

Commodity price risks result from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

We seek to manage these risks by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. For example, we may hedge a portfolio of common stocks by taking an offsetting position in a related equity-index futures contract. The ability to manage an exposure may, however, be limited by adverse changes in the liquidity of the security or the related hedge instrument and in the correlation of price movements between the security and related hedge instrument.

In addition to applying business judgment, senior management uses a number of quantitative tools to manage our exposure to market risk for Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value in the condensed consolidated statements of financial condition. These tools include:

risk limits based on a summary measure of market risk exposure referred to as VaR;

scenario analyses, stress tests and other analytical tools that measure the potential effects on our trading net revenues of various market events, including, but not limited to, a large widening of credit spreads, a substantial decline in equity markets and significant moves in selected emerging markets; and

inventory position limits for selected business units.

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VaR

VaR is the potential loss in value of Goldman Sachs trading positions due to adverse market movements over a defined time horizon with a specified confidence level.

For the VaR numbers reported below, a one-day time horizon and a 95% confidence level were used. This means that there is a 1 in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Thus, shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once a month. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon such as a number of consecutive trading days.

The modeling of the risk characteristics of our trading positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no standard methodology for estimating VaR, and different assumptions and/or approximations could produce materially different VaR estimates.

We use historical data to estimate our VaR and, to better reflect current asset volatilities, we generally weight historical data to give greater importance to more recent observations. Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.

The following tables set forth the daily VaR:

Average Daily VaR
(in millions)

	Average for the Three Months Ended	
Risk Categories	**February 2007**	**February 2006**
Interest rates	$ 57	$ 40
Equity prices	96	69
Currency rates	18	18
Commodity prices	30	30
Diversification effect [1]	(74)	(65)
Total	$ 127	$ 92

[1] Equals the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

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Our average daily VaR increased to $127 million for the first quarter of 2007 from $92 million for the first quarter of 2006, primarily due to increased levels of exposure to equity prices and interest rates.

Daily VaR
(in millions)

	As of		Three Months Ended February 2007	
Risk Categories	**February 2007**	**November 2006**	**High**	**Low**
Interest rates	$ 90	$ 51	$ 90	$ 42
Equity prices	116	84	125	73
Currency rates	13	15	33	12
Commodity prices	37	21	51	21
Diversification effect [1]	(102)	(52)		
Total	$ 154	$ 119	$ 155	$ 104

[1] Equals the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

Our daily VaR increased to $154 million as of February 2007 from $119 million as of November 2006, primarily due to increased levels of exposure to interest rates, equity prices and commodity prices.

The following chart presents our daily VaR during the last four quarters:

Daily VaR
($ in millions)

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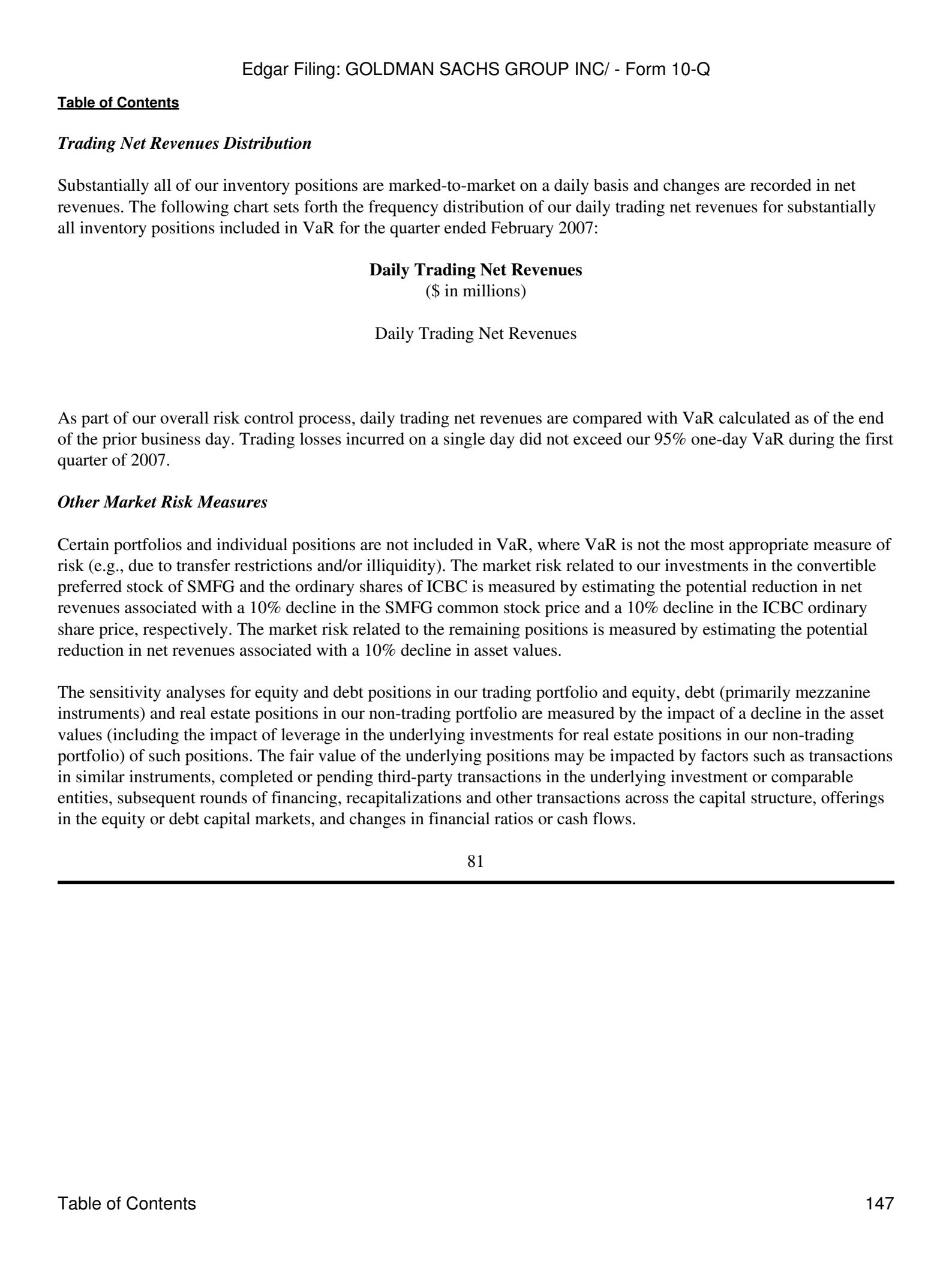
Trading Net Revenues Distribution

Substantially all of our inventory positions are marked-to-market on a daily basis and changes are recorded in net revenues. The following chart sets forth the frequency distribution of our daily trading net revenues for substantially all inventory positions included in VaR for the quarter ended February 2007:

Daily Trading Net Revenues
($ in millions)



As part of our overall risk control process, daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during the first quarter of 2007.

Other Market Risk Measures

Certain portfolios and individual positions are not included in VaR, where VaR is not the most appropriate measure of risk (e.g., due to transfer restrictions and/or illiquidity). The market risk related to our investments in the convertible preferred stock of SMFG and the ordinary shares of ICBC is measured by estimating the potential reduction in net revenues associated with a 10% decline in the SMFG common stock price and a 10% decline in the ICBC ordinary share price, respectively. The market risk related to the remaining positions is measured by estimating the potential reduction in net revenues associated with a 10% decline in asset values.

The sensitivity analyses for equity and debt positions in our trading portfolio and equity, debt (primarily mezzanine instruments) and real estate positions in our non-trading portfolio are measured by the impact of a decline in the asset values (including the impact of leverage in the underlying investments for real estate positions in our non-trading portfolio) of such positions. The fair value of the underlying positions may be impacted by factors such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

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The sensitivity analysis of our investment in the convertible preferred stock of SMFG, net of the economic hedge on the unrestricted shares of common stock underlying a portion of our investment, is measured by the impact of a decline in the SMFG common stock price. This sensitivity should not be extrapolated to a significant decline in the SMFG common stock price, as the relationship between the fair value of our investment and the SMFG common stock price would be nonlinear due to downside protection on the conversion stock price.

The sensitivity analysis of our investment in the ordinary shares of ICBC excludes interests held by investment funds managed by Goldman Sachs.

The following table sets forth market risk for positions not included in VaR. These measures do not reflect diversification benefits across asset categories and, given the differing likelihood of such events occurring, these measures have not been aggregated:

Asset Categories	10% Sensitivity Measure	10% Sensitivity Measure Amount as of February 2007	10% Sensitivity Measure Amount as of November 2006
		(in millions)	
Trading Risk [1]			
Equity	Underlying asset value	$ 512	$ 377
Debt	Underlying asset value	782	725
Non-trading Risk			
SMFG	SMFG common stock price	133	140
ICBC	ICBC ordinary share price	217	191
Other Equity	Underlying asset value	462	390
Debt	Underlying asset value	222	199
Real Estate [2]	Underlying asset value	455	341

(1) In addition to the positions in these portfolios, which are accounted for at fair value, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in Other assets in the condensed consolidated statements of financial condition. Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 10 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information on Other assets.

(2) Relates to interests in our real estate investment funds.

During the first quarter of 2007, the market risk for equity positions in our trading portfolio increased due to new investments as well as an increase in the fair value of the portfolio. In our non-trading portfolio, the market risk for real estate and other equity positions increased due to an increase in the fair value of the portfolios as well as new investments.

In addition, as of February 2007, in our bank and insurance subsidiaries we held approximately $10.74 billion of securities, primarily consisting of mortgage-backed, federal agency and investment-grade corporate bonds.

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Credit Risk

Credit risk represents the loss that we would incur if a counterparty or an issuer of securities or other instruments we hold fails to perform under its contractual obligations to us, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including OTC derivatives, we hold. Our exposure to credit risk principally arises through our trading, investing and financing activities. To reduce our credit exposures, we seek to enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. In addition, we attempt to further reduce credit risk with certain counterparties by (i) entering into agreements that enable us to obtain collateral from a counterparty on an upfront or contingent basis, (ii) seeking third-party guarantees of the counterparty s obligations, and/or (iii) transferring our credit risk to third parties using credit derivatives and/or other structures and techniques.

To measure and manage our credit exposures, we use a variety of tools, including credit limits referenced to both current exposure and potential exposure. Potential exposure is generally based on projected worst-case market movements over the life of a transaction. In addition, as part of our market risk management process, for positions measured by changes in credit spreads, we use VaR and other sensitivity measures. To supplement our primary credit exposure measures, we also use scenario analyses, such as credit spread widening scenarios, stress tests and other quantitative tools.

Our global credit management systems monitor credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. These systems also provide management, including the Firmwide Risk and Credit Policy Committees, with information regarding credit risk by product, industry sector, country and region.

While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment funds and other institutional clients, resulting in significant credit concentration with respect to this industry. In the ordinary course of business, we may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer.

Derivatives

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.

Substantially all of our derivative transactions are entered into to facilitate client transactions, to take proprietary positions or as a means of risk management. In addition to derivative transactions entered into for trading purposes, we enter into derivative contracts to manage currency exposure on our net investment in non-U.S. operations and to manage the interest rate and currency exposure on our long-term borrowings and certain short-term borrowings.

Derivatives are used in many of our businesses, and we believe that the associated market risk can only be understood relative to all of the underlying assets or risks being hedged, or as part of a broader trading strategy. Accordingly, the market risk of derivative positions is managed together with our nonderivative positions.

The fair value of our derivative contracts is reflected net of cash paid or received pursuant to credit support agreements and is reported on a net-by-counterparty basis in our condensed consolidated statements of financial condition when management believes a legal right of setoff exists under an enforceable netting agreement. For an

OTC derivative, our credit exposure is directly with our counterparty and continues until the maturity or termination of such contract.

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The following tables set forth the fair values of our OTC derivative assets and liabilities by product and by remaining contractual maturity:

OTC Derivatives
(in millions)

Assets	**As of February 2007**					
Contract Type	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total**
Interest rates [1]	$ 1,895	$ 1,317	$ 6,399	$ 5,281	$ 9,265	$ 24,157
Currencies	4,472	1,128	3,094	1,700	519	10,913
Commodities	4,008	3,455	5,171	674	240	13,548
Equities	2,005	1,036	1,819	2,703	843	8,406
Total	$ 12,380	$ 6,936	$ 16,483	$ 10,358	$ 10,867	$ 57,024

Liabilities						
Contract Type	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total**
Interest rates [1]	$ 4,916	$ 1,015	$ 5,262	$ 3,280	$ 4,953	$ 19,426
Currencies	5,094	1,245	2,783	533	607	10,262
Commodities	3,799	2,931	4,559	995	86	12,370
Equities	2,109	1,984	4,364	3,362	305	12,124
Total	$ 15,918	$ 7,175	$ 16,968	$ 8,170	$ 5,951	$ 54,182

Assets	**As of November 2006**					
Contract Type	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total**
Interest rates [1]	$ 2,432	$ 1,706	$ 5,617	$ 5,217	$ 6,201	$ 21,173
Currencies	5,578	943	3,103	1,669	966	12,259
Commodities	3,892	1,215	5,836	1,258	231	12,432
Equities	1,430	1,134	1,329	2,144	1,235	7,272
Total	$ 13,332	$ 4,998	$ 15,885	$ 10,288	$ 8,633	$ 53,136

Liabilities						
Contract Type	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total**

Interest rates [1]	$ 2,807	$ 1,242	$ 6,064	$ 3,582	$ 5,138	$ 18,833
Currencies	6,859	1,290	2,582	494	634	11,859
Commodities	3,078	658	4,253	1,643	273	9,905
Equities	3,235	1,682	2,615	3,239	277	11,048
Total	$ 15,979	$ 4,872	$ 15,514	$ 8,958	$ 6,322	$ 51,645

[1] Includes credit derivatives.

We enter into certain OTC option transactions that provide us or our counterparties with the right to extend the maturity of the underlying contract. The fair value of these option contracts is not material to the aggregate fair value of our OTC derivative portfolio. In the tables above, for option contracts that require settlement by delivery of an underlying derivative instrument, the remaining contractual maturity is generally classified based upon the maturity date of the underlying derivative instrument. In those instances where the underlying instrument does not have a maturity date or either counterparty has the right to settle in cash, the remaining contractual maturity is generally based upon the option expiration date.

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The following table sets forth the distribution, by credit rating, of substantially all of our exposure with respect to OTC derivatives as of February 2007 and November 2006, after taking into consideration the effect of netting agreements. The categories shown reflect our internally determined public rating agency equivalents:

Over-the-Counter Derivative Credit Exposure
($ in millions)

	As of February 2007				As of November 2006
Credit Rating Equivalent	**Exposure [1]**	**Collateral Held**	**Exposure Net of Collateral**	**Percentage of Total Exposure Net of Collateral**	**Percentage of Total Exposure Net of Collateral**
AAA/Aaa	$ 6,031	$ 1,015	$ 5,016	12%	12%
AA/Aa2	14,689	1,927	12,762	31	29
A/A2	18,830	5,439	13,391	32	29
BBB/Baa2	7,442	2,285	5,157	13	15
BB/Ba2 or lower	8,528	3,941	4,587	11	13
Unrated	1,504	1,002	502	1	2
Total	$ 57,024	$ 15,609	$ 41,415	100%	100%

[1] Net of cash received pursuant to credit support agreements of $25.81 billion.

The following tables set forth our OTC derivative credit exposure, net of collateral, by remaining contractual maturity:

Exposure Net of Collateral
(in millions)

Credit Rating Equivalent	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total [1]**
AAA/Aaa	$ 935	$ 160	$ 1,234	$ 952	$ 1,735	$ 5,016
AA/Aa2	2,357	1,433	3,232	2,986	2,754	12,762
A/A2	4,072	2,059	3,877	1,534	1,849	13,391
BBB/Baa2	1,319	1,143	1,954	219	522	5,157
BB/Ba2 or lower	1,308	504	1,727	670	378	4,587
Unrated	248	6	37	180	31	502

Total	$ 10,239	$ 5,305	$ 12,061	$ 6,541	$ 7,269	$ 41,415

Contract Type	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total [1]
Interest rates [2]	$ 1,698	$ 978	$ 4,700	$ 3,546	$ 5,926	$ 16,848
Currencies	3,795	972	2,447	1,206	357	8,777
Commodities	3,646	2,679	3,669	421	240	10,655
Equities	1,100	676	1,245	1,368	746	5,135
Total	$ 10,239	$ 5,305	$ 12,061	$ 6,541	$ 7,269	$ 41,415

(1) Where we have obtained collateral from a counterparty under a master trading agreement that covers multiple products and transactions, we have allocated the collateral ratably based on exposure before giving effect to such collateral.

(2) Includes credit derivatives.

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Derivative transactions may also involve legal risks including the risk that they are not authorized or appropriate for a counterparty, that documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty. We attempt to minimize these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction. In addition, certain derivative transactions (e.g., credit derivative contracts) involve the risk that we may have difficulty obtaining, or be unable to obtain, the underlying security or obligation in order to satisfy any physical settlement requirement.

Liquidity and Funding Risk

Liquidity is of critical importance to companies in the financial services sector. Most failures of financial institutions have occurred in large part due to insufficient liquidity resulting from adverse circumstances. Accordingly, Goldman Sachs has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both Goldman Sachs-specific and broader industry or market liquidity events. Our principal objective is to be able to fund Goldman Sachs and to enable our core businesses to continue to generate revenues, even under adverse circumstances.

Management has implemented a number of policies according to the following liquidity risk management framework:

Excess Liquidity We maintain substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations.

Asset-Liability Management We ensure our funding sources are sufficiently long-term in order to withstand a prolonged or severe liquidity-stressed environment without having to rely on asset sales.

Conservative Liability Structure We access funding across a diverse range of markets, products and counterparties, emphasize less credit-sensitive sources of funding and conservatively manage the distribution of funding across our entity structure.

Crisis Planning We base our liquidity and funding management on stress-scenario planning and maintain a crisis plan detailing our response to a liquidity threatening event.

Excess Liquidity

Our most important liquidity policy is to pre-fund what we estimate will be our likely cash needs during a liquidity crisis and hold such excess liquidity in the form of unencumbered, highly liquid securities that may be sold or pledged to provide same-day liquidity. This Global Core Excess liquidity is intended to allow us to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets. We believe that this pool of excess liquidity provides us with a resilient source of funds and gives us significant flexibility in managing through a difficult funding environment. Our Global Core Excess reflects the following principles:

The first days or weeks of a liquidity crisis are the most critical to a company s survival.

Focus must be maintained on all potential cash and collateral outflows, not just disruptions to financing flows. Goldman Sachs businesses are diverse, and its cash needs are driven by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment.

During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable and the terms or availability of other types of secured financing

may change.

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As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and have larger unsecured debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater balances of highly liquid unencumbered securities, even though it increases our unsecured liabilities.

The size of our Global Core Excess is based on an internal liquidity model together with a qualitative assessment of the condition of the financial markets and of Goldman Sachs. Our liquidity model identifies and estimates cash and collateral outflows over a short-term horizon in a liquidity crisis, including, but not limited to:

upcoming maturities of unsecured debt and letters of credit;

potential buybacks of a portion of our outstanding negotiable unsecured debt;

adverse changes in the terms or availability of secured funding;

derivatives and other margin and collateral outflows, including those due to market moves;

potential cash outflows associated with our prime brokerage business;

additional collateral that could be called in the event of a two-notch downgrade in our credit ratings;

draws on our unfunded commitments not supported by William Street Funding Corporation [(1)]; and

upcoming cash outflows, such as tax and other large payments.

(1) The Global Core Excess excludes liquid assets of $6.58 billion held separately by William Street Funding Corporation. See Contractual Obligations and Commitments above for a further discussion of the William Street credit extension program.

The following table sets forth the average loan value (the estimated amount of cash that would be advanced by counterparties against these securities) of our Global Core Excess:

	Three Months Ended February 2007	Year Ended November 2006
	(in millions)	
U.S. dollar-denominated	$ 44,886	$ 40,862
Non-U.S. dollar-denominated	10,307	10,202
Total Global Core Excess	$ 55,193	$ 51,064

The U.S. dollar-denominated excess is comprised of only unencumbered U.S. government and agency securities and highly liquid mortgage securities, all of which are Federal Reserve repo-eligible, as well as overnight cash deposits. Our non-U.S. dollar-denominated excess is comprised of only unencumbered French, German, United Kingdom and Japanese government bonds and euro, British pound and Japanese yen overnight cash deposits. We strictly limit our Global Core Excess to this narrowly defined list of securities and cash that we believe are highly liquid, even in a difficult funding environment.

The majority of our Global Core Excess is structured such that it is available to meet the liquidity requirements of our parent company, Group Inc., and all of its subsidiaries. The remainder is primarily held to better match the currency and timing requirements for potential liquidity obligations of our principal non-U.S. operating entities.

In addition to our Global Core Excess, we have a significant amount of other unencumbered securities as a result of our business activities. These assets, which are located in the United States, Europe and Asia, include other government bonds, high-grade money market securities, corporate bonds and marginable equities. We do not include these securities in our Global Core Excess.

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We maintain Global Core Excess and other unencumbered assets in an amount that, if pledged or sold, would provide the funds necessary to replace at least 110% of our unsecured obligations that are scheduled to mature (or where holders have the option to redeem) within the next 12 months. We assume conservative loan values that are based on stress-scenario borrowing capacity and we regularly review these assumptions asset class by asset class.

Asset-Liability Management

We seek to maintain a highly liquid balance sheet and substantially all of our inventory is marked-to-market daily. We utilize aged inventory limits for certain financial instruments as a disincentive to our businesses to hold inventory over longer periods of time. We believe that these limits provide a complementary mechanism for ensuring appropriate balance sheet liquidity in addition to our standard position limits. Although our balance sheet fluctuates due to seasonal activity, market conventions and periodic market opportunities in certain of our businesses, our total assets and adjusted assets at financial statement dates are not materially different than those occurring within our reporting periods.

We seek to manage the maturity profile of our funding base such that we should be able to liquidate our assets prior to our liabilities coming due, even in times of prolonged or severe liquidity stress. We do not rely on immediate sales of assets (other than our Global Core Excess) to maintain liquidity in a distressed environment, although we recognize orderly asset sales may be prudent and necessary in a persistent liquidity crisis.

In order to avoid reliance on asset sales, our goal is to ensure that we have sufficient total capital (unsecured long-term borrowings plus total shareholders equity) to fund our balance sheet for at least one year. The amount of our total capital is based on an internal liquidity model, which incorporates, among other things, the following long-term financing requirements:

the portion of financial instruments owned that we believe could not be funded on a secured basis in periods of market stress, assuming conservative loan values;

goodwill and identifiable intangible assets, property, leasehold improvements and equipment, and other illiquid assets;

derivative and other margin and collateral requirements;

anticipated draws on our unfunded loan commitments; and

capital or other forms of financing in our regulated subsidiaries that is in excess of their long-term financing requirements. See Conservative Liability Structure below for a further discussion of how we fund our subsidiaries.

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Certain financial instruments may be more difficult to fund on a secured basis during times of market stress. Accordingly, we generally hold higher levels of total capital for these assets than more liquid types of financial instruments. The table below sets forth our aggregate holdings in these categories of financial instruments:

	As of	
	February 2007	November 2006
	(in millions)	
Mortgage whole loans and collateralized debt obligations [1]	$ 46,259	$ 41,017
Bank loans [2]	28,171	28,196
High-yield securities	12,310	11,054
Emerging market debt securities	2,748	2,291
SMFG convertible preferred stock	4,662	4,505
ICBC ordinary shares [3]	5,898	5,194
Other corporate principal investments [4]	4,878	3,675
Other private equity and restricted public equity securities	4,735	3,736
Real estate principal investments [4]	1,141	588

(1) Includes certain mortgage-backed interests held in QSPEs. See Note 3 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our securitization activities.

(2) Includes funded commitments and inventory held in connection with our origination and secondary trading activities.

(3) Includes interests of $3.73 billion and $3.28 billion as of February 2007 and November 2006, respectively, held by investment funds managed by Goldman Sachs.

(4) Excludes assets related to consolidated investment funds of $12.13 billion and $6.03 billion as of February 2007 and November 2006, respectively, for which Goldman Sachs is not at risk.

A large portion of these assets are funded through secured funding markets or nonrecourse financing. We focus on demonstrating a consistent ability to fund these assets on a secured basis for extended periods of time to reduce refinancing risk and to help ensure that they have an established amount of loan value in order that they can be funded in periods of market stress.

See Note 3 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding the financial instruments we hold.

Conservative Liability Structure

We seek to structure our liabilities conservatively to reduce refinancing risk and the risk that we may redeem or repurchase certain of our borrowings prior to their contractual maturity. Our conservative liability structure reflects the

following policies:

We fund a substantial portion of our inventory on a secured basis. We believe secured financing provides Goldman Sachs with a more stable source of liquidity than unsecured financing, as it is less sensitive to changes in our credit due to underlying collateral.

Our liquidity depends to an important degree on the stability of our short-term unsecured financing base. Accordingly, we prefer the use of promissory notes (in which Goldman Sachs does not make a market) over commercial paper, which we may repurchase prior to maturity through the ordinary course of business as a market maker. As of February 2007 and November 2006, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, was $54.06 billion and $47.90 billion, respectively. See Note 4 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our unsecured short-term borrowings.

We recognize that secured funding transactions have greater refinancing risk when the underlying collateral is more difficult to fund. Consequently, we seek longer maturities for

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secured funding transactions collateralized by these assets. In some cases, we use extendible maturity features to obtain a rolling minimum term to the funding.

We issue substantially all of our unsecured debt without provisions that would, based solely upon an adverse change in our credit ratings, financial ratios, earnings, cash flows or stock price, trigger a requirement for an early payment, collateral support, change in terms, acceleration of maturity or the creation of an additional financial obligation.

We seek to maintain broad and diversified funding sources globally for both secured and unsecured funding. We make extensive use of the repurchase agreement and securities lending markets, as well as other secured funding markets. In addition, we issue debt through syndicated U.S. registered offerings, U.S. registered and 144A medium-term note programs, offshore medium-term note offerings and other bond offerings, U.S. and non-U.S. commercial paper and promissory note issuances, and other methods. We also arrange for letters of credit to be issued on our behalf.

We benefit from distributing our debt issuances through our own sales force to a large, diverse global creditor base and we believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies and mutual funds. We access funding in a variety of markets in the United States, Europe and Asia. We have imposed various internal guidelines on investor concentration, including the amount of our commercial paper that can be owned and letters of credit that can be issued by any single investor or group of investors.

To mitigate refinancing risk, we have created internal guidelines on the principal amount of debt maturing on any one day or during any week or year. The following table sets forth our quarterly unsecured long-term borrowings maturity profile through the first quarter of 2013:

Unsecured Long-Term Borrowings Maturity Profile
($ in millions)

(1) Our unsecured long-term borrowings include extendible debt if the earliest maturity is one year or greater from our financial statement date. Extendible debt is categorized in the maturity profile at the earliest possible maturity even though the debt can be, and in the past generally has been, extended.

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The weighted average maturity of our unsecured long-term borrowings as of February 2007 was approximately eight years. We swap a substantial portion of our long-term borrowings into U.S. dollar obligations with short-term floating interest rates in order to minimize our exposure to interest rates and foreign exchange movements.

See Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K for a discussion of factors that could impair our ability to access the capital markets.

Subsidiary Funding Policies. Substantially all of our unsecured funding is raised by our parent company, Group Inc. The parent company then lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing and capital requirements. In addition, the parent company provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding include enhanced control and greater flexibility to meet the funding requirements of our subsidiaries.

Our intercompany funding policies are predicated on an assumption that, unless legally provided for, funds or securities are not freely available from a subsidiary to its parent company or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or limit the flow of funds from those subsidiaries to Group Inc. Regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on obligations, including debt obligations. As such, we assume that capital or other financing provided to our regulated subsidiaries is not available to our parent company or other subsidiaries. In addition, we assume that the Global Core Excess held in our principal non-U.S. operating entities will not be available to our parent company or other subsidiaries and therefore is available only to meet the potential liquidity requirements of those entities.

We also manage our liquidity risk by requiring senior and subordinated intercompany loans to have maturities equal to or shorter than the maturities of the aggregate borrowings of the parent company. This policy ensures that the subsidiaries obligations to the parent company will generally mature in advance of the parent company s third-party borrowings. In addition, many of our subsidiaries and affiliates pledge collateral to the parent company to cover their intercompany borrowings (other than subordinated debt) in order to mitigate parent company liquidity risk.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries; for example, as of February 2007, Group Inc. had $19.13 billion of such equity and subordinated indebtedness invested in Goldman, Sachs & Co., its principal U.S. registered broker-dealer; $19.18 billion invested in Goldman Sachs International, a regulated U.K. broker-dealer; $2.46 billion invested in Goldman Sachs Execution & Clearing, L.P., a U.S. registered broker-dealer; and $2.73 billion invested in Goldman Sachs Japan Co., Ltd., a regulated Japanese broker-dealer. Group Inc. also had $52.72 billion of unsubordinated loans to these entities as of February 2007, as well as significant amounts of capital invested in and loans to its other regulated subsidiaries.

Crisis Planning

In order to be prepared for a liquidity event, or a period of market stress, we base our liquidity risk management framework and our resulting funding and liquidity policies on conservative stress-scenario assumptions. Our planning incorporates several market-based and operational stress scenarios. We also periodically conduct liquidity crisis drills to test our lines of communication and backup funding procedures.

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In addition, we maintain a liquidity crisis plan that specifies an approach for analyzing and responding to a liquidity-threatening event. The plan provides the framework to estimate the likely impact of a liquidity event on Goldman Sachs based on some of the risks identified above and outlines which and to what extent liquidity maintenance activities should be implemented based on the severity of the event. It also lists the crisis management team and internal and external parties to be contacted to ensure effective distribution of information.

Credit Ratings

We rely upon the short-term and long-term debt capital markets to fund a significant portion of our day-to-day operations. The cost and availability of debt financing is influenced by our credit ratings. Credit ratings are important when we are competing in certain markets and when we seek to engage in longer term transactions, including OTC derivatives. We believe our credit ratings are primarily based on the credit rating agencies assessment of our liquidity, market, credit and operational risk management practices, the level and variability of our earnings, our capital base, our franchise, reputation and management, our corporate governance and the external operating environment. See Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K for a discussion of the risks associated with a reduction in our credit ratings.

The following table sets forth our unsecured credit ratings as of February 2007:

	Short-Term Debt	Long-Term Debt	Subordinated Debt	Preferred Stock
Dominion Bond Rating Service Limited	R-1 (middle)	AA (low)	Not Applicable	Not Applicable
Fitch, Inc.	F1+	AA	A+	A+
Moody s Investors Service	P-1	Aa3	A1	A2
Standard & Poor s	A-1+	AA	A+	A
Rating and Investment Information, Inc	a-1+	AA	Not Applicable	Not Applicable

As of February 2007, collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately $607 million would have been required in the event of a one-notch reduction in our long-term credit ratings. In evaluating our liquidity requirements, we consider additional collateral or termination payments that would be required in the event of a two-notch downgrade in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them.

Cash Flows

As a global financial institution, our cash flows are complex and interrelated and bear little relation to our net earnings and net assets and, consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the excess liquidity and asset-liability management policies described above. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our business.

Three Months Ended February 2007. Our cash and cash equivalents increased by $594 million to $6.89 billion at the end of the first quarter of 2007. We raised $15.04 billion in net cash from financing activities, primarily in

unsecured long-term borrowings, partially offset by common stock repurchases. We used net cash of $14.45 billion in our operating and investing activities, primarily to capitalize on trading and investing opportunities for our clients and ourselves.

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Three Months Ended February 2006. Our cash and cash equivalents decreased by $3.69 billion to $6.57 billion at the end of the first quarter of 2006. We raised $16.87 billion in net cash from financing activities, primarily in unsecured long-term borrowings, in light of the favorable debt financing environment, partially offset by common stock repurchases. We used net cash of $20.56 billion in our operating and investing activities, primarily to capitalize on trading and investing opportunities for our clients and ourselves.

Recent Accounting Developments

EITF Issue No. 04-5. In June 2005, the EITF reached consensus on Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, which requires general partners to consolidate their partnerships or to provide limited partners with rights to remove the general partner or to terminate the partnership. Goldman Sachs, as the general partner of numerous merchant banking and asset management partnerships, was required to adopt the provisions of EITF Issue No. 04-5 (i) immediately for partnerships formed or modified after June 29, 2005 and (ii) in the first quarter of 2007 for partnerships formed on or before June 29, 2005 that have not been modified. We have generally provided limited partners in these funds with rights to remove Goldman Sachs as the general partner or to terminate the partnerships. Therefore, the adoption of EITF Issue No. 04-5 did not have a material effect on our financial condition, results of operations or cash flows in 2006 or in the first quarter of 2007.

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

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

SFAS No. 157 nullifies the guidance included in EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, that prohibited the recognition of a day one gain or loss on derivative contracts (and hybrid financial instruments measured at fair value under SFAS No. 155) where we were unable to verify all of the significant model inputs to observable market data and/or verify the model to market transactions. However, SFAS No. 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model.

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

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

recorded as an adjustment to beginning retained earnings in the year of adoption.

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

SFAS No. 158. In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132-R. SFAS No. 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS No. 158 also requires an entity to recognize changes in the funded status of a defined benefit pension and postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006. We will adopt SFAS No. 158 as of the end of 2007. We do not expect that the adoption of SFAS No. 158 will have a material effect on our financial condition, results of operations or cash flows.

SFAS No. 159. On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

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

certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper;

certain other secured financings;

certain unsecured long-term borrowings, including those resulting from prepaid physical commodity transactions;

resale and repurchase agreements;

securities borrowed and loaned related to our financing and matched book activities; and

securities held by our bank subsidiary (previously accounted for as available-for-sale).

The primary reasons for electing the fair value option were mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations. The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of $45 million, net of tax, substantially all of which related to applying the fair value option to prepaid physical commodity transactions. The effect of SFAS No. 159 was not material to our financial condition, results of operations or cash flows for the first quarter of 2007.

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Cautionary Statement Pursuant to the Private Securities Litigation Reform Act of 1995

We have included in Parts I and II of this Quarterly Report on Form 10-Q, and from time to time our management may make, statements which may constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. It is possible that our actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Important factors that could cause actual results to differ from those in our specific forward-looking statements include, but are not limited to, those discussed under Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

Statements about our investment banking transaction backlog also may constitute forward-looking statements. Such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues that we expect to earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline in general economic conditions, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. Other important factors that could adversely affect our investment banking transactions are described under Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

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Item 3: Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are set forth under Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk in Part I, Item 2 above.

Item 4: Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by Goldman Sachs management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

Item 1: Legal Proceedings

The following supplements and amends our discussion set forth under Item 3 Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended November 24, 2006.

Research Independence Matters

In the class action relating to coverage of RSL Communications, Inc., by an order dated January 26, 2007, the U.S. Court of Appeals for the Second Circuit reversed the district court s class certification order and remanded for reconsideration in light of the Second Circuit s ruling relating to the certification decision in the action described under IPO Process Matters .

In the lawsuit alleging that The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. violated the federal securities laws in connection with the firm s research activities, plaintiffs moved for class certification on February 21, 2007.

Short-Selling Litigation

Defendants moved to dismiss the complaint on March 15, 2007.

General American Litigation

On February 13, 2007, the liquidators of General American Mutual Holding Corporation amended a pre-existing complaint pending in Missouri Circuit Court against one of the company s former officers to assert new claims against The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. The amended complaint asserts that the Goldman Sachs defendants breached certain duties and violated Missouri law in the course of acting as the company s financial advisor during 1998-1999 in connection with the exploration of a potential demutualization and initial public offering, and the ensuing sale of certain company assets. The complaint seeks compensatory and punitive damages.

Executive Compensation Litigation

On March 16, 2007, The Goldman Sachs Group, Inc., its board of directors, executive officers and members of its management committee were named as defendants in a purported shareholder derivative action in the U.S. District Court for the Eastern District of New York challenging the sufficiency of the firm s February 21, 2007 Proxy Statement and the compensation of certain employees. The complaint generally alleges that the Proxy Statement undervalues stock option awards disclosed therein, that the recipients received excessive awards because the proper methodology was not followed, and that the firm s senior management received excessive compensation, constituting corporate waste. The complaint seeks, among other things, an injunction against the 2007 Annual Meeting of Shareholders, the voiding of any election of directors in the absence of an injunction and an equitable accounting for the allegedly excessive compensation.

Owens Corning Bondholder Litigation

On March 28, 2007, the parties entered into a global stipulation definitively documenting the settlement, which remains subject to court approval.

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Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth the information with respect to purchases made by or on behalf of The Goldman Sachs Group, Inc. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the three months ended February 23, 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [2]
Month #1 (November 25, 2006 to December 29, 2006) [1]	3,594,000	$ 200.70	3,594,000	48,974,913
Month #2 (December 30, 2006 to January 26, 2007)	9,084,300	$ 209.64	9,084,300	39,890,613
Month #3 (January 27, 2007 to February 23, 2007) [1]	291,657	$ 213.74	291,657	39,598,956
Total [1]	12,969,957		12,969,957	

[1] Goldman Sachs generally does not repurchase shares of its common stock as part of the repurchase program during self-imposed black-out periods, which run from the last two weeks of a fiscal quarter through the date of the earnings release for such quarter.

[2] On March 21, 2000, we announced that our Board of Directors had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 220 million shares by resolutions of our Board of Directors adopted on June 18, 2001, March 18, 2002, November 20, 2002, January 30, 2004, January 25, 2005, September 16, 2005 and September 11, 2006. The repurchase program is intended to maintain our total shareholders equity at appropriate levels and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program has been effected primarily through regular open-market purchases and is influenced by, among other factors, the level of our common shareholders equity, our overall capital position, share-based awards and exercises of employee stock options, the prevailing market price of our common stock and general market conditions. The total remaining authorization under the repurchase program was 36,407,556 shares as of March 23, 2007; the repurchase program has no set expiration or termination date.

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Item 6: Exhibits

Exhibits:

12.1 Statement re: Computation of ratios of earnings to fixed charges and ratios of earnings to combined fixed charges and preferred stock dividends.

15.1 Letter re: Unaudited Interim Financial Information.

31.1 Rule 13a-14(a) Certifications.

32.1 Section 1350 Certifications.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ David A. Viniar

Name: David A. Viniar

Title: Chief Financial Officer

By: /s/ Sarah E. Smith

Name: Sarah E. Smith

Title: Principal Accounting Officer

Date: April 3, 2007