Folio Investments, Inc.

Statement of Financial Condition
as of June 30, 2022
(Unaudited)

INDEX

FOLIO INVESTMENTS, INC.

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(Unaudited)

$ in thousands	As of June 2022
Assets	
Cash	**$ 59,076**
Receivables:	
Brokers, dealers and clearing organizations	**10,885**
Customers and counterparties (net of an allowance for credit losses of **$1,057**)	**4,800**
Financial instruments (at fair value and includes **$358,787** pledged as collateral)	**369,999**
Other assets	**14,167**
Total assets	**$458,927**
Liabilities and stockholder's equity	
Payables:	
Brokers, dealers and clearing organizations	**$ 823**
Customers and counterparties	**6,689**
Secured financings (at fair value)	**358,787**
Other liabilities	**13,633**
Total liabilities	**379,932**
Contingencies and guarantees	
Stockholder's equity	
Common stock ($0.0001 par value; 1,000 shares authorized, issued and outstanding)	**–**
Additional paid-in capital	**102,354**
Accumulated deficit	**(23,359)**
Total stockholder's equity	**78,995**
Total liabilities and stockholder's equity	**$458,927**

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

Note 1.

Description of Business

Folio Investments, Inc. (the Company), a Virginia corporation registered as a U.S. broker-dealer, is a wholly-owned subsidiary of Folio Financial, Inc. (the Parent). The Parent is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc. and, collectively with its consolidated subsidiaries, GS Group), a Delaware corporation.

The Company offers Internet-based portfolio creation, trading and management services. It also provides trade execution, clearance and settlement services.

Note 2.

Basis of Presentation

This statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

This statement of financial condition is unaudited and should be read in conjunction with the audited statement of financial condition as of December 31, 2021.

All references to June 2022 refer to the date June 30, 2022. Any reference to a future year refers to a year ending on December 31 of that year.

Note 3.

Significant Accounting Policies

The Company's significant accounting policies include when and how to measure the fair value of assets and liabilities. See Note 4 for policies on fair value measurements. All other significant accounting policies are either described below or included in the following footnotes:

Fair Value Measurements	Note 4
Financial Instruments	Note 5
Secured Financings	Note 6
Other Assets	Note 7
Unsecured Borrowings	Note 8
Other Liabilities	Note 9
Contingencies and Guarantees	Note 10
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Income Taxes	Note 12
Credit Concentrations	Note 13
Legal Proceedings	Note 14

Use of Estimates

Preparation of this statement of financial condition requires management to make certain estimates and assumptions, the most important of which relate to the allowance for credit losses on receivables, discretionary compensation accruals, provisions for losses that may arise from litigation and regulatory proceedings (including governmental investigations), and provisions for losses that may arise from tax audits. These estimates and assumptions are based on the best available information, but actual results could be materially different.

Financial Assets and Secured Financings at Fair Value

Financial instruments are recorded at fair value. 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 Company's financial assets and liabilities (i.e., secured financings) are marked to exchange-traded close prices. See Note 4 for further information about fair value measurements.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when the Company has relinquished control over the assets transferred. Assets or secured financings that arise from the Company's continuing involvement with transferred financial assets are initially recognized at fair value. For transfers of financial assets that are not accounted for as sales pursuant to the Company's fractional share program for customers, the assets are included in financial instruments at fair value and the transfer is accounted for as a secured financing at fair value. See Note 6 for further information about transfers of financial assets accounted for as secured financings.

Cash

Cash included cash and due from banks of $21.5 million as of June 2022. Cash also included interest-bearing deposits with banks of $37.6 million as of June 2022.

The Company segregates cash for regulatory and other purposes related to client activity. Cash segregated for regulatory and other purposes was $41.5 million as of June 2022.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. The receivables primarily relate to a deposit with a clearing corporation. Such receivables generally do not give rise to material credit risk for the Company. As such, generally no allowance for credit losses is held against these receivables. Payables to brokers, dealers and clearing organizations primarily includes payables when the Company has failed to receive securities from a seller by the settlement date. As these receivables and payables are not accounted for at fair value, they are not included in the Company's fair value hierarchy in Note 4. Had these receivables and payables been included in the Company's fair value hierarchy, substantially all would have been classified in level 2 as of June 2022.

Receivables from Customers and Counterparties

Substantially all receivables from customers and counterparties consist of customer margin loans and fee receivables. These receivables are accounted for at amortized cost net of any allowance for credit losses, which generally approximates fair value. As of June 2022, the Company held an allowance for credit losses of $1.1 million against these receivables. To mitigate credit exposure on customer margin loans, the Company monitors the market value of these transactions and delivers or obtains additional collateral due to changes in the market value of the transactions, as appropriate. As these receivables are not accounted for at fair value, they are not included in the Company's fair value hierarchy in Note 4. Had these receivables been included in the Company's fair value hierarchy, substantially all would have been classified in level 2 as of June 2022. Interest on receivables from customers and counterparties is recognized over the life of the transaction.

Receivables from customers and counterparties includes receivables from contracts with clients and contract assets. Contract assets represent the Company's right to receive consideration for services provided in connection with its contracts with clients for which collection is conditional and not merely subject to the passage of time. The Company's receivables from contracts with clients were $1.2 million as of June 2022. As of June 2022, there were no contract assets.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the Company's customers' securities activities. These payables are accounted for at cost, which generally approximates fair value. As these payables are not accounted for at fair value, they are not included in the Company's fair value hierarchy in Note 4. Had these payables been included in the Company's fair value hierarchy, substantially all would have been classified in level 2 as of June 2022.

Note 4.

Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company's financial assets and liabilities (i.e., secured financings) are marked to exchange-traded close prices. Fair value measurements do not include transaction costs. The Company measures financial assets and secured financings related to its fractional share program as a portfolio (i.e., based on its net exposure to market and/or credit risks). See Note 6 for further information about the accounting for the Company's fractional share program.

The best evidence of fair value is a quoted price in an active market. If quoted prices in active markets are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use market-based or independently sourced inputs.

U.S. GAAP has a three-level hierarchy for disclosure of fair value measurements. This hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in this hierarchy is based on the lowest level of input that is significant to its fair value measurement. In evaluating the significance of a valuation input, the Company considers, among other factors, a portfolio's net risk exposure to that input. The fair value hierarchy is as follows:

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

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

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

The fair values for all of the Company's financial instruments and secured financings are based on unadjusted quoted prices in active markets and are classified in level 1 of the fair value hierarchy.

Note 5.

Financial Instruments

As of June 2022, the Company's financial instruments consisted of $370.0 million of equity securities, all of which were classified as level 1 within the fair value hierarchy. The Company's equity securities, which are held to facilitate client activity, include public equities and exchange-traded funds.

Note 6.

Secured Financings

As of June 2022, the Company had $358.8 million of fractional interests in equity securities pursuant to its fractional share program which were accounted for as financings rather than sales initially recorded as the amount received from the customer for the fractional interest transaction. The Company made an election at transaction date to record the financings at fair value. The shares are included in financial instruments at fair value and pledged as collateral for these financings.

The Company has elected to apply the fair value option to its secured financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. Secured financings were classified in level 1 within the fair value hierarchy as of June 2022.

Note 7.

Other Assets

The table below presents other assets by type.

$ in thousands	**As of June 2022**
Income tax-related assets	**$ 11,832**
Miscellaneous receivables and other	**2,335**
Total	**$ 14,167**

Income tax-related assets consist of current income tax receivables of $11.2 million and deferred tax assets of $0.6 million. See Note 12 for further information about income taxes.

Note 8.

Unsecured Borrowings

The Company maintains a credit facility with Group Inc. As of June 2022, there were no outstanding borrowings under this facility.

Note 9.

Other Liabilities

The table below presents other liabilities by type.

$ in thousands	**As of June 2022**
Payables to affiliates	**$ 6,423**
Deferred revenue	**5,227**
Accrued expenses and other	**1,983**
Total	**$ 13,633**

Substantially all deferred revenue represents unearned fees from the Company's partnership with a third-party investor communications firm relating to proxy services.

Note 10.

Contingencies and Guarantees

Contingencies — Legal Proceedings

See Note 14 for information about legal proceedings.

Guarantees

Indemnities and Guarantees of Service Providers. The Company provides guarantees to securities clearinghouses under standard membership agreements, which require members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet shortfalls. The Company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral.

In connection with the Company's clearing businesses, the Company agrees to clear and settle on behalf of its clients the transactions entered into by them. The Company's obligations in respect of such transactions are secured by the assets in the client's account, as well as any proceeds received from the transactions cleared and settled by the Company on behalf of the client.

The Company is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely that the Company will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the statement of financial condition as of June 2022.

Other Representations, Warranties and Indemnifications. In the ordinary course of business, the Company may provide representations and warranties and could be exposed to potential losses caused by a breach of such representations and warranties. Management believes it is unlikely that the Company will have to make material payments in connection with any such representations and warranties, and no material liabilities have been recognized in the statement of financial condition as of June 2022.

Note 11.

Transactions with Related Parties

The Company enters into transactions with Group Inc. and affiliates in the normal course of business as part of general operations. As of June 2022, there was $1.0 million due to Group Inc. and affiliates.

In October 2021, the Company entered into an omnibus clearing agreement with an affiliate, Goldman Sachs & Co. LLC (GS&Co.), to clear certain transactions on behalf of the Company's clients. The Company maintained a $0.3 million deposit with GS&Co., in relationship with this agreement, which is included in receivables from brokers, dealers and clearing organizations.

The Company incurs a service charge from the Parent for certain overhead and operating expenses. The service charge also includes a quarterly royalty license fee for the use of the Parent's proprietary software. The Company generally reimburses the Parent monthly for the service charge. As of June 2022, the amount due to the Parent for the service charge was $2.3 million. In addition, the Parent pays all direct vendor payments, payroll and taxes on behalf of the Company. As of June 2022, there was $3.1 million due to the Parent for such expenditures.

In March 2022, the Parent made a cash capital contribution of $50.0 million to the Company.

Note 12.

Income Taxes

Provision for Income Taxes

The Company is included with Group Inc. and subsidiaries in the consolidated corporate federal, as well as consolidated or combined state and local tax returns from September 18, 2020. The Company is taxed as a corporation for U.S. federal income tax purposes. As a corporation, the Company is subject to U.S. Federal and various state and local income taxes on its earnings. The Company computes its tax liability on a modified separate company basis and settles such liability with Group Inc. pursuant to a tax sharing agreement. To the extent the Company generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to the tax sharing agreement. The Company's state and local tax liabilities are allocated to reflect its share of the consolidated or combined state and local income tax liability.

Income taxes are provided for using the asset and liability method under which deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. As of June 2022, the Company had no valuation allowance to reduce deferred tax assets. Tax assets are included in other assets and tax liabilities are included in other liabilities. See Note 7 for further information about income tax assets.

Unrecognized Tax Benefits

The Company recognizes tax positions in the statement of financial condition only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the statement of financial condition. As of June 2022, the Company had no liability related to uncertainty in income taxes.

Regulatory Tax Examinations

The Company is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the Company has significant business operations, such as Virginia. All tax years ending prior to September 18, 2020, including and subsequent to 2018, remain open to examination by the taxing authorities.

GS Group has been accepted into the Compliance Assurance Process program by the IRS for each of the tax years from 2013 through 2022. This program allows GS Group to work with the IRS to identify and resolve potential U.S. Federal tax issues before the filing of tax returns. GS Group’s 2019 and 2020 tax years remain subject to post-filing review.

GS Group’s state and local consolidated and combined returns for 2015, and all subsequent years, remain open to examination by the taxing authorities.

The Company believes that no liability for unrecognized tax benefits is required in relation to the potential for additional assessments.

Note 13.

Credit Concentrations

The Company's concentrations of credit risk arise from margin lending, clearing corporation deposit requirements, unsettled securities transactions, and fees owed from clients. These activities expose the Company to different industries and counterparties and may also subject the Company to a concentration of credit risk to a particular counterparty or clearing corporation. The Company seeks to mitigate credit risk by monitoring exposures, obtaining collateral from counterparties for margin loans, and ensuring that customers have sufficient cash in their accounts before trades are executed.

The Company measures and monitors its credit exposure based on amounts owed to the Company after taking into account risk mitigants that management considers when determining credit risk.

As of June 2022, the Company had $21.3 million of cash deposits held at U.S. Bank and $37.6 million of cash deposits held at BMO Harris Bank, of which, $0.3 million is insured at each institution by the Federal Deposit Insurance Corporation. These cash deposits are included in cash.

As of June 2022, the Company had credit exposure related to a deposit with a clearing corporation, which represented 2.2% of total assets. The Company did not have credit exposure to any other external counterparty that exceeded 2% of total assets.

The Company provides platform trading services to registered investment advisory firms. The Company’s current customer base is concentrated in a way such that the loss of certain of these customers could have a negative impact on the operating results of the Company.

Note 14.

Legal Proceedings

The Company is involved in arbitration proceedings concerning matters arising in connection with the conduct of the Company’s businesses. These proceedings are in early stages and seek an indeterminate amount of damages.

Management is generally unable to estimate a range of reasonably possible loss for matters, including where (i) actual or potential plaintiffs have not claimed an amount of money damages, except in those instances where management can otherwise determine an appropriate amount, (ii) matters are in early stages, (iii) matters relate to regulatory investigations or reviews, except in those instances where management can otherwise determine an appropriate amount, (iv) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (v) there is uncertainty as to the outcome of pending appeals or motions, (vi) there are significant factual issues to be resolved, and/or (vii) there are novel legal issues presented.

Management does not believe, based on currently available information, that the outcomes of such other matters will have a material adverse effect on the Company’s financial condition, though the outcomes could be material to the Company’s operating results for any particular period, depending, in part, upon the operating results for such period.

Note 15.

Net Capital Requirements

The Company is a registered U.S. broker-dealer and is subject to regulatory capital requirements, including those imposed by the U.S. Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority, Inc. Rule 15c3-1 of the SEC specifies uniform minimum net capital requirements, as defined, for its registrants, and also effectively requires that a significant part of the registrants' assets be kept in relatively liquid form. The Company has elected the alternative method of compliance under Rule 15c3-1, whereby "required net capital," as defined, is the greater of 2% of aggregate debit items," as defined, arising from customer transactions or $0.3 million.

As of June 2022, the Company had regulatory net capital, as defined by Rule 15c3-1, of $61.4 million, which exceeded the amount required by $61.1 million.

Note 16.

Subsequent Events

The Company has evaluated events through August 11, 2022, the date on which the statement of financial condition was issued, and determined that there were no material events or transactions that would require recognition or disclosure in this statement of financial condition.