

Folio Investments, Inc.

Statement of Financial Condition  
as of June 30, 2021  
(Unaudited)

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## Statement of Financial Condition (Unaudited)

<i>\$ in thousands</i>	As of June 2021
<b>Assets</b>	
Cash	\$ 34,426
Receivables:	
Brokers, dealers and clearing organizations	10,093
Customers and counterparties (net of an allowance for credit losses of \$723)	4,156
Financial instruments owned (at fair value)	13,666
Other assets	6,275
<b>Total assets</b>	<b>\$ 68,616</b>
<b>Liabilities and stockholder's equity</b>	
Payables:	
Brokers, dealers and clearing organizations	\$ 2,040
Customers and counterparties	5,693
Other liabilities	7,404
<b>Total liabilities</b>	<b>15,137</b>
<b>Contingencies and guarantees</b>	
<b>Stockholder's equity</b>	
Common stock (\$0.0001 par value; 1,000 shares authorized, issued and outstanding)	-
Additional paid-in capital	52,354
Retained earnings	1,125
<b>Total stockholder's equity</b>	<b>53,479</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 68,616</b>

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

**Notes to Statement of Financial Condition  
(Unaudited)**

**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, 2020.

All references to June 2021 refer to the date June 30, 2021. 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 Owned	Note 5
Other Assets	Note 6
Unsecured Borrowings	Note 7
Other Liabilities	Note 8
Contingencies and Guarantees	Note 9
Transactions with Related Parties	Note 10
Income Taxes	Note 11
Credit Concentrations	Note 12
Legal Proceedings	Note 13

**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 Liabilities at Fair Value**

Financial instruments owned 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. Financial assets are marked to bid prices and financial liabilities are marked to offer 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.

**Cash**

Cash included cash and due from banks of \$28.5 million as of June 2021.

The Company segregates cash for regulatory and other purposes related to client activity. Cash segregated for regulatory and other purposes was \$5.9 million as of June 2021.

**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 2021.

## Notes to Statement of Financial Condition (Unaudited)

### 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 2021, the Company held an allowance for credit losses of \$0.7 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 2021. 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 \$1.6 million as of June 2021. As of June 2021, 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 2021.

#### 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. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

The best evidence of fair value is a quoted price in an active market. If 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. 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 owned are based on unadjusted quoted prices in active markets and are classified in level 1 of the fair value hierarchy.

#### Note 5.

### Financial Instruments Owned

As of June 2021, the Company's financial instruments owned consisted of \$13.7 million of equity securities, all of which were classified as level 1. The Company's equity securities, which are held to facilitate client activity, include public equities and exchange-traded funds.

#### Note 6.

### Other Assets

The table below presents other assets by type.

<i>\$ in thousands</i>	As of June 2021
Income tax-related assets	\$ 4,715
Miscellaneous receivables and other	1,560
<b>Total</b>	<b>\$ 6,275</b>

Income tax-related assets consist of current income tax receivables of \$3.9 million and deferred tax assets of \$0.8 million. See Note 11 for further information about income taxes.

**Notes to Statement of Financial Condition  
(Unaudited)**

**Note 7.**

**Unsecured Borrowings**

The Company maintains a credit facility with Group Inc. As of June 2021, there were no outstanding borrowings under this facility.

**Note 8.**

**Other Liabilities**

The table below presents other liabilities by type.

<i>\$ in thousands</i>	As of <b>June 2021</b>
Payables to affiliates	\$ 3,975
Accrued expenses and other	3,429
<b>Total</b>	<b>\$ 7,404</b>

In the table above, accrued expenses and other included a payable of \$2.2 million to Motif Investing, Inc. based on an estimate of contingent consideration to be paid for certain brokerage accounts that the Company acquired in May 2020.

**Note 9.**

**Contingencies and Guarantees**

**Contingencies — Legal Proceedings**

See Note 13 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 2021.

**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 2021.

**Note 10.**

**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.

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 2021, the amount due to the Parent for the service charge was \$2.7 million. In addition, the Parent pays all direct vendor payments, payroll and taxes on behalf of the Company. As of June 2021, there was \$1.3 million due to the Parent for such expenditures.

On June 22, 2021, the Parent made a cash capital contribution of \$30.0 million to the Company.

**Note 11.**

**Income Taxes**

In March 2021, the American Rescue Plan Act of 2021 (Rescue Plan) was signed into law. The Rescue Plan is a \$1.9 trillion stimulus package enacted to help address the economic and health impacts of the coronavirus pandemic. The legislation is not expected to have a material impact on the Company for 2021.

## Notes to Statement of Financial Condition (Unaudited)

In April 2021, the New York State (NYS) FY 2022 budget was enacted. The legislation will temporarily increase the NYS corporate income tax rate from 6.5% to 7.25% for calendar years 2021 through 2023. The legislation is not expected to have a material impact on the Company for 2021.

### Provision for Income Taxes

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 2021, 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 6 for further information on 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 2021, 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, including and subsequent to 2017, remain open to examination by the taxing authorities.

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. GS Group participates in the IRS' Compliance Assurance Process program, which 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 U.S. consolidated corporate federal and all state and local consolidated and combined returns for 2020 and 2021 will be open to post-filing 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 12.

### 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 2021, the Company had \$34.0 million of cash deposits held at U.S. Bank, of which, \$0.3 million is insured by the Federal Deposit Insurance Corporation. These cash deposits are included in cash.

## Notes to Statement of Financial Condition (Unaudited)

As of June 2021, the Company had credit exposure related to a deposit with a clearing corporation which represented 15% 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 13.

#### Legal Proceedings

The Company is involved in a number of arbitration proceedings concerning matters arising in connection with the conduct of the Company's businesses. Many of these proceedings are in early stages, and many of these cases 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 14.

#### 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 2021, the Company had regulatory net capital, as defined by Rule 15c3-1, of \$43.3 million, which exceeded the amount required by \$43.0 million.

### Note 15.

#### Subsequent Events

The Company has evaluated events through August 12, 2021, 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 additional disclosure in this statement of financial condition.