Company Number: 02263951

GOLDMAN SACHS INTERNATIONAL

(unlimited company)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2011.

1. Principal activities

Goldman Sachs International ('the company' or 'GSI') provides a wide-range of financial services to clients located worldwide. The company is regulated by the Financial Services Authority ('the FSA').

2. Review of business and future developments

The financial statements have been drawn up for the year ended 31 December 2011 and comparative information has been presented for the year ended 31 December 2010.

Business environment

The company's financial performance is highly dependent on the environment in which its businesses operate. A favourable business environment is generally characterised by, amongst other factors, high global gross domestic product growth, transparent, liquid and efficient capital markets, low inflation, high business and investor confidence, stable geopolitical conditions and strong business earnings. Unfavourable or uncertain economic and market conditions can be caused by: concerns about sovereign defaults; declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities; outbreaks of hostilities or other geopolitical instability; corporate, political or other scandals that reduce investor confidence in capital markets; natural disasters or pandemics; or a combination of these or other factors.

During the first half of 2011, concerns surrounding European sovereign debt risk, supply-chain disruptions resulting from the earthquake and tsunami in Japan and intensifying inflation in emerging markets weighed on the early economic growth in most economies. Global equity markets were negatively impacted by these concerns and additional uncertainties regarding political unrest in the Middle East and the resolution of the U.S. Federal debt ceiling. Whilst the U.S. Federal Reserve and the Bank of England maintained their base rates during the period, the European Central Bank increased its main refinancing operations rate by 25 basis points to 1.25%, reflecting early growth and increased inflation in the eurozone. The Bank of Japan left its overnight call rate unchanged at 0.10% and expanded its liquidity and asset purchase program significantly in order to promote economic stability following the earthquake and tsunami.

During the second half of 2011, concerns about European sovereign debt risk and its impact on the European banking system intensified, while concerns about U.S. growth and the uncertainty regarding the U.S. Federal debt ceiling continued, contributing to higher volatility levels, significantly lower global equity prices and significantly wider corporate credit spreads. This prompted the U.S. Federal Reserve and the European Central Bank to announce easing measures in order to stimulate economic growth both in the U.S. and across Europe. The U.S. Federal Reserve, the Bank of England and the Bank of Japan left interest rates unchanged, whilst the European Central Bank increased and then reduced its interest rates, ending the year unchanged compared with 2010. In the U.K., real GDP increased by 0.8% for 2011, compared with an increase of 2.1% in 2010. Globally, long-term government bond yields generally declined during the year, although long-term government bond yields in certain eurozone economies increased significantly. In addition, spreads between German bond yields and those of most economies within the eurozone widened.

The profit and loss account for the year is set out on page 9. Net revenue was US$5,132 million for the year (year ended 31 December 2010: US$7,373 million). The results for the company show a pre-tax profit of US$3,109 million for the year (year ended 31 December 2010: US$1,187 million). GSI has total assets of US$942 billion (31 December 2010: US$751 billion).

The company reports its activities in the following business segments: Investment Banking; Institutional Client Services; Investing & Lending; and Investment Management. Details of the company's business segments are given in note 4 to the financial statements.

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Investment Banking

Net revenues in Investment Banking were slightly lower compared to 2010. Equity underwriting decreased in line with the level of market activity, particularly in the second half of the year. Net revenues from the financial advisory business increased partially offsetting this decrease.

Institutional Client Services

The decrease in Institutional Client Services reflected lower net revenues in Fixed Income, Currency and Commodities Client Execution ('FICC'). Net revenues in FICC were generally affected by broad market concerns and uncertainty, resulting in volatile markets and significantly wider credit spreads, which contributed to difficult market-making conditions and led to reduction in positioning by the company and clients. The decrease in net revenues primarily reflects lower results in credit products.

Investing & Lending

The decrease in Investing & Lending net revenues mainly reflects the impact of broad market concerns including European sovereign debt risk resulting in wider credit spreads and volatile equity markets.

Investment Management

The increase in Investment Management net revenues primarily reflects the increase in management and other fees, resulting from higher average assets under management.

Administrative expenses, other interest receivable and interest payable

Administrative expenses decreased to US$2,060 million for the year (year ended 31 December 2010: US$6,096 million), mainly due to a decrease in compensation costs including a credit of US$1,823 million (year ended 31 December 2010: charge of US$455 million) relating to the mark-to-market of equity-based compensation awarded in prior years charged by The Goldman Sachs Group, Inc. ('the group').

Other interest receivable increased to US$115 million (year ended 31 December 2010: US$nil) representing the recognition of income following the restructure of GSI's subordinated debt.

Interest payable increased to US$106 million for the year (year ended 31 December 2010: US$99 million) due to an increase in the average subordinated debt balance over the year.

Pension arrangements

The company has a pension surplus of US$132 million as at 31 December 2011 (31 December 2010: US$164 million) with a full valuation performed as at 31 August 2011 including a review of actuarial assumptions and updated to 31 December 2011. The decrease of US$32 million was mainly driven by a loss in plan assets due to falling asset prices partially offset by gains following the changes in assumptions resulting from the actuarial valuation.

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Strategy

The group is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). It is also a leading global investment banking, securities and investment management firm that provides a wide-range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. As part of the group, GSI seeks to be the advisor of choice for its clients and a leading participant in the global financial markets. GSI's strategy, consistent with that of the group, is to grow its four core businesses: Investment Banking; Institutional Client Services; Investing & Lending; and Investment Management, in markets throughout the world.

Principal risks and uncertainties

GSI faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, legal and reputational risks. The following are some of the more important factors that could affect the businesses.

Economic and market conditions

GSI's businesses, by their nature, do not produce predictable earnings and are materially affected by conditions in the global financial markets and economic conditions generally. In the past, these conditions have changed suddenly and, for a period of time, very negatively.

Market volatility

Certain of the market-making businesses depend on market volatility to provide trading and arbitrage opportunities to clients. Decreases in volatility may reduce these opportunities and adversely affect the results of these businesses. In contrast, increased volatility, whilst it can increase trading volumes and spreads, also increases risk as measured by Value-at-Risk ('VaR') and may expose the company to increased risks in connection with market-making activities or necessitate the reduction in size of these activities in order to avoid increasing VaR. Limiting the size of such market-making positions can adversely affect the company's profitability, even though spreads are widening and the company may earn more on each trade. In periods when volatility is increasing, but asset values are declining significantly, it may not be possible to sell assets at all or it may only be possible to do so at steep discounts. In such circumstances, the company may be forced to either take on additional risk or to incur losses in order to decrease its VaR. In addition, increases in volatility increase the level of the company's risk weighted assets and capital requirements, both of which in turn increase funding costs.

Liquidity

Liquidity is essential to the businesses. The company's liquidity could be impaired by an inability to access secured and / or unsecured debt markets, an inability to access funds from its affiliates, an inability to sell assets or redeem investments or unforeseen outflows of cash or collateral. This situation may arise due to circumstances that the company may be unable to control, such as a general market disruption or an operational problem that affects third parties or the company or even by the perception amongst market participants that the company is experiencing greater liquidity risk. Furthermore, the company's ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis. In addition, financial institutions with which the company interacts may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair its access to liquidity.

Credit quality

The company is exposed to the risk that third parties who owe money, securities or other assets will not perform on their obligations. These parties may default on their obligations to the company due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect the company.

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

The company is also subject to the risk that its rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations are held by the company could result in losses and / or adversely affect the company's ability to use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of the company's counterparties could also have a negative impact on the company's results. While, in many cases, the company is permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral the company is entitled to receive and the value of pledged assets. The termination of contracts and the foreclosure on collateral may subject the company to claims for the improper exercise of its rights. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

As part of its clearing and prime brokerage business, the company finances client positions and it could be held responsible for the defaults or the misconduct of its clients. Although credit exposures to specific clients and counterparties and to specific industries, countries and regions that are believed to present credit concerns are regularly reviewed, default risk may arise from events or circumstances that are difficult to detect or foresee.

Derivative transactions

The company is party to a large number of derivative transactions. Many of these derivative instruments are individually negotiated and non-standardised, which can make exiting, transferring or settling positions difficult. Many derivatives require that the company delivers to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, the company does not hold or is not able to obtain the underlying security, loan or other obligation. This could cause the company to forfeit the payments due to it under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to the company. Derivative transactions may also involve the risk that they are not authorised or appropriate for a counterparty, that documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty.

Derivative contracts and other transactions entered into with third parties are not always confirmed by the counterparties or settled on a timely basis. While the transaction remains unconfirmed or during any delay in settlement, the company is subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce its rights. In addition, as new and more complex derivative products are created, covering a wider array of underlying credit and other instruments, disputes about the terms of the underlying contracts could arise, which could impair the company's ability to effectively manage its risk exposures from these products and subject it to increased costs. The provisions of legislation requiring central clearing of credit derivatives and other over-the-counter ('OTC') derivatives, or a market shift toward standardised derivatives, could reduce the risk associated with such transactions, but under certain circumstances could also limit the company's ability to develop derivatives that best suit client and company needs and adversely affect the company's profitability and increase the credit exposure to such a platform.

Operational infrastructure

The company's businesses are highly dependent on their ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as information technology services provided to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. As the company's client base and geographical reach expands, developing and maintaining operational systems and infrastructure becomes increasingly challenging. Financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the company's control, such as a spike in transaction volume, adversely affecting the ability to process these transactions or provide these services. The company must continuously update these systems to support its operations and growth and to respond to changes in regulations and markets. This updating entails significant costs and creates risks associated with implementing new systems and integrating them with existing ones.

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

The company also faces the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries that it uses to facilitate securities transactions and, as interconnectivity with clients grows, the company will increasingly face the risk of operational failure with respect to clients' systems. Any such failure, termination or constraint could adversely affect the company's ability to effect transactions, service its clients and manage its exposure to risk.

Despite the resiliency plans and facilities that are in place, the company's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports these businesses and the communities in which the company is located. This may include a disruption involving electrical, communications, transportation or other services facilities used by the company or third parties with which the company conducts business.

Technology

Technology is fundamental to the company's businesses and industry. The growth of electronic trading and the introduction of new technologies is changing these businesses and presenting the company with new challenges. Securities, futures and options transactions are increasingly occurring electronically, both on the company's own systems and through other alternative trading systems, and it appears that the trend toward alternative trading systems will continue and probably accelerate. Some of these alternative trading systems compete with the company's businesses increasing competitive pressures in these and other areas. In addition, the increased use by clients of low-cost electronic trading systems and direct electronic access to trading markets could cause a reduction in commissions and spreads. As clients increasingly use the company's systems to trade directly in the markets, the company may incur liabilities as a result of their use of its order routing and execution infrastructure. Significant resources have been invested into the development of electronic trading systems and the company expects to continue to do so, but there is no assurance that the revenues generated by these systems will yield an adequate return on this investment, particularly given the relatively lower commissions arising from electronic trades.

Risk management

The company seeks to monitor and control risk exposure through a risk and control framework encompassing a variety of separate, but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. The risk management process seeks to balance the company's ability to profit from market-making positions with exposure to potential losses. Whilst the company employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, the company may, in the course of its activities, incur losses. In addition, refer to the financial risk management section (see note 27), below.

Future outlook

The directors consider that the year end financial position of the company was satisfactory. No significant change in the company's principal business activity is expected.

3. Dividends

A preference dividend of US$99,483,000 was declared and paid during the year (year ended 31 December 2010: US$99,483,000), see note 26.

4. Exchange rate

The Sterling / US Dollar exchange rate at the balance sheet date was £ / US$ 1.5511 (31 December 2010: £ / US$ 1.5590). The average rate for the year was £ / US$ 1.6103 (year ended 31 December 2010: £ / US$ 1.5422).

REPORT OF THE DIRECTORS (continued)

5. Employment of disabled persons

Applications for employment by disabled persons are fully and fairly considered with regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within the group. Training, career development and promotion of disabled persons are, to the extent possible, identical to that of other employees who are not disabled.

6. Employee involvement

It is group policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be consulted on and involved in decisions that affect their current jobs or future prospects. Employees share in performance-based incentive schemes.

7. Directors

The directors of the company who served throughout the year and to the date of this report, except where noted, were:

Name	Appointed	Resigned
P. D. Sutherland, Chairman		
G. P. Earle		5 August 2011
C. G. French		22 February 2012
R. J. Gnodde		
Lord Griffiths of Fforestfach		
M. S. Sherwood		
R. A. Vince	11 November 2011	
M. C. H. Westerman		22 February 2012
D. D. Wildermuth		22 February 2012
Y. Zaoui		22 February 2012

No director had, at the year end, any interest requiring note herein.

8. Financial risk management

The company's risk management objectives and policies, as well as exposures to market risk, credit risk and liquidity risk are described in note 27 to the financial statements.

9. Disclosure of information to auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and

- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

10. Auditors

Prior to 1 October 2007, the company passed an elective resolution under section 386 of the Companies Act 1985 to dispense with the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the company pursuant to section 487(2) of the Companies Act 2006 and paragraph 44 of Schedule 3 to the Companies Act 2006 (Commencement No. 3 Consequential Amendment, Transitional Provisions and Savings) Order 2007.

REPORT OF THE DIRECTORS (continued)

11. Charitable contributions

During the year, an amount of US$19,435,364 (year ended 31 December 2010: US$71,745,913) was donated to charity.

12. Statement of directors' responsibilities

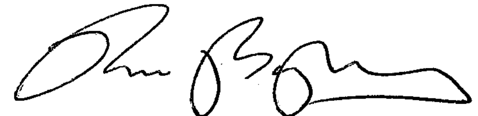
The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

13. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 23 April 2012.



BY ORDER OF THE BOARD
A.J. BAGLEY
Secretary
24 April 2012

Independent auditors' report to the members of GOLDMAN SACHS INTERNATIONAL (unlimited company)

We have audited the financial statements of Goldman Sachs International for the year ended 31 December 2011 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement (set out on page 7) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Christopher Rowland (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

24 April 2012

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2011

	Note	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Net revenue	4	5,131,538	7,373,167
Administrative expenses		(2,059,618)	(6,095,843)
OPERATING PROFIT	5	3,071,920	1,277,324
Other interest receivable and similar income	6	115,087	-
Interest payable and similar charges	7	(105,826)	(98,585)
Net finance income	10	28,180	8,636
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,109,361	1,187,375
Tax on profit on ordinary activities	12	(683,958)	(412,329)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL YEAR	25	2,425,403	775,046

Net revenue and operating profit of the company are derived from continuing operations in the current and prior years.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2011

	Note	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Profit for the financial year		2,425,403	775,046
Actuarial (loss) / gain relating to the pension scheme	10	(51,852)	88,214
UK deferred tax attributable to the actuarial (loss) / gain	20	12,963	(23,818)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL YEAR AND SINCE LAST FINANCIAL STATEMENTS		2,386,514	839,442

The notes on pages 11 to 38 form an integral part of these financial statements.
Independent auditors' report – page 8.

BALANCE SHEET
as at 31 December 2011

	Note	31 December 2011 US$'000	31 December 2010 US$'000
FIXED ASSETS			
Tangible assets	13	8,211	5,193
Investments	14	5,236	2,721
		13,447	7,914
CURRENT ASSETS			
Financial instruments owned	15	603,488,261	473,443,028
Financial instruments owned pledged as collateral	15	19,390,650	21,805,808
Collateralised agreements	3, 16	238,648,388	198,297,034
Debtors	3, 17	65,821,968	45,593,097
Cash at bank and in hand	18	14,776,833	11,588,242
		942,126,100	750,727,209
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial instruments sold, but not yet purchased	15	(557,537,032)	(426,274,193)
Collateralised financing	3, 19	(177,025,702)	(147,338,499)
Other creditors	3, 21	(173,298,319)	(147,420,573)
		(907,861,053)	(721,033,265)
NET CURRENT ASSETS		34,265,047	29,693,944
TOTAL ASSETS LESS CURRENT LIABILITIES		34,278,494	29,701,858
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	22	(14,941,638)	(12,624,872)
PROVISIONS FOR LIABILITIES	23	(5,991)	(65,000)
NET ASSETS EXCLUDING PENSION SURPLUS		19,330,865	17,011,986
Pension surplus	10, 25	132,154	164,002
NET ASSETS INCLUDING PENSION SURPLUS		19,463,019	17,175,988
CAPITAL AND RESERVES			
Called up share capital	24, 25	511,123	511,123
Share premium account	25	2,885,260	2,885,260
Capital reserve (non-distributable)	25	17,286	17,286
Profit and loss account	25	16,049,350	13,762,319
TOTAL SHAREHOLDERS' FUNDS		19,463,019	17,175,988

The financial statements were approved by the Board of Directors on 23 April 2012 and signed on its behalf by:

Robin Vince
Director

The notes on pages 11 to 38 form an integral part of these financial statements.
Independent auditors' report – page 8.
Company number: 02263951

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

1. ACCOUNTING POLICIES

a. Accounting convention

The financial statements have been prepared on the going concern basis, under the historical cost convention (modified as explained in notes 1m and 1n), and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies are set out below and have been applied consistently throughout the year.

b. Consolidation

The company is a subsidiary undertaking of a company incorporated in Great Britain and has elected not to prepare group accounts as permitted by section 400 of the Companies Act 2006.

c. Revenue recognition

Net revenue has been disclosed instead of turnover as this more meaningfully reflects the nature and results of the company's activities. Net revenue, after charging related expenses, includes the net profit arising from transactions in securities, foreign exchange and other financial instruments, and fees and commissions earned. Related expenses include trading interest and dividends payable less trading interest and dividends receivable.

- **Investment Banking**

Financial advisory / underwriting revenues

Fees from financial advisory engagements and underwriting revenues are recognised in profit and loss when the relevant parties are contractually bound and as contract activity progresses unless the right to consideration does not arise until the occurrence of a critical event, in which case revenue is not recognised until that event has occurred.

Expenses associated with such transactions are deferred until the related revenue is recognised or the engagement is otherwise concluded. Expenses associated with financial advisory transactions are recognised as non-compensation expenses, net of client reimbursements. Underwriting revenues are presented net of related expenses.

- **Institutional Client Services and Investing & Lending**

Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are recognised at fair value with realised and unrealised gains and losses as well as associated interest and dividend income and expenses included in net revenue. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

Commissions

Commission revenues from executing and clearing client transactions on stock, options and futures markets are recognised on the day the trade is executed and are included in net revenues.

1. ACCOUNTING POLICIES (continued)

c. Revenue recognition (continued)

- **Investment Management**

Management fees

Management fees are recognised on an accruals basis and are generally calculated as a percentage of a fund's average net asset value and are recognised over the year that the related service is provided.

Incentive fees

Incentive fees are calculated as a percentage of a fund's return or a percentage of a fund's excess return above a specified benchmark or other performance target. Incentive fees are only recognised once they can be reliably measured at the end of the performance year.

d. Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The company has entered into operating lease arrangements where the company acts as the lessee. Leased assets are not recognised on the balance sheet. Costs in respect of operating leases, including any incentives granted by the lessor, are charged on a straight-line basis over the lease term and included within administrative expenses in the profit and loss account.

e. Short-term employee benefits

Short-term employee benefits, such as wages and salaries, are measured on an undiscounted basis and accrued as an expense over the year in which the employee renders the service to the company. Provision is made for discretionary year end compensation whether to be paid in cash or share-based awards where, as a result of group policy and past practice, a constructive obligation exists at the balance sheet date.

f. Share-based payments

The Goldman Sachs Group, Inc. issues awards in the form of restricted stock units ('RSUs') and stock options to the company's employees for services rendered to the company. The cost of equity-based transactions with employees is measured based on the fair value of the equity instruments at the grant date. Non-market based vesting conditions are not taken into account in measuring the fair value of awards, but are reflected by adjusting over time the number of equity awards that are expected to vest. Share-based awards that do not contain vesting conditions are expensed immediately. Share-based employee awards that require future service are amortised over the relevant service year.

The Goldman Sachs Group, Inc. settles equity awards through the delivery of its ordinary shares. The Goldman Sachs Group, Inc. pays cash dividend equivalents on outstanding restricted stock units. The company has also entered into a chargeback agreement with The Goldman Sachs Group, Inc. under which it is committed to pay the market value at grant date as well as subsequent movements in fair value of those awards to the group at the time of delivery to its employees.

g. Foreign currencies

Transactions denominated in foreign currencies are translated into US Dollars at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at rates of exchange ruling at the balance sheet date. Foreign exchange gains and losses are recognised in operating profit.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

1. ACCOUNTING POLICIES (continued)

h. Pension cost

The company is a sponsor of a defined contribution pension scheme and a hybrid pension plan for the benefit of certain employees. The defined benefit and defined contributions sections of the hybrid plan and the defined contribution pension scheme are accounted for as follows:

- for the defined benefit section, the amounts charged to operating profit are the current service costs, any past service costs and any gains or losses on settlements and curtailments. They are included as part of staff costs. The interest cost and expected return on assets are shown as a net amount within net finance income. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The defined benefit section is funded, with the assets of the scheme held separately from those of the company, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained at least triennially and updated at each balance sheet date. Any surplus or deficit of scheme assets over scheme liabilities is recognised on the balance sheet as an asset (surplus) or liability (deficit).

- For the defined contribution section and the defined contribution pension scheme, the amount charged to operating profit in respect of pension costs is the contributions payable for the year. Differences between contributions payable for the year and contributions actually paid are shown as either accruals or prepayments on the balance sheet.

i. Dividends

Final equity dividends (including dividends payable on preference shares deemed equity) are recognised in the year that they are approved by the shareholders. Interim equity dividends are recognised in the year that they are paid. Dividends are debited directly to equity.

j. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provision for any impairment. Depreciation is included in administrative expenses and is provided on a straight-line basis over the estimated useful lives at the following annual rates:

	%
Fixtures, fittings and equipment	14-20
Motor vehicles	20

Leasehold improvements are depreciated over the shorter of the useful economic life of the asset or the remaining life of the lease when the asset is brought into use. Depreciation policies are reviewed on an annual basis.

k. Fixed asset investments

Fixed asset investments are stated at cost or amortised cost, as applicable, less provision for any impairment. Amortisation is included in administrative expenses.

1. ACCOUNTING POLICIES (continued)

l. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the balance sheet where there is:

- currently a legally enforceable right to set off the recognised amounts; and
- intent to settle on a net basis or to realise the asset and settle the liability simultaneously.

Where these conditions are not met, financial assets and liabilities are presented on a gross basis on the balance sheet.

m. Financial instruments held for trading

Financial assets and liabilities held for trading 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, i.e. the exit price. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are included in net revenue.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations 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, as inputs, market-based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates, commodities prices, credit curves and funding rates. The fair value of certain financial assets and financial liabilities may require appropriate valuation adjustments for counterparty and the company's credit quality, funding risk, transfer restrictions, illiquidity and bid / offer spreads.

Cash instruments include securities, which are typically readily transferable and exhibit reasonable levels of price transparency, and other cash instruments, such as loans. Cash instruments that trade in active markets are valued using quoted prices for identical unrestricted instruments. Other cash instruments (such as most government agency obligations, most corporate debt securities, restricted or less liquid publicly listed equities, most state and municipal obligations and certain money market instruments and lending commitments) are valued by verifying to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources. Valuation adjustments are typically made (i) if the cash instrument is subject to regulatory or contractual transfer restrictions and / or (ii) for other premiums and discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Certain cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used, the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, the company uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales.

Derivatives may be privately negotiated contracts, which are usually referred to as over-the-counter ('OTC') derivatives, or they may be listed and traded on an exchange ('exchange traded'). Exchange-traded derivatives that are actively traded are valued at their quoted market price. Exchange-traded derivatives that are not actively traded are valued using models that calibrate to market-clearing levels of OTC derivatives.

1. ACCOUNTING POLICIES (continued)

m. Financial instruments held for trading (continued)

OTC derivatives are generally valued using market transactions and other market evidence, including market-based inputs to models, calibration to market-clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market clearing levels.

Certain OTC derivatives are valued using models which utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs include certain correlations as well as credit spreads, equity volatility inputs, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. Subsequent to the initial valuation of such derivatives, the company updates the observable inputs to reflect observable market changes. Unobservable inputs are 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 company cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

'Day 1 P&L' is the term used to describe the difference between the initial transaction price and the fair value calculated by internal models. Day 1 P&L is released to profit and loss at the earlier of the fair value becoming observable using market parameters, or through reference to similar quoted products, and derecognition of the financial instrument.

Financial instruments owned are classified as held for trading. The directors are of the opinion that it would not be appropriate to classify them as current asset investments or to provide an analysis of such securities between those listed and unlisted.

n. Collateralised agreements and financing

Collateralised agreements (securities purchased under agreements to resell and deposits placed as collateral for stock borrowed) and collateralised financing (securities sold under agreements to repurchase and deposits received as collateral for stock loans) are carried at fair value under the fair value option. The collateral can be in the form of cash or securities. Cash collateral is recognised / derecognised when received / paid. Collateral posted by the company in the form of securities is not derecognised from the balance sheet, whilst collateral received in the form of securities is not recognised on the balance sheet. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet.

o. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax or a right to pay less tax in the future with the following exceptions:

1. ACCOUNTING POLICIES (continued)

o. Deferred taxation (continued)

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

- deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in the profit and loss account or directly in the statement of total recognised gains and losses according to where the associated gain or loss, to which the deferred tax is attributable, is recognised.

p. Provisions and contingent liabilities

Provisions are recognised in the financial statements when it is probable that an outflow of economic benefits will be required to settle a present (legal or constructive) obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Legal obligations that may arise as a result of proposed new laws are recognised as obligations only when the legislation is virtually certain to be enacted as drafted.

Contingent liabilities are:

- possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events outside the control of the company; or

- present obligations that have arisen from past events but which are not recognised because either an outflow of economic benefits is not probable or the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements. However, the disclosure is made unless the probability of settlement is remote.

q. Non-trading financial instruments

Non-trading financial instruments primarily comprise long-term subordinated debt and loan notes issued. They are initially recognised at fair value and subsequently measured at amortised cost. Finance costs, including discounts allowed on issue, are charged to the profit and loss account and recognised using the effective interest method.

r. Financial liabilities and equity

Financial liabilities and equity investments are classified according to the substance of the contractual arrangements. An equity investment is any contract that evidences a residual interest in the assets of the entity after deducting all liabilities. Investments are evaluated to determine if they contain both liability and equity components. The initial carrying amount of a compound financial instrument is allocated first to the liability component, measured at fair value, and the equity is assigned the residual amount.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

2. REPORTING AND DISCLOSURE EXEMPTIONS

a. FRS1 (Revised 1996) 'Cash Flow Statements'

The company is a greater than 90% subsidiary of The Goldman Sachs Group, Inc. whose consolidated accounts include the company and are publicly available and is, therefore, exempt from preparing a cash flow statement as required by FRS1 (Revised 1996) 'Cash Flow Statements'.

b. FRS8 'Related Party Disclosures'

The company is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. whose consolidated accounts include the company and are publicly available. As a result, under the terms of paragraph 3(c) of FRS8, 'Related Party Disclosures', the company is exempt from disclosing transactions with companies also wholly owned within The Goldman Sachs Group, Inc.

c. FRS29 (IFRS7) 'Financial Instruments: Disclosures'

The company is a greater than 90% subsidiary of Goldman Sachs Group Holdings (U.K.), whose consolidated accounts include the company and are publicly available and is, therefore, exempt from the disclosures required by FRS29 (IFRS7), 'Financial Instruments: Disclosures'.

3. PRESENTATIONAL CHANGES

The directors have revised the disclosure of directors' emoluments to include only the value of cash and benefits in kind in accordance with the provision of Schedule 5 of Statutory Instrument 2008 / 410. Directors' emoluments and the disclosure for the highest paid director for the year ended 31 December 2010 have been amended, accordingly, to be consistent with the current year's presentation.

The directors have combined the presentation of securities purchased under agreements to resell and stock borrow agreements into collateralised agreements. In addition, the directors have combined securities sold under agreements to repurchase and stock loan agreements into collateralised financing. The directors believe that the combination better represents the inherent nature of the balances reported.

Collateralised agreements include securities purchased under agreements to resell of US$173,211 million (31 December 2010: US$134,393 million) and deposits placed as collateral for stock borrowed of US$65,437 million (31 December 2010: US$63,904 million). Deposits placed as collateral for stock borrowed were previously disclosed in debtors.

Collateralised financing includes securities sold under agreements to repurchase of US$115,466 million (31 December 2010: US$87,336 million) and deposits received as collateral for stock loans of US$61,560 million (31 December 2010: US$60,002 million). Deposits received as collateral for stock loans were previously disclosed in other creditors.

4. SEGMENTAL REPORTING

The company's net revenue is categorised into the following principal segments:

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Investment Banking	925,807	1,020,240
Institutional Client Services	4,010,651	5,875,784
Investing & Lending	(36,545)	271,774
Investment Management	231,625	205,369
	5,131,538	**7,373,167**

Investment Banking

Investment Banking activities consist of:

- *Financial advisory* – includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defence activities, risk management, restructurings and spin offs; and

- *Underwriting* – includes public offerings and private placements of a wide-range of securities, loans and other financial instruments, and derivative transactions directly related to client underwriting activities.

Institutional Client Services

Institutional Client Services is comprised of:

- *Fixed Income, Currency and Commodities Client Execution* – includes client execution activities related to making markets in interest rate products, credit products, mortgages, currencies and commodities; and

- *Equities Client Execution* – includes client execution activities related to making markets in equity products, as well as commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide. Equities Client Execution also includes the securities services business, which provides financing and securities lending prime brokerage services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and generates revenues primarily in the form of interest rate spreads or fees.

Investing & Lending

Investing & Lending includes investing activities, directly and indirectly through funds that The Goldman Sachs Group, Inc. manages, in debt securities, loans, public and private equity securities and other investments.

Investment Management

Investment Management offers investment advisory services, including portfolio management and counselling services, and brokerage and other transaction services to high-net-worth individuals and families.

Geographical Analysis

Due to the highly integrated nature of international financial markets, the directors consider that the company operates in a single global market. As a result, no disclosure of segmental information relating to the geographical origin of results has been provided.

5. OPERATING PROFIT

		Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Operating profit is stated after charging / (crediting):			
Depreciation of tangible fixed assets (see note 13)		2,928	3,027
Amortisation of fixed asset investments (see note 14)		2	7
Management fees charged by group undertakings		400,740	401,988
Management fees charged to group undertakings		(236,134)	(351,779)
Foreign exchange gain on long-term debt		(2,454)	(4,180)
Auditors' remuneration for audit services:	- company	5,689	5,379
Operating lease rentals:	- land and buildings	97,827	94,447
Trading interest payable:	- group undertakings	1,078,352	1,008,987
	- other	2,851,540	1,935,008
Trading interest receivable:	- group undertakings	(196,021)	(201,060)
	- other	(3,804,394)	(2,874,837)

The company has taken the exemption not to disclose fees payable to the auditor and its associates for other non-audit services as the consolidated financial statements of Goldman Sachs Group Holdings (U.K.) are required to disclose such information on a consolidated basis.

6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Receivable from parent undertakings	115,087	-

During the year, the company agreed to early terminate its then existing US$5,000 million short-term subordinated loan facility with a parent undertaking. The calculated settlement value of the loan, based on fair value, was US$4,885 million and the loan was settled by repaying this amount, with the lender agreeing to permanently release the company from all obligations in the remaining US$115 million nominal value of the loan.

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Payable to parent undertakings	105,826	98,585

Interest payable and similar charges payable to parent undertakings arise on subordinated loans repayable within five years otherwise than by instalments.

8. DIRECTORS' EMOLUMENTS

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Aggregate emoluments	4,491	7,886
Company pension contributions to money purchase schemes	9	10
	4,500	**7,896**

	US$'000	US$'000
Highest paid director:		
Aggregate emoluments and benefits	1,350	1,784
Company pension contributions to money purchase schemes	-	4
Accrued pension at end of year	-	10

In accordance with the Companies Act 2006, directors' emoluments represent the proportion of total emoluments paid or payable in respect of qualifying services only (see note 3). Directors also receive emoluments for non-qualifying services which are not required to be disclosed. Six persons, who were directors for some or all of the year are members of a defined contribution pension scheme (including the defined contribution section of the hybrid plan) and six persons are members of a defined benefit pension scheme (including the defined benefit section of the hybrid plan). Nine directors, including the highest paid director, have been granted shares in respect of long-term incentive schemes. One director, being the highest paid director, has exercised options.

9. STAFF COSTS

The average number of employees of the company, including directors, is analysed below:

	Year Ended 31 December 2011 Number	Year Ended 31 December 2010 Number
Investment Banking	623	574
Institutional Client Services	1,545	1,532
Investing & Lending	105	127
Investment Management	467	439
Support Functions	2,808	2,684
	5,548	**5,356**
Consultants and temporary staff	531	600
	6,079	**5,956**

The company has the use of a number of individuals who are employed by affiliated entities and seconded to the company. These seconded individuals are included in the disclosure of headcount and related staff costs. Consultants and temporary staff costs are included in total direct costs of employment, below.

Total headcount as at 31 December 2011 was 5,791 (31 December 2010: 6,272).

9. STAFF COSTS (continued)

The employment costs incurred by the company, including those relating to directors, were:

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Aggregate gross wages and salaries	898,265	4,328,018
Employer's National Insurance Contributions	146,127	447,402
UK Bank Payroll Tax	-	465,000
Pension costs, employer contributions to the:		
Defined contribution scheme (including defined contributions to the hybrid scheme)	58,831	50,273
Defined benefit scheme	42,710	46,486
Total direct costs of employment	**1,145,933**	**5,337,179**

Staff costs include a credit of US$1,823 million (year ended 31 December 2010: charge of US$455 million) relating to the mark-to-market of equity-based compensation.

10. PENSION ARRANGEMENTS

The company sponsors an open pension plan with a hybrid structure ('the Plan'), having both defined benefit and defined contribution sections. From 1 March 2008, the Plan was closed to employees whose employment commenced after this date and was replaced by a defined contribution plan.

A full actuarial valuation of the defined benefit section of the Plan was carried out by a qualified independent actuary as at 31 August 2011 using the projected unit funding method and updated to 31 December 2011.

The major financial assumptions used by the actuary underlying the funding of the Plan which had the most significant effect on the pension cost are set out below:

	Year Ended 31 December 2011 *% per annum*	Year Ended 31 December 2010 *% per annum*
Discount rate	4.90	5.40
Rate of increase in salaries	4.00	4.00
Rate of increase in pensions (post-30 November 1996 accrual)	3.40	3.85
Rate of increase in pensions in deferment (post-30 November 1996 accrual)	2.20	3.15
Rate of price inflation	3.40	3.85

The mortality assumptions were set based on the 'S1 series all pensioner light' base table projected to 2009 with an allowance known as 'medium cohort' improvements. The future improvement from 2009 is in line with medium cohort projections subject to a minimum level of 1% *per annum.*

Based on the actuarial review of the Plan, the directors have revised the following assumptions as they believe they better reflect the future development of Plan liabilities:

- The discount rate setting methodology was changed resulting in a discount rate of 0.2% *per annum* higher than the rate that would have been used had it been set in a consistent manner with that used as at 31 December 2010. The impact of this methodology change is to reduce Plan liabilities by US$65 million.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

10. PENSION ARRANGEMENTS (continued)

- It has been assumed that the Consumer Prices Index ('CPI') price inflation would increase 1.2% *per annum* more slowly than the Retail Prices Index ('RPI') price inflation over the long-term, rather than the 0.7% *per annum* assumed as at 31 December 2010. This change in assumption reduces Plan liabilities by US$73 million.

The assets in the Plan attributable to the company and the expected rates of return were:

	31 December 2011		31 December 2010	
	Expected rate of return	Market value	Expected rate of return	Market value
	% per annum	US$m	*% per annum*	US$m
Equities	8.2	638.4	8.7	645.0
Bonds	3.4	142.4	4.5	129.2
Cash and reinvested cash	3.1	278.8	4.1	279.4
Total market value of assets		**1,059.6**		**1,053.6**

Development of the balance sheet:

	31 December 2011	31 December 2010	31 December 2009	28 November 2008	30 November 2007
	US$m	US$m	US$m	US$m	US$m
Market value of Plan assets	1,059.6	1,053.6	744.9	524.1	590.3
Actuarial value of Plan liabilities	927.4	889.6	902.1	395.0	698.5
Surplus / (deficit) in the Plan and pension asset / (liability) recognised in the balance sheet before deferred taxation	**132.2**	**164.0**	**(157.2)**	**129.1**	**(108.2)**

The defined benefit cost was formed of the following components:

	Year Ended 31 December 2011	Year Ended 31 December 2010
	US$m	US$m
Analysis of amounts charged to operating profit:		
Current service cost	52.3	51.4
Total charged to operating profit	**52.3**	**51.4**
Analysis of the amount credited to net finance income:		
Interest on Plan liabilities	49.4	48.4
Expected return on assets in the Plan	(77.6)	(57.0)
Total credited to net finance income	**(28.2)**	**(8.6)**
Total charged to profit and loss before tax	**24.1**	**42.8**
Analysis of amounts recognised in the statement of total recognised gains and losses:		
Loss / (gain) on assets	101.1	(14.0)
Experience gain on liabilities	(28.5)	(48.6)
Gain in assumptions (financial and demographic)	(20.7)	(25.6)
Total loss / (gain) recognised in the statement of total recognised gains and losses before tax	**51.9**	**(88.2)**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

10. PENSION ARRANGEMENTS (continued)

History of experience gains and losses are as follows:

	31 December 2011	31 December 2010	31 December 2009	28 November 2008	30 November 2007
Loss / (gain) on Plan assets:					
Amount (US$m)	101.1	(14.0)	(107.0)	115.8	(66.8)
% of Plan assets at end of the year	9.5%	1.3%	14.4%	22.1%	11.3%
Experience (gain) / loss on Plan liabilities:					
Amount (US$m)	(28.5)	(48.6)	(17.2)	(15.9)	38.7
% of Plan liabilities at end of the year	3.1%	5.5%	1.9%	4.0%	5.5%
Total actuarial loss / (gain) recognised in statement of total recognised gains and losses:					
Amount (US$m)	51.9	(88.2)	300.5	(153.9)	(46.5)
% of Plan liabilities at end of the year	5.6%	9.9%	33.3%	39.0%	6.7%

Analysis of the movement in Plan assets during the year:

	Year Ended 31 December 2011 US$m	Year Ended 31 December 2010 US$m
Plan assets at the start of the year	1,053.6	744.9
Expected return on Plan assets	77.6	57.0
(Loss) / gain on assets	(101.1)	14.0
Contributions paid – Employer	43.8	266.8
Benefits paid	(8.5)	(6.8)
Foreign exchange losses on translation of Plan assets	(5.8)	(22.3)
Plan assets at the end of the year	**1,059.6**	**1,053.6**

Analysis of the movement in Plan liabilities during the year:

	Year Ended 31 December 2011 US$m	Year Ended 31 December 2010 US$m
Plan liabilities at the start of the year	889.6	902.1
Current service cost	52.3	51.4
Interest on Plan liabilities	49.4	48.4
Gain on change in assumptions	(20.7)	(25.6)
Experience gain	(28.5)	(48.6)
Benefits paid	(8.5)	(6.8)
Foreign exchange gains on translation of Plan liabilities	(6.2)	(31.3)
Plan liabilities at the end of the year	**927.4**	**889.6**

10. PENSION ARRANGEMENTS (continued)

Analysis of the movement in surplus / (deficit) in the Plan during the year:

	Year Ended 31 December 2011 US$m	Year Ended 31 December 2010 US$m
Surplus / (deficit) in the Plan at the start of the year	164.0	(157.2)
Contributions paid – Employer	43.8	266.8
Current service cost	(52.3)	(51.4)
Net finance income	28.2	8.6
Actuarial (loss) / gain	(51.9)	88.2
Foreign exchange gains on translation of surplus / (deficit)	0.4	9.0
Surplus in the Plan at the end of the year	**132.2**	**164.0**

Additional disclosures:

	Year Ended 31 December 2011 US$m	Year Ended 31 December 2010 US$m
Expected future benefit payments for the year to 31 December 2012 / 31 December 2011	8.2	7.0
Expected contributions for the year to 31 December 2012 / 31 December 2011 – Employer	36.0	46.0
Actual return on Plan assets during the year ended 31 December 2011 / 31 December 2010		
Expected return on Plan assets	77.6	57.0
Asset (loss) / gain during the year	(101.1)	14.0
Actual return on Plan assets	**(23.5)**	**71.0**

Cumulative amounts recognised in the statement of total recognised gains and losses since the adoption of FRS17 Retirement Benefits:

	31 December 2011 US$m	31 December 2010 US$m
Actuarial loss relating to the pension scheme	(91.3)	(39.4)
UK deferred tax attributable to the actuarial loss	25.4	12.4
Net cumulative amount recognised in the statement of total recognised gains and losses	**(65.9)**	**(27.0)**

11. SHARE-BASED PAYMENTS

Stock incentive plan

GSI's ultimate parent company, The Goldman Sachs Group, Inc., sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan ('the SIP'), which provides for, amongst others, grants of incentive stock options and restricted stock units ('RSUs').

Restricted stock units ('RSUs')

The ultimate parent company issued RSUs to GSI's employees under the SIP, primarily in connection with year-end compensation. RSUs are valued based on the closing price of the underlying shares at the date of grant after taking into account a liquidity discount for any applicable post-vesting transfer restrictions. Year-end RSUs generally vest and deliver as outlined in the applicable RSU agreements. Employee-RSU agreements generally provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. The activity related to these RSUs is set forth below:

	31 December 2011 No. of RSUs		31 December 2010 No. of RSUs	
	No future service requirement	Future service requirement	No future service requirement	Future service requirement
Outstanding at the beginning of the year	11,090,072	8,791,254	6,724,828	5,724,511
Granted	1,817,659	2,391,093	4,199,755	9,118,649
Forfeited	(52,758)	(521,016)	(67,459)	(478,345)
Delivered	(11,146,411)	-	(4,972,774)	-
Transferred in / (out)	50,979	(59,560)	2,430	(370,269)
Vested	5,559,239	(5,559,239)	5,203,292	(5,203,292)
Outstanding at the end of the year	**7,318,780**	**5,042,532**	**11,090,072**	**8,791,254**

The weighted average fair value of the equity instruments granted during the year ended 31 December 2011 was US$145.58 (year ended 31 December 2010: US$134.24). The fair value of the RSUs granted during the year ended 31 December 2011 and the year ended 31 December 2010 includes a liquidity discount of 9.5% and 11.1%, respectively, to reflect post-vesting transfer restrictions of up to 4 years.

11. SHARE-BASED PAYMENTS (continued)

Stock options

Stock options granted to employees generally vest as outlined in the applicable stock option agreement. No options were granted for the year ended 31 December 2011 nor for year ended 31 December 2010. Employee stock option agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. In general, all stock options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the SIP and the applicable stock option agreement. The activity related to these stock options is set forth below:

	31 December 2011		31 December 2010	
	No. of share options	Weighted average exercise price (US$)	No. of share options	Weighted average exercise price (US$)
Outstanding at the beginning of the year	11,935,923	90.07	13,787,180	89.24
Forfeited	(7,681)	78.38	(95,144)	78.37
Transferred in / (out)	57,090	76.25	(64,672)	78.78
Exercised	(534,972)	90.69	(1,684,352)	84.39
Expired	(574,838)	91.61	(7,089)	82.88
Outstanding at the end of the year	**10,875,522**	**89.89**	**11,935,923**	**90.07**
Exercisable at the end of the year	**7,741,204**	**94.39**	**5,258,044**	**92.41**

For those options exercised during the year, the weighted average share price at the date of exercise was US$135.40 (year ended 31 December 2010: US$163.15). The options outstanding as at 31 December 2011 and 31 December 2010 are set forth below:

	31 December 2011		31 December 2010	
	No. of share options outstanding	Weighted average remaining contractual life (years)	No. of share options outstanding	Weighted average remaining contractual life (years)
Exercise Price				
$75.00-$89.99	9,694,275	6.64	9,679,264	7.61
$90.00-$104.99	45,217	1.92	1,120,629	1.01
$120.00-$134.99	288,720	3.92	288,720	4.92
$195.00-$209.99	847,310	5.51	847,310	6.51
Outstanding at the end of the year	**10,875,522**		**11,935,923**	

GSI recorded total share-based compensation expenses net of forfeitures of US$879 million for the year ended 31 December 2011 (year ended 31 December 2010: US$1,272 million) related to the amortisation of equity awards. The corresponding credit to equity has been transferred to liabilities as a result of the terms of the intercompany agreements with the group.

12. TAX ON PROFIT ON ORDINARY ACTIVITIES

a. Analysis of tax charge for the year:

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Current tax:		
UK corporation tax	26,649	441,675
Adjustments in respect of previous periods	(52,506)	40,106
Overseas taxation	32,420	59,147
Total current tax (see note 12b)	**6,563**	**540,928**
Deferred tax:		
Provisions and other timing differences	617,648	(127,943)
Effect of decreased tax rate on opening asset	59,713	-
Adjustments in respect of previous periods	34	(656)
Total deferred tax (see note 20)	**677,395**	**(128,599)**
Tax charge on profit on ordinary activities	**683,958**	**412,329**

b. Factors affecting tax charge for the year:

The difference between the total current tax shown above and the amount calculated by applying the weighted average rate of UK corporation tax applicable to the company for the year of 26.5% (31 December 2010: 28%) to the profit on ordinary activities before tax is as follows:

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Profit on ordinary activities before tax	3,109,361	1,187,375
Profit on ordinary activities multiplied by standard rate in the UK 26.5% (2010: 28%)	823,980	332,465
Expenses not deductible for tax purposes	25,156	132,628
Accelerated capital allowances and other timing differences	(19,443)	(105,155)
Timing differences in respect of equity-based compensation	(648,414)	271,404
Permanent differences	(105,263)	(92,822)
Pension contribution relief in excess of net pension cost charge	(5,714)	(4,137)
Tax losses surrendered from group undertakings for nil consideration	(16,408)	(38,005)
Exchange differences and other	5,175	4,444
Adjustment to tax in respect of prior periods	(52,506)	40,106
Current tax charge for the year	**6,563**	**540,928**

The timing differences in respect of equity-based compensation comprises the net tax effect of the amounts charged to the profit and loss account during the year and those amounts paid to the employees during the year.

13. TANGIBLE FIXED ASSETS

The movements in tangible fixed assets during the year were as follows:

	Leasehold improvements US$'000	Fixtures, fittings & equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost				
At 31 December 2010	20,056	4,729	16	24,801
Additions	4,992	954	-	5,946
Disposals	(9,920)	(119)	(16)	(10,055)
At 31 December 2011	**15,128**	**5,564**	**-**	**20,692**
Depreciation				
At 31 December 2010	16,698	2,894	16	19,608
Charge for the year (see note 5)	2,204	724	-	2,928
Disposals	(9,920)	(119)	(16)	(10,055)
At 31 December 2011	**8,982**	**3,499**	**-**	**12,481**
Net Book Value				
At 31 December 2011	**6,146**	**2,065**	**-**	**8,211**
At 31 December 2010	**3,358**	**1,835**	**-**	**5,193**

14. FIXED ASSET INVESTMENTS

	Shares in subsidiary undertakings US$'000	Other investments, other than loans US$'000	Total US$'000
Cost			
At 31 December 2010	1,474	1,314	2,788
Additions	2,497	20	2,517
At 31 December 2011	**3,971**	**1,334**	**5,305**
Amortisation			
At 31 December 2010	-	67	67
Charge for the year (see note 5)	-	2	2
At 31 December 2011	**-**	**69**	**69**
Net Book Value			
At 31 December 2011	**3,971**	**1,265**	**5,236**
At 31 December 2010	**1,474**	**1,247**	**2,721**

Other investments, other than loans primarily consists of exchange memberships. The directors consider that the value of investments in subsidiary undertakings and other investments, other than loans is not less than their book value.

14. FIXED ASSET INVESTMENTS (continued)

The subsidiaries over which the company exercises control at the year end are listed below:

Name of company	Country of incorporation	Holding and proportion of voting rights	Class of units / shares held	Number held	Nature of business
Sphere Fundo De Investimento Multimercado - Investimento No Exterior Credito Privado	Brazil	100%	Units	4,532	Investment Fund
Goldman Sachs Europe Limited	Jersey	100%	Ordinary shares	100	Financial services
Goldman Sachs Securities (Nominees) Limited	Great Britain	100%	Ordinary shares	2	Nominee company
Goldman Sachs (Jersey) Limited	Jersey	100%	Ordinary shares	50,000	Financial services

The company has interests in a number of special purpose vehicles and capital-guaranteed funds considered by the directors to be subsidiaries which do not meet the definition of a legal subsidiary, but give rise to the risks and rewards that are, in substance, no different than if they were legal subsidiaries. The activities of these special purpose vehicles and the capital-guaranteed funds consist of the issuance of loan notes under the terms of a repackaging programme. These vehicles are consolidated in the financial statements of Goldman Sachs Group Holdings (U.K.).

15. FINANCIAL INSTRUMENTS OWNED AND FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED

Financial instruments owned and financial instruments sold, but not yet purchased comprise financial instruments and investments within the operating activities of the company. Financial instruments owned pledged as collateral represents financial instruments owned and pledged to counterparties that have the right to deliver or repledge. Financial instruments owned, including financial instruments pledged as collateral, comprises:

	31 December 2011 US$'000	31 December 2010 US$'000
Cash instruments:		
Government and agency obligations	29,915,708	31,267,939
Equities	20,231,295	21,862,344
Corporate debt	14,426,233	13,094,620
Commercial paper	1,618,408	2,766,265
	66,191,644	**68,991,168**
Derivative instruments:		
Interest rate	240,862,676	135,680,471
Credit	178,726,259	156,613,555
Equity	82,389,998	79,019,306
Foreign currency	47,125,406	43,846,471
Commodities	7,582,928	11,097,865
	556,687,267	**426,257,668**
	622,878,911	**495,248,836**
Financial instruments owned	603,488,261	473,443,028
Financial instruments owned pledged as collateral	19,390,650	21,805,808
	622,878,911	**495,248,836**

Financial instruments sold, but not yet purchased comprises:

	31 December 2011 US$'000	31 December 2010 US$'000
Cash instruments:		
Government and agency obligations	16,898,751	23,313,148
Equities	14,556,429	12,559,308
Corporate debt	3,037,981	3,099,633
	34,493,161	**38,972,089**
Derivative instruments:		
Interest rate	235,873,275	130,272,327
Credit	161,612,246	136,677,754
Equity	71,431,567	66,757,981
Foreign currency	47,106,683	43,969,071
Commodities	7,020,100	9,624,971
	523,043,871	**387,302,104**
	557,537,032	**426,274,193**

16. COLLATERALISED AGREEMENTS

Included within the collateralised agreements are amounts of US$111,459 million (31 December 2010: US$97,109 million) which relate to group undertakings.

17. DEBTORS

	31 December 2011 US$'000	31 December 2010 US$'000
Amounts due from broker / dealers and customers	50,995,132	35,845,462
Amounts due from parent and group undertakings	14,108,317	8,604,439
Deferred tax (see note 20)	385,501	1,051,067
Other debtors	67,076	68,261
Prepayments and accrued income	25,183	23,868
Corporation tax receivable	240,759	-
	65,821,968	**45,593,097**

Of the amounts due from broker / dealers and customers, US$170 million (31 December 2010: US$nil) is due in more than one year. This relates to secured lending on a collateralised debt obligation.

Of the amounts due from parent and group undertakings, as at 31 December 2010, US$27 million is due in more than one year. This relates to equity-based employee compensation. The remaining debtors are all due within one year of the balance sheet date.

18. CASH AT BANK AND IN HAND

Included within cash at bank and in hand is US$13,309 million (31 December 2010: US$10,780 million) that is held on behalf of clients in segregated accounts.

19. COLLATERALISED FINANCING

Included within collateralised financing are amounts of US$104,659 million (31 December 2010: US$70,264 million) which relate to group undertakings.

20. DEFERRED TAX

	31 December 2011 US$'000	31 December 2010 US$'000
Deferred tax balance comprises (see note 17):		
Depreciation in excess of capital allowances	5,917	5,079
Post-retirement benefits	(6,592)	5,871
Other timing differences	386,176	1,040,117
	385,501	**1,051,067**

	US$'000
The movements in the deferred tax balance were as follows:	
At 31 December 2010	1,051,067
Transfer to the profit and loss account for the year (see note 12a)	(677,395)
Transfer to the statement of total recognised gains and losses for the year	12,963
Foreign exchange losses	(1,134)
At 31 December 2011	**385,501**

Other timing differences mainly relates to deferred tax in respect of equity-based compensation.

21. OTHER CREDITORS

Other creditors, all of which are payable within one year of the balance sheet date, comprise:

	31 December 2011 US$'000	31 December 2010 US$'000
Bank loans and overdrafts	30,688	93,407
Debt securities issued	18,864,139	16,519,135
Amounts due to broker / dealers and customers	88,964,632	84,831,333
Amounts due to parent and group undertakings	63,877,932	42,123,524
Amounts due to subsidiary undertakings	3,990	4,846
Accrual for management charges payable to parent and group undertakings (see note 22c)	742,269	2,489,558
Corporation tax payable	-	12,579
Other taxes and social security costs	165,477	321,021
Other creditors and accruals	649,192	1,025,170
	173,298,319	**147,420,573**

Of debt securities issued, US$8,638 million (31 December 2010: US$6,088 million) is secured by marketable securities, of which US$2,568 million (31 December 2010: US$2,272 million) relates to amounts due to parent and group undertakings.

22. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2011 US$'000	31 December 2010 US$'000
Long-term subordinated loans (see note a)	8,833,000	5,333,000
Debt securities issued (see note b)	4,135,827	4,261,639
Amounts due to parent and group undertakings	1,460,049	1,719,196
Accrual for management charges payable to parent and group undertakings (see note c)	512,762	1,311,037
	14,941,638	**12,624,872**

a. The amounts outstanding at 31 December 2011 and 31 December 2010 include long-term subordinated loans from parent undertakings. The loans are unsecured and carry interest at a margin over Fed Funds Rate. The margin is reset on a periodic basis to reflect changes in the group's long-term debt spreads. Long-term subordinated loans of US$8,833 million (31 December 2010: US$5,333 million) constitute regulatory capital as approved by the FSA. Of the above, US$8,833 million is repayable upon giving or receiving at least five years' notice to or from the parent undertaking (31 December 2010: US$333 million is repayable upon giving or receiving at least five years' notice to or from the parent undertaking; US$5,000 million is repayable upon giving or receiving at least two years' notice to or from the parent undertaking). The repayment of subordinated debt is also subject to FSA approval.

22. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

b. The maturity of debt securities issued due after more than one year is as follows:

	31 December 2011 US$'000	31 December 2010 US$'000
In more than one year, but not more than two years	230,616	1,316,235
In more than two years, but not more than five years	2,776,008	2,073,642
In more than five years	1,129,203	871,762
	4,135,827	**4,261,639**

Of the above, US$2,310 million (31 December 2010: US$1,505 million) is secured by marketable securities and US$935 million (31 December 2010: US$1,979 million) is repayable to group undertakings, of which US$648 million is secured (31 December 2010: US$468 million). Amounts due in more than five years predominantly relate to structured debt securities with maturities falling from 2017 to 2050. Payments on these securities are typically referenced to underlying financial assets including collateralised debt obligations and OTC mortgage portfolios.

c. The accrual for management charges (per above and note 21) is in respect of RSUs and Long-Term Incentive Plans.

23. PROVISION FOR LIABILITIES

	US$'000
At 1 January 2011	65,000
Charge to the profit and loss account	9,696
Utilised during the year	(68,087)
Foreign exchange gain	(618)
At 31 December 2011	**5,991**

The provision of US$6 million was made in respect of legal claims made against the company. Further details relating to these claims have not been disclosed as permitted by accounting standard FRS12, 'Provisions, Contingent Liabilities and Contingent Assets', on the grounds that it would be seriously prejudicial to do so.

24. SHARE CAPITAL

At 31 December 2010 and 31 December 2011 share capital comprised:

	31 December 2011		31 December 2010	
	No.	US$'000	No.	US$'000
Allotted, called up and fully paid				
Ordinary shares of US$1 each	499,257,654	499,258	499,257,654	499,258
Class A preference shares of US$0.01 each	958,659,363	9,586	958,659,363	9,586
Class B preference shares of US$0.01 each	227,906,997	2,279	227,906,997	2,279
		511,123		**511,123**

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24. SHARE CAPITAL (continued)

The class A and class B preference shares carry limited voting rights and, on a winding up, the holders have a preferential right to return of capital together with any premium. Class A preference shares have a fixed non-cumulative dividend payable at a rate of 8 cents per share per annum. Class B preference shares have a fixed non-cumulative dividend at a rate of 10 cents per share per annum.

25. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital	Share premium account	Capital reserve (non-distributable)	Profit and loss account	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2010	**511,123**	**2,885,260**	**17,286**	**13,022,360**	**16,436,029**
Profit for the financial year	-	-	-	775,046	775,046
Other recognised gains for the year	-	-	-	64,396	64,396
Dividends paid (see note 26)	-	-	-	(99,483)	(99,483)
Share-based payments (see note 11)	-	-	-	1,271,846	1,271,846
Management recharge related to share-based payments	-	-	-	(1,271,846)	(1,271,846)
At 1 January 2011	**511,123**	**2,885,260**	**17,286**	**13,762,319**	**17,175,988**
Profit for the financial year	-	-	-	2,425,403	2,425,403
Other recognised losses for the year	-	-	-	(38,889)	(38,889)
Dividends paid (see note 26)	-	-	-	(99,483)	(99,483)
Share-based payments (see note 11)	-	-	-	879,228	879,228
Management recharge related to share-based payments	-	-	-	(879,228)	(879,228)
At 31 December 2011	**511,123**	**2,885,260**	**17,286**	**16,049,350**	**19,463,019**

Pension reserve

	31 December 2011	31 December 2010
	US$'000	US$'000
Profit and loss reserve excluding pension surplus	15,917,196	13,598,317
Pension reserve (see note 10)	132,154	164,002
Profit and loss reserve	**16,049,350**	**13,762,319**

26. DIVIDENDS PAID

	31 December 2011	31 December 2010
	US$'000	US$'000
US$0.01 Class A fixed rate preference shares	76,693	76,693
US$0.01 Class B fixed rate preference shares	22,790	22,790
	99,483	**99,483**

27. FINANCIAL RISK MANAGEMENT

Normal trading activities expose the company to market, credit, and liquidity risk. These risks, described below, are managed in accordance with established risk management policies and procedures.

The Goldman Sachs Group, Inc. manages market, credit and liquidity risk on a consistent basis across the group. Consequently, GSI, as part of that group, adheres to global risk management policies and procedures.

The company seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate, but complementary, financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. In addition, a number of global, regional and entity committees are responsible for monitoring risk exposures and for general oversight of the company's risk management process. These committees meet regularly and consist of senior members of both the revenue-producing units and departments that are independent of the revenue-producing units. In addition to the committees, functions that are independent of the revenue-producing units, such as Compliance, Finance (including Risk Management), Legal, Internal Audit and Operations perform global risk management functions, which include monitoring, analysing and evaluating risk.

a. Market risk

Market risk is the risk of loss in the value of the company's inventory due to changes in market prices. Financial instruments are held primarily for market making for clients and for investing and lending activities. Therefore, the value of these financial instruments changes based on client demands and investment opportunities. Financial instruments are accounted for at fair value and, therefore, fluctuate on a daily basis. Categories of market risk include the following:

- interest rate risk primarily results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads;
- equity price risk results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices; and
- currency rate risk results from exposures to changes in spot prices, forward prices and volatilities of currency rates.

The company manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. The risk management process includes:

- accurate and timely exposure information incorporating multiple risk metrics;
- a dynamic limit setting framework; and
- constant communication among revenue-producing units, risk managers and senior management.

Market Risk Management, which is independent of the revenue-producing units and reports to the chief risk officer, has primary responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the global businesses.

Market Risk Management produces risk measures and monitors them against market risk limits set by the GSI Risk Committee. These measures reflect an extensive range of scenarios and the results are aggregated at trading desk, business and company levels.

A variety of risk measures are used to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Risk measures used for shorter-term periods include Value-at-Risk ('VaR') and sensitivity metrics. For longer-term horizons, the primary risk measures are stress tests. The risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both the revenue-producing units and independent control and support functions.

27. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

Management has made a significant investment in technology to monitor market risk including:

- an independent calculation of VaR and stress measures;
- risk measures calculated at individual position levels;
- attribution of risk measures to individual risk factors of each position;
- the ability to report many different views of the risk measures, e.g. by desk, business or product type; and
- the ability to produce *ad hoc* analyses in a timely manner.

Risk limits are used at various levels in the group (including company, business and product) to govern risk appetite by controlling the size of exposures to market risk. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The GSI Risk Committee sets market risk limits at company, business and product levels. The purpose of the limits is to assist senior management in controlling the company's overall risk profile. Business level limits are designed to set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day trading decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits are also designed to distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. The business-level limits are subject to the same scrutiny and limit escalation policy as the company and group limits. When a risk limit has been exceeded, e.g. due to changes in market conditions, such as increased volatilities or changes in correlations, it is reported to the GSI Risk Committee and a discussion takes place with the relevant desk managers, after which either the risk position is reduced or the risk limit is temporarily or permanently increased.

b. Credit risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty, e.g. an OTC derivatives counterparty or a borrower, or an issuer of securities or other instruments the company holds. Exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions, i.e. resale and repurchase agreements and securities borrowing and lending activities, and receivables from brokers / dealers, clearing organisations, customers and counterparties.

The Credit Risk Management department, which is independent of the revenue-producing units and reports to the chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk. The group's Credit Policy Committee and the GSI Risk Committee establish and review credit policies and parameters. In addition, the company holds other positions that give rise to credit risk, e.g. bonds held in inventory. These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions.

Policies authorised by the GSI Risk Committee and the group's Credit Policy Committee prescribe the level of formal approval required for the company to assume credit exposure to a counterparty across all product areas, taking into account any enforceable netting provisions, collateral or other credit risk mitigants.

27. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The process for managing credit risk includes:

- approving transactions and setting and communicating credit exposure limits;
- monitoring compliance with established credit exposure limits;
- assessing the likelihood that a counterparty will default on its payment obligations;
- measuring the company's current and potential credit exposure and losses resulting from counterparty default;
- reporting of credit exposures to senior management, the Board and regulators;
- use of credit risk mitigants, including collateral and hedging; and
- communication and collaboration with other independent control and support functions such as Operations, Legal and Compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of the company's counterparties. A credit review is an independent judgement about the capacity and willingness of a counterparty to meet its financial obligations. For substantially all of the company's credit exposures, the core of the process is an annual counterparty review. A counterparty review is a written analysis of a counterparty's business profile and financial strength resulting in an internal credit rating which represents the probability of default on financial obligations to the company. The determination of internal credit ratings incorporates assumptions with respect to the counterparty's future business performance, the nature and outlook for the counterparty's industry and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

The global credit risk management systems capture credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive information on aggregate credit risk by product, internal credit rating, industry, country and region.

Credit risk is measured based on the potential loss in an event of non-payment by a counterparty. For derivatives and securities financing transactions, the primary measure is potential exposure, which is the estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure takes into account netting and collateral arrangements. Credit risk is also monitored in terms of current exposure, which is the amount presently owed to the company after taking into account applicable netting and collateral.

c. Liquidity risk

Liquidity is of critical importance to financial institutions. Accordingly, the company has in place a comprehensive and conservative set of liquidity and funding policies to address both company-specific and broader industry or market liquidity events. The principal objective is to be able to fund the company and to enable the core businesses to continue to generate revenues under adverse circumstances.

27. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

The company manages liquidity risk according to the following principles:

- excess liquidity – maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment;

- asset-liability management – assess the overall anticipated holding periods for the company's assets and their expected liquidity in a stressed environment. Manage the maturities and diversity of funding across markets, products and counterparties, and seek to maintain liabilities of appropriate tenor relative to the asset base; and

- contingency funding plan ('CFP') – a CFP is maintained to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. This framework sets forth the plan of action to fund normal business activity in emergency and stress situations.

28. FINANCIAL COMMITMENTS AND CONTINGENCIES

a. The company's financial commitments and contingencies outstanding at the year end arise from letters of credit and forward foreign exchange, swaps, options, financial futures contracts, debt and equity forwards and underwriting commitments entered into in the ordinary course of business. In addition, there are registered charges on the company's assets which have arisen in the ordinary course of business.

b. The company leases certain buildings on long-term leases. Under these leases, which are subject to renegotiation at various intervals specified in the leases, the company pays all insurance, maintenance and repairs of these properties. The rentals that the company is committed to pay in the next year are as follows:

	31 December 2011 US$'000	31 December 2010 US$'000
Maturity of lease:		
Less than one year	555	1,386
Between one and two years	9,535	111
Between two and five years	2,934	15,125
Over five years	95,334	96,972
	108,358	**113,594**

29. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS

The immediate parent undertaking is Goldman Sachs Holdings (U.K.), and the parent company of the smallest group for which consolidated financial statements are prepared is Goldman Sachs Group Holdings (U.K.), a company incorporated in Great Britain and registered in England and Wales. The ultimate parent undertaking and the parent company of the largest group for which consolidated financial statements are prepared is The Goldman Sachs Group Inc., a company incorporated in the United States of America. Copies of its accounts can be obtained from 200 West Street, New York, NY 10282, United States of America, the group's principal place of business.