

GOLDMAN SACHS INTERNATIONAL BANK

(unlimited company)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010

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GOLDMAN SACHS INTERNATIONAL BANK

(unlimited company)

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the 52 week period ended 31 December 2010

1. Principal activities

Goldman Sachs International Bank ('the company') is involved in loan origination, secondary dealing in bank loans and related activities and acting as an agent for the stocklending business. The company also operates a branch in Korea, the Goldman Sachs Korea Branch (the branch'), which is involved in client execution activities and has a representative office in China. The company is authorised under the Financial Services and Markets Act 2000.

2. Review of business and future developments

The financial statements have been drawn up for the 52 week period ended 31 December 2010. Comparative information has been presented for the 57 week period ended 31 December 2009. In the prior period, the company changed its accounting reference date to 31 December to be consistent with The Goldman Sachs Group, Inc ('the group'), the company's ultimate parent undertaking.

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 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 2010, several Eurozone economies remained under stress, reflecting fiscal challenges and banking sector concerns. In addition, concerns about sovereign debt risk in certain Eurozone economies intensified during the period, contributing to higher market volatility and funding pressures. The European Central Bank and certain governments in the Eurozone took a range of policy measures to address these issues. Global equity markets declined significantly during the second quarter and equity volatility levels increased sharply. In addition, corporate credit spreads widened during the second quarter and activity levels declined. During the second half of 2010, some of these conditions reversed, as equity volatility levels decreased, global equity prices generally recovered and corporate credit spreads narrowed. In addition, in the U.S., the Federal Reserve announced quantitative easing measures during the fourth quarter of 2010 in order to stimulate economic growth and protect against the risk of deflation. Over the period, business activity across a wide-range of industries and regions has been greatly reduced and many companies were in serious difficulty due to reduced consumer spending and low levels of liquidity in the credit markets.

The profit and loss account for the period is set out on page 7. Trading profit of £95 million has been reported for the period (57 week period ended 31 December 2009: £171 million) and profit after taxation of £30 million has been reported for the period (57 week period ended 31 December 2009: £81 million). The company has reported total assets of £2,632 million (31 December 2009: £2,328 million).

During the period the group reorganised its three business segments into four new reportable business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management. Consequently, the prior period information has been presented on a comparable basis. Both the head office and branch operate within the Institutional client services' business segment and further details of the company's business segments are given in note 3 to the financial statements.

Strategy

The Goldman Sachs Group, Inc. 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.

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

As part of the group, the company seeks to be a leading participant in the global financial markets in which it participates

Principal risks and uncertainties

The company 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

The 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

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 that owe money, securities or other assets will not perform 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.

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 our 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 liquidity.

GOLDMAN SACHS INTERNATIONAL BANK
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REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Derivative transactions

The company, through its branch, is party to a number of derivative transactions. Many of these derivative instruments are individually negotiated and non-standardised, which can make exiting, transferring or settling positions difficult. 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, we are subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce our rights. The provisions of legislation requiring central clearing of 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 its ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. 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.

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 used by the company or third parties with which we conduct business. These disruptions may occur as a result of events that affect only the buildings or systems of the company or those of such third parties.

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 in note 27 to the financial statements.

Future outlook

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

GOLDMAN SACHS INTERNATIONAL BANK
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REPORT OF THE DIRECTORS (continued)

3 Dividends

The directors declared and paid a preference dividend of £5,113,402 during the period (57 week period ended 31 December 2009 £5,113,402) The directors do not recommend the payment of an ordinary dividend in respect of the period (57 week period ended 31 December 2009 £Nil)

4. Employment of disabled persons

Applications for employment by disabled persons are fully and fairly considered having 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 Goldman Sachs Group, Inc Training, career development and promotion of disabled persons are, to the extent possible, identical to that of other employees who are not disabled

5. 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

6. Directors

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

	Appointed	Resigned
E G Corrigan (Chairman)		
L S D Chan		
D P Coleman	10 May 2010	
S Davies		
G P Earle		
R D Henderson		2 June 2010
E H Leouzon		
D W McDonogh		
D G J Paterson		
M T Tejada	10 May 2010	

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

7. 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

8. 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 / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

GOLDMAN SACHS INTERNATIONAL BANK
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REPORT OF THE DIRECTORS (continued)

9. 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.

10. Directors' responsibilities

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

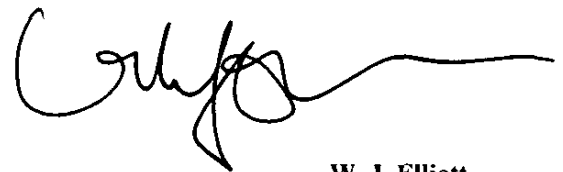
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements, and
- prepare 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.

11. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 14 March 2011.

BY ORDER OF THE BOARD



W. J. Elliott

Secretary

14 MARCH 2011

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

We have audited the financial statements of Goldman Sachs International Bank for the period ended 31 December 2010 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses 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' report 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.

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 2010 and of its profit for the period 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period 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

15 March 2011

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

PROFIT AND LOSS ACCOUNT

for the 52 week period ended 31 December 2010

		52 week period ended 31 December 2010	57 week period ended 31 December 2009
	Note	£'000	£'000
Interest receivable and similar income	4	7,155	6,085
Interest payable and similar charges	5	(6 011)	(10,353)
Net interest income income/(expense)		1,144	(4,268)
Trading profits	3	94,598	171 447
TOTAL OPERATING INCOME		95,742	167,179
Administrative expenses		(8,370)	(7,367)
Other operating charges		(46,181)	(51,730)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
	6	41,191	108,082
Taxation charge on profit on ordinary activities	10	(11,661)	(26,607)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD	23	29,530	81,475

The profit of the company is derived from continuing operations in the current and prior period

The notes on pages 10 to 32 form an integral part of these financial statements
Independent Auditors' report – page 6

GOLDMAN SACHS INTERNATIONAL BANK
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STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 52 week period ended 31 December 2010

		52 week period ended 31 December 2010	57 week period ended 31 December 2009
	Note	£'000	£'000
Profit for the financial period		29,530	81,475
Translation gain	23	7,471	15,664
Loss on investment hedge	23	(8,570)	(14,576)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL PERIOD AND SINCE LAST FINANCIAL STATEMENTS		28,431	82,563

The notes on pages 10 to 32 form an integral part of these financial statements
Independent Auditors' report – page 6

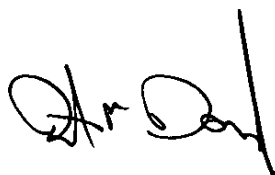
GOLDMAN SACHS INTERNATIONAL BANK
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BALANCE SHEET

as at 31 December 2010

		31 December 2010 £'000	31 December 2009 £'000
	Note		
ASSETS			
Cash at bank and in hand		149,646	152,583
Loans and advances to banks		-	55,154
Customer accounts receivable	12	39,494	58,574
Financial instruments owned	13	1,360,671	1,295,588
Securities purchased from group companies under agreements to resell		1,065,325	730,002
Tangible fixed assets	14	516	761
Other assets	15	16,559	34,958
Total assets		2,632,211	2,327,620
LIABILITIES AND SHAREHOLDER'S FUNDS			
Customer accounts payable	18	924,541	606,347
Financial instruments sold but not yet purchased	13	1,197,129	1,253,977
Other liabilities	19	56,381	80,666
Accruals and deferred income		3,081	3,206
Long term debt	20	64,146	-
Subordinated debt	21	81,000	100,809
Total liabilities		2,326,278	2,045,005
Called up share capital	22	7,049	7,049
Share premium account	23	61,361	61,361
Other reserve account	23	(2,091)	(992)
Profit and loss account	23	239,614	215,197
Total shareholder's funds	24	305,933	282,615
Total liabilities and shareholder's funds		2,632,211	2,327,620
MEMORANDUM ITEMS			
Commitments	25	122,249	168,364
Contingent liabilities	25	518,627	206,306

The financial statements were approved by the Board of Directors on 14 March 2011 and signed on its behalf by



Director

D. W. McDONAGH

The notes on pages 10 to 32 form an integral part of these financial statements
Independent Auditors' report – page 6
Company number 1122503

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES

a. Accounting convention

These financial statements have been prepared on a going concern basis, under the historical cost convention (except as explained in note 1(e) and 1(i)), the accounting policies set out below and in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('S12008/410') relating to banking companies, accounting standards and Statements of Recommended Accounting Practice issued by the British Bankers' Association

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. Fixed asset investments

Fixed asset investments comprising shares in group undertakings are stated at cost less provision for any impairment

d. 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	14-33

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

e. Repurchase and resale agreements and stock borrowing and lending

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralised financing transactions and 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, while collateral received in the form of securities is not recognised on balance sheet. If collateral is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet

f. Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. All foreign exchange gains and losses are presented in the profit and loss account within other operating charges

The results of overseas branches with non sterling functional currencies are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net assets and results are reported in the statement of total recognised gains and losses

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

g. Net investment hedging

Where net investment hedging is employed, all gains and losses on the effective portion of the hedging instrument, together with any gains and losses on the foreign currency translation of the hedge investment, are taken directly to equity. Any gains or losses on the ineffective portion are recognised immediately in the profit and loss account. The cumulative gains and losses on the hedging instrument and gains and losses on the translation of the hedged item are recognised in the profit and loss account only on disposal of the investment.

h. Revenue recognition

Trading profit comprises loan origination, secondary dealing in bank loans and related activities, derivative trading and fees and commission from agency lending.

Financial instruments owned and financial instruments sold but not yet purchased are recognised at fair value with realised and unrealised gains and losses as well as associated interest and dividend income and expenses included in trading profit.

Financial instruments owned are marked to bid prices and financial instruments sold but not yet purchased are marked to offer prices. Fair value measurements do not include transaction costs.

Commission revenues from the agency lending business are recognised on the day the trade is executed.

i. Financial instruments held for trading

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

The company's derivative contracts consist of exchange-traded and over-the-counter ('OTC') derivatives. The fair values of the company's exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. The company uses a variety of valuation models including the present value of known or estimated cash flows and option pricing models. The valuation models used to derive the fair values of the company's OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. The selection of a model to value an OTC derivative depends upon the contractual terms of and specific risks inherent in the instrument as well as the availability of pricing information in the market. The company generally uses similar models to value similar instruments. Where possible, the company verifies the values produced by its pricing models to market transactions.

For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. For OTC derivatives that trade in less liquid markets with limited pricing information, the determination of fair value is inherently more difficult. Further, complex structures often involve multiple product types, requiring additional complex inputs such as correlations and volatilities. At the inception of an OTC derivative contract the company values the contract at the model value if the company can verify all of the significant model inputs to observable market data and verify the model to market transactions.

GOLDMAN SACHS INTERNATIONAL BANK
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1 ACCOUNTING POLICIES (continued)

i Financial instruments held for trading (continued)

When appropriate, valuations are adjusted to reflect various factors such as liquidity, bid / offer spreads and credit considerations. These adjustments are generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine these adjustments. Where the company does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, management believes that transaction price is the best estimate of fair value at inception. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price.

'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 instruments.

The gains or losses resulting from the application of this policy are taken to the profit and loss account. As the financial instruments owned and financial instruments sold but not yet purchased represents the trading portfolio of the company, the directors are of the opinion that it would not be appropriate to classify it as current asset investments or to provide an analysis of such securities between those listed and unlisted.

j. 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 acts as the lessee under certain operating lease agreements. 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.

k. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the balance sheet where the company

- (i) currently has a legally enforceable right to set off the recognised amounts, and
- (ii) intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

GOLDMAN SACHS INTERNATIONAL BANK
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

l. 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 in the future or a right to pay less tax in the future

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

m. Dividends

Final dividends on financial instruments classified as equity are recognised in the period that they are approved by the shareholders. Interim equity dividends are recognised in the period that they are paid. These dividends are debited directly to equity

n. Pension cost

The company sponsors a defined contribution plan. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet

o. 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 period

The Goldman Sachs Group, Inc. settles equity awards through the delivery of ordinary shares in The Goldman Sachs Group, Inc. 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 of those awards to the group at the time of delivery to its employees

p. Other financial assets and liabilities

Other financial assets and liabilities primarily comprise of long term subordinated debt and loans. They are initially recognised at fair value and are subsequently remeasured at amortised cost with finance costs, including discounts allowed on issue, recognised on an accruals basis. All finance costs are charged to the profit and loss account

q. 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 current 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

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

q. Provisions and contingent liabilities (continued)

Contingent liabilities are

- (i) 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
- (ii) 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.

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.

2. CASH FLOW STATEMENT

The company is a wholly owned subsidiary of The Goldman Sachs Group, Inc. and is therefore exempt from preparing a cash flow statement as required by FRS1 'Cash flow statements' as the ultimate parent undertaking's consolidated accounts are publicly available.

3. SEGMENTAL REPORTING

The head office and branch operate in two geographically distinct regions. Geographic segmental analysis is provided below. Geographic results have been allocated between Europe, Middle East and Africa (EMEA) and Asia based on the location of the business.

	EMEA	EMEA	Asia	Asia	Total	Total
	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000
Trading profits	81,084	144,321	13,514	27,126	94,598	171,447
Profit on ordinary activities before taxation	35,529	93,283	5,662	14,799	41,191	108,082
Net assets	192,835	160,450	113,098	122,165	305,933	282,615

Both the head office and branch operate within the 'Institutional client services' business segment, which includes client execution activities relating to secondary bank dealing, agency lending and making markets in interest rate products and currencies. As a result, no disclosure of segmental information by business has been provided.

This business segment has been revised in line with that of the group. In the prior period, all activities were reported under 'Trading and principal investments'.

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4. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Interest on securities purchased under agreements to resell	4,915	3,967
Interest on loans to banks and customers	2,166	1,930
Interest on loans to group undertakings	74	188
	7,155	6,085

5. INTEREST PAYABLE AND SIMILAR CHARGES

	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Interest payable on subordinated debt to parent undertaking	2,256	5,012
Interest on loans from group undertakings	2,863	4,075
Interest payable on loans to banks and customers	892	1,266
	6,011	10,353

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration - audit services	60	61
Management fees charged by group undertakings	45,015	47,570
Staff related costs (see note 8)	5,428	4,487
Depreciation of tangible fixed assets	308	292
Foreign exchange loss on revaluation	245	1,662
Operating lease rentals - land and buildings	333	299

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7 DIRECTORS' EMOLUMENTS

	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Aggregate emoluments	303	179
Company pension contributions to money purchase schemes	1	1
	304	180

In accordance with the Companies Act 2006, directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only. Directors also receive emoluments for non-qualifying services which are not required to be disclosed. Eight directors are members of the defined contribution pension scheme and defined benefit pension scheme.

Nine directors have been granted shares in respect of long term incentive schemes. Three directors have exercised options.

8. STAFF COSTS

All persons involved in the company's operations, other than the branch, are employed by a group undertaking. The charges made by this group undertaking for all the services provided (personnel and other) to the company are included in the management fees charged by group undertakings.

The employees at the branch are employed directly by the branch. Under Korean regulations, the branch is treated as a legal entity, hence it has the ability to enter into contractual agreements in its own right.

The average number of employees of the branch, is analysed below:

	52 week period ended 31 December 2010 Number	57 week period ended 31 December 2009 Number
Institutional client services	8	6
Support functions	19	19
	27	25

The employment costs incurred by the branch were:

	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Aggregate gross wages and salaries	5,155	4,210
Employer's National Insurance Contributions	67	143
Employer's contributions to the defined contribution plan	206	134
Total direct costs of employment	5,428	4,487

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8. STAFF COSTS (continued)

Pension schemes

The branch operates a defined contribution plan under Korean regulations. It is required to have a severance plan within the defined contribution plan it operates. For employees with up to two years of service, the branch contributes 8.33% of each employee's annual base salary. For employees with more than two years of service, the firm contributes the higher of 12.5% of each employee's annual base salary capped at 150,000,000 Korean Won (£85,605) or 8.33% of total annual base salary with no cap. The total contribution cost for the financial period is £205,633 (2009: £133,720) and there is no amount in respect of this cost that remains payable as at the balance sheet date.

9. SHARE-BASED PAYMENTS

Stock incentive plan

Goldman Sachs International Bank'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, non-qualified stock options and restricted stock units ('RSUs').

During the period, the ultimate parent company issued RSUs to the employees of Goldman Sachs International Bank's Korea branch.

Restricted stock units

The ultimate parent company issued RSUs to the branch's employees under the SIP, primarily in connection with period-end compensation. RSUs are valued based on the closing price of the underlying shares at the date of grant. Period-end RSUs generally vest as outlined in the applicable RSU agreements. All employee-RSU agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. In all cases, 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 out below.

	31 December 2010		31 December 2009	
	No. of RSUs		No. of RSUs	
	No future service requirement	Future service requirement	No future service requirement	Future service requirement
Outstanding at the beginning of the period	5,606	4,321	4,543	5,339
Granted during the period	1,700	10,496	-	6,031
Forfeited during the period	-	-	-	(80)
Delivered during the period	(5,159)	-	(4,259)	-
Transferred out during the period	-	(51)	-	(1,647)
Vested during the period	4,204	(4,204)	5,322	(5,322)
Outstanding at the end of the period	6,351	10,562	5,606	4,321

The weighted average grant-date fair value of the equity instruments granted during the 52-week period ended 31 December 2010 was \$140.78 (57-week period ended 31 December 2009: \$75.92).

The branch recorded expenses of £467,037 for the 52-week period ended 31 December 2010 (57-week period ended 31 December 2009: £512,974) 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.

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10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

a. Analysis of taxation charge for the period:

	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Current taxation:		
UK corporation taxation	11,837	30,571
Double Taxation Relief	-	(4,452)
Overseas taxation	-	3,515
Adjustment to taxation in respect of prior periods	(2,987)	-
Total current taxation (see note b below)	8,850	29,634
Deferred taxation:		
Other timing differences (see note 16)	2,811	(3,027)
Taxation charge on profit on ordinary activities	11,661	26,607

b. Factors affecting taxation charge for the period

The current taxation assessed for the period differs from the standard rate of corporation taxation in the UK of 28% (31 December 2009 28%) The differences are explained below

	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Profit on ordinary activities before taxation	41,191	108,082
Profit on ordinary activities multiplied by standard rate in the UK 28% (2009 28%)	11,533	30,263
Expenses not deductible for taxation purposes	140	75
Adjustment in respect of foreign taxation	-	(937)
Other timing differences	164	233
Adjustment to taxation in respect of prior periods	(2,987)	-
Current taxation charge for the period	8,850	29,634

11. DIVIDENDS PAID

	52 week period ended 31 December 2010 £'000	57 week period ended 31 December 2009 £'000
Dividend on equity shares		
£0.01 fixed rate preference shares	5,113	5,113

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12. CUSTOMER ACCOUNTS RECEIVABLE

	31 December 2010 £'000	31 December 2009 £'000
Customer accounts comprise the following repayable on demand:		
Amounts due from customers	3,270	1,769
Amounts due from group undertakings	36,224	56,805
	39,494	58,574

Amounts due from customers comprise balances due to the head office from brokers / dealers

Amounts due from group undertakings comprise amounts placed as cash collateral with the company by a fellow group undertaking

13. FINANCIAL INSTRUMENTS

Included within financial instruments owned are amounts due from group undertakings of £806,639,938 (31 December 2009 £773,903,815) and within financial instruments sold but not yet purchased are amounts due to group undertakings of £857,308,381 (31 December 2009 £908,966,938)

14. TANGIBLE FIXED ASSETS

The movements in tangible fixed assets during the period were as follows

	Leasehold improvements £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost			
At 31 December 2009	444	1,074	1,518
Additions	-	17	17
Currency translation	30	75	105
At 31 December 2010	474	1,166	1,640
Depreciation			
At 31 December 2009	276	481	757
Charge for the period (see note 6)	97	211	308
Currency translation	21	38	59
At 31 December 2010	394	730	1,124
Net Book Value			
At 31 December 2009	168	593	761
At 31 December 2010	80	436	516

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15. OTHER ASSETS

	31 December 2010	31 December 2009
	£'000	£'000
Other amounts due from customers	10,629	19,284
Other amounts due from group undertakings	161	11,139
Deferred tax (see note 16)	382	3,212
Other assets	5,387	1,323
	16,559	34,958

16. DEFERRED TAXATION

	31 December 2010	31 December 2009
	£'000	£'000
Deferred taxation balance comprises:		
Timing differences in respect of foreign taxation	-	2,936
Other timing differences	382	276
	382	3,212

The movements in the deferred taxation balance were as follows:

At 31 December 2009	3,212
Translation adjustments	(19)
Transfer to the profit and loss account for the period (see note 10)	(2,811)
At 31 December 2010	382

17. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The company owns 100% of the £1 ordinary shares of Restamove Limited, a non-trading company that is registered in England and Wales

	£
Cost and Net Book Value	
At 31 December 2009 and at 31 December 2010	2

18. CUSTOMER ACCOUNTS PAYABLE

	31 December 2010	31 December 2009
	£'000	£'000
Customer accounts comprise the following repayable on demand		
Demand deposits	207,062	84,573
Demand deposits from group undertaking	648,562	381,391
Amounts due to customers	32,083	49,349
Amounts due to group undertakings	36,834	91,034
	924,541	606,347

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

18. CUSTOMER ACCOUNTS PAYABLE (continued)

Amounts due to group undertakings include amounts deposited with the company to collateralise fully the undrawn commitments which have been sub-participated

19. OTHER LIABILITIES

	31 December 2010	31 December 2009
	£'000	£'000
Other amounts due to group undertakings	52,938	50,296
Corporation tax payable	3,437	30,335
Other liabilities	6	35
	56,381	80,666

20. LONG TERM DEBT

Long term debt comprises a loan advanced, during the period, by the ultimate parent undertaking of £64,145,739. Interest is payable on the loan at a margin over cost of funds rate. The facility matures on 31 December 2020.

21. SUBORDINATED DEBT

Subordinated debt comprises loan capital from the ultimate parent undertaking of £81,000,000 (31 December 2009 £100,809,335). Of this balance £55,000,000 matures on 1 August 2055 which is repayable on 5 years and 1 day's notice to or from the holder. The remaining £26,000,000 matures on 1 February 2056 which is repayable on 2 years and 1 day's notice to or from the holder. During the year £7,428,501 matured on 12 January 2010 and £12,380,834 matured on 20 May 2010. Interest is payable on the loan at a margin over LIBOR. The rights of the lender are subordinated to the claims of the senior creditors.

22. SHARE CAPITAL

At 31 December 2010 and 31 December 2009, allotted, called up and fully paid share capital comprised

	31 December 2010		31 December 2009	
	No.	£'000	No.	£'000
<u>Allotted, called up and fully paid</u>				
Ordinary shares of £1 each	6,410,256	6,410	6,410,256	6,410
Preference shares of £0.01 each	63,917,526	639	63,917,526	639
		7,049		7,049

The 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.

The company's preference shares carry a fixed non-cumulative preferential dividend at the rate of 8 pence per share per annum.

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23. SHARE PREMIUM ACCOUNT AND RESERVES

	Share Premium Account £'000	Other Reserve Account £'000	Profit and Loss Account £'000
At 31 December 2009	61,361	(992)	215,197
Profit for the period	-	-	29,530
Payment of preference dividend	-	-	(5,113)
Cumulative translation adjustment	-	7 471	-
Loss on net investment hedge	-	(8,570)	-
At 31 December 2010	61,361	(2,091)	239,614

The other reserve account comprises the translation differences arising on consolidation of the branch whose functional currency is Korean Won and also includes the loss on the net investment hedge in respect of the Korea Branch

24. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	31 December 2010 £'000	31 December 2009 £'000
Profit on ordinary activities after taxation	29,530	81,475
Non-cumulative preference dividend paid (see note 11)	(5,113)	(5,113)
Movement in other reserve account	(1,099)	1,088
Share-based payments (see note 9)	467	513
Management recharge related to share-based payments	(467)	(513)
Net increase in shareholder's funds	23,318	77,450
Opening shareholder's funds	282,615	205,165
Closing shareholder's funds	305,933	282,615

25. FINANCIAL COMMITMENTS AND CONTINGENCIES

Commitments

- a The commitments below are sub-participated to third party institutions. Amounts sub-participated to group undertakings are not included as these companies have deposited cash with the company to collateralise the undrawn commitments fully (see note 18)

	31 December 2010 £'000	31 December 2009 £'000
Undrawn loan commitments	121,984	168,081

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25. FINANCIAL COMMITMENTS AND CONTINGENCIES (continued)

- 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 is as follows:

	31 December 2010 £'000	31 December 2009 £'000
Maturity of lease:		
Less than one year	265	-
Between two and five years	-	283
	265	283

Contingent Liabilities

- a** The company has a contingent liability to tax authorities in relation with certain tax obligations of Goldman Sachs (U.K.) L.L.C. and Goldman Sachs Holdings (U.K.). The present value of guarantee is £8,590,647 (31 December 2009: £8,891,545). This is covered by a back to back guarantee with the ultimate parent company, The Goldman Sachs Group Inc.
- b** The company, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities. The maximum exposure to loss under guarantee at the period end is £510,036,045 (31 December 2009: £197,414,592). The market value of the collateral held to cover the loss was £537,353,260 (31 December 2009: £215,740,183). There is minimal performance risk associated with these guarantees.

26. RELATED PARTIES

The company is a wholly-owned subsidiary of The Goldman Sachs Group, Inc., whose consolidated accounts include the company and is publicly available. As a result, under the terms of paragraph 3(c) of FRS 8 'Related Party Disclosures', the company is exempt from disclosing transactions with companies also wholly owned within the group. There were no other related party transactions requiring disclosure.

27. FINANCIAL RISK MANAGEMENT

Normal trading activities expose the company to market, credit and liquidity risk. These activities include loan origination, secondary trading and related activities in the company and derivative positions in the branch. The 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 firmwide. Consequently, the company, as part of a global group, adheres to global risk management policies and procedures.

The company seeks to monitor and control its risk exposure through a variety of separate, but complementary, financial, credit, operational, compliance and legal reporting systems. 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, Legal, Internal Audit and Operations, perform global risk management functions, which include monitoring, analysing and evaluating risk.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

27. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk

Market risk is the risk of loss in the value of the company's financial instruments due to changes in market prices, which arise from market making activities. Categories of market risk include exposures to interest rates and currency rates. A description of each market risk category is set forth below:

- interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, funding spreads and credit spreads
- currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currencies

The company manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This 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 group's chief risk officer, has primary responsibility for assessing, monitoring and managing market risk firmwide. Risks are monitored and controlled through strong firmwide oversight and independent control and support functions across the group's global businesses.

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

A variety of risk measures are used to estimate the size of potential losses for both moderate and more extreme market risk. Risk measures used for moderate periods include Value-at-Risk ('VaR') and sensitivity metrics. For extreme market conditions, 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.

Value-at-Risk

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

27. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

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

The following table sets forth the period end and daily VaR

	31 December 2010	31 December 2009
	£'000	£'000
Total VaR at the end of the year	270	327
Average daily VaR for the period	314	817

Other market risk tools

In addition, the company's VaR excludes certain funding liabilities. As at 31 December 2010, the carrying value of these liabilities was £81,000,000 (31 December 2009: £100,809,335). If interest rates had been 50 basis points higher or lower and all other variables were held constant, the impact on these funding liabilities would be to increase / decrease the company's net profit by £339,600 (31 December 2009: £523,757), mainly attributable to exposure to interest rates on the company's variable rate borrowings.

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 and loans and lending commitments. 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 group's chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk at the firm. The Credit Policy Committee and the Firmwide 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 Firmwide Risk Committee and the 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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

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 entering into agreements that enable the company to obtain collateral from a counterparty entering into hedge agreements with group undertakings and seeking third-party guarantees of the counterparty's obligations, 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. For loans and lending commitments, the primary measure is a function of the notional amount of the position. 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. Credit risk represents the loss that the company would incur if a counterparty or an issuer of securities or other instruments the company hold fails to perform under its contractual obligations to us or upon a deterioration in the credit quality of third parties whose securities or obligations the company hold.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

27. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

Derivatives

Derivative contracts are instruments, such as futures, forwards, swaps or option contracts that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange.

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

Derivatives are used in the company's business and the company believes that the associated market risk can only be understood relative to all of the underlying assets or risks being hedged.

The fair value of our derivative contracts is reflected net of cash paid or received pursuant to credit support agreements and is reported on a gross-by-counterparty basis in our financial statements unless the company has a current legal right of set off and also intends to settle on a net basis. For an OTC derivative, the company's credit exposure is directly with the company's counterparty and continues until the maturity or termination of such contract.

Derivative transactions may also involve legal risks including 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. The company attempts to minimise these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction.

The following table represents the company's maximum exposure to credit risk without taking account of the value of collateral obtained or any other credit enhancements (for example derivative master netting agreements).

	31 December 2010	31 December 2009
	£'000	£'000
AA/Aa	28,215	34,819
A/A	2,493,995	1,991,861
BBB/Baa	78,778	231,191
BB/Ba	10,367	21,163
B/B	6,796	22,406
CCC	29	-
Not Rated	14,031	26,180
	2,632,211	2,327,620

The table above groups exposure based on internal ratings assigned by the credit department. As of the period end, financial assets past due or impaired were insignificant.

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27. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

Collateralised Transactions

The company receives financial instruments as collateral primarily in connection with derivative transactions. Such financial instruments may include obligations of the U S Government, federal agencies, sovereigns and corporations as well as equities and convertibles.

In many cases, the company is permitted to deliver or repledge these financial instruments in connection with entering into repurchase financings, collateralising derivative transactions and meeting firm or customer settlement requirements. As of 31 December 2010, the fair value of financial instruments received as collateral by the company that they were permitted to deliver or repledge was £1,083.8 million (31 December 2009 £747.8 million), of which the company delivered or repledged £Nil (31 December 2009 £Nil).

The company did not pledge assets that they own in the current period or prior period to counterparties who may or may not have the right to deliver or repledge.

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.

The following table details the company's undiscounted cash flows of its financial liabilities by contractual maturity including interest that will accrue except where the company is entitled to repay the liability before its maturity. Derivative contracts included within financial instruments sold but not yet purchased are presented at their fair value and disclosed as 'on demand'. The company considers this more accurately represents the liquidity risk arising from derivatives and is consistent with how those risks are managed.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

27. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

As at 31 December 2010

	Trading /On Demand	Subject to Notice	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Customer accounts payable	(33,107)	(208,226)	(34,646)	(648,562)	-	-	(924,541)
Financial instruments	(1,197,129)	-	-	-	-	-	(1,197,129)
Other liabilities	(29,711)	(247)	(25,351)	-	(1,072)	-	(56,381)
Accruals and deferred income	-	-	(3,049)	-	(32)	-	(3,081)
Subordinated debt	-	-	-	(2,227)	(33,161)	(55,000)	(90,388)
Long term loan	-	-	-	(1,721)	(6,882)	(72,747)	(81,350)
Total at 31 December 2010	(1,259,947)	(208,473)	(63,046)	(652,510)	(41,147)	(127,747)	(2,352,870)

As at 31 December 2009

	Trading /On Demand	Subject to Notice	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Customer accounts payable	(90,754)	(84,573)	(431,020)	-	-	-	(606,347)
Financial instruments	(1,253,977)	-	-	-	-	-	(1,253,977)
Other liabilities	(6,092)	(126)	(42,724)	(30,863)	(861)	-	(80,666)
Accruals and deferred income	-	-	(3,206)	-	-	-	(3,206)
Subordinated debt	-	-	(7,429)	(14,414)	(31,353)	(55,000)	(108,196)
Total at 31 December 2009	(1,350,823)	(84,699)	(484,379)	(45,277)	(32,214)	(55,000)	(2,052,392)

GOLDMAN SACHS INTERNATIONAL BANK
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

27. FINANCIAL RISK MANAGEMENT (continued)

d. Fair value of financial instruments

For financial assets and liabilities not measured at fair value, the carrying amounts in the balance sheet are a reasonable approximation of fair value given the short term nature of these instruments, with the exception of the below

	Carrying Value		Approximate fair value	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Long-term subordinated debt (see note 21)	81 000	81,000	79,966	78,132

The long term subordinated loans are repayable on either 2 years and 1 day or 5 years and 1 day's notice to or from the holder. Consequently, the fair value of long term subordinated debt has been determined on the assumption that all loans are repaid on their earliest potential repayment date, although repayment is subject to FSA approval

e. Fair value hierarchy

FRS 29 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the company's market assumptions. These two types of inputs have created the following fair value hierarchy

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments on exchanges and exchange traded derivatives
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes financial instruments with significant unobservable components

The hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible. The following table presents the company's financial instruments owned and financial instruments sold but not yet purchased measured at fair value at 31 December 2010

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

27. FINANCIAL RISK MANAGEMENT (continued)

e. Fair value hierarchy (continued)

Financial Assets at Fair Value as of 31 December 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total balance £'000
Securities purchased under agreements to resell, at fair value	-	1,065,325	-	1 065 325
Financial instruments owned	1,469	1,357,310	1,892	1,360,671
Total financial assets at fair value	1,469	2,422,635	1,892	2,425,996

Financial Liabilities at Fair Value as of 31 December 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total balance £'000
Financial instruments sold but not yet purchased	-	(1,195,235)	(1,894)	(1,197,129)
Total financial liabilities at fair value	-	(1,195,235)	(1,894)	(1,197,129)

During 2010, there were no transfers between level 1 and 2. The following table presents the changes in level 3 instruments for the year ended 31 December 2010.

Reconciliation of Level 3 Items	Financial instruments owned £'000	Total assets designated at fair value £'000	Financial instruments sold but not yet purchased £'000	Total liabilities designated at fair value £'000
At 31 December 2009	1,591	1,591	(2 460)	(2,460)
Profit or loss	1,905	1,905	(1,956)	(1,956)
Transfers into or out of Level 3	(1,604)	(1,604)	2,522	2,522
At 31 December 2010	1,892	1,892	(1,894)	(1,894)

In relation to sensitivity of level 3 disclosures, there would be no significant impact to the profit and loss from the use of alternative inputs due to the nature of fully hedged positions.

f. Capital management

The company is regulated by the UK Financial Services Authority (FSA) and as such is subject to examination by the FSA and to minimum capital adequacy standards. In implementing the Capital Requirements Directive (CRD) the FSA requires each bank and banking group to maintain an individually prescribed ratio of capital to risk weighted assets. The company monitors and demonstrated compliance with the relevant regulatory capital requirements of the FSA at all times during the period.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

27. FINANCIAL RISK MANAGEMENT (continued)

f. Capital management (continued)

The level and composition of the company's capital is principally determined by the its regulatory capital requirements but may also be influenced by the business environment conditions in the financial markets and assessments of potential future losses due to extreme and adverse changes in the company's business and market environment

For regulatory purposes, the company's capital is divided into three tiers

As at 31 December 2010

- Tier 1 capital - £305,933,000 (2009 £282,615,000) - comprises permanent share capital, profit and loss account and reserves, share premium account, perpetual non-cumulative preference shares
- Tier 2 capital - £55,000,000 (2009 £55,000,000) - solely comprises qualifying long term subordinated debt
- Tier 3 capital - £26,000,000 (2009 £45,809,000) - comprises qualifying short term subordinated debt

Various regulatory limits and deductions are applied

28. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking 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 within 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