Company Number: 1122503

GOLDMAN SACHS INTERNATIONAL BANK

(unlimited company)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2012

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2012

1. Principal activities

Goldman Sachs International Bank ('the bank') acts as a primary dealer for European Government bonds and is involved in bond trading, loan origination, deposit taking, secondary dealing in bank loans and related activities and acting as an agent for the stocklending business The bank also operates a branch in Korea, Goldman Sachs International Bank, Seoul Branch ('the branch'), which is involved in client execution activities and has a representative office in China The bank is regulated by the Financial Services Authority ('the FSA') and is authorised under the Financial Services and Markets Act 2000 From 1 April 2013, the FSA's regulatory role was replaced by the Financial Conduct Authority ('the FCA') and the Bank of England's Prudential Regulation Authority ('the PRA')

The bank primarily operates in a US Dollar environment as part of The Goldman Sachs Group, Inc , ('the group') Accordingly, the bank's functional currency is US Dollars and these financial statements have been prepared in that currency

2. Review of business and future developments

The financial statements have been drawn up for the year ended 31 December 2012 and comparative information has been presented for the year ended 31 December 2011

The profit and loss account for the year is set out on page 9 Trading profits of US$210 million (year ended 31 December 2011 US$66 million) and administrative expenses of US$111 million (year ended 31 December 2011 US$52 million) have been reported for the year The increase in trading profits and administrative expenses reflected the first full year of the European Governments Bonds business, which transferred into the bank from a group undertaking in the latter part of the prior year

Net interest expense increased to US$61 million for the year (year ended 31 December 2011 US$4 million) This reflected the bank's increased cost of funding, which primarily related to the growth in the average balance sheet and levels of excess liquidity held in 2012, compared to 2011, reflecting the transfer in of the European Government Bonds business During 2012 the bank continued to diversify its funding sources and improve its interest margin The bank continues to expand its deposit taking business, as noted below, and expects to generate net interest income over the medium term The results for the bank show a pre-tax profit of US$37 million for the year (year ended 31 December 2011 US$11 million)

The bank has reported total assets of US$53,386 million (31 December 2011 US$35,474 million) The growth in total assets reflected an increase in financial instruments owned and assets corresponding to the deposit taking business Financial instruments owned increased as a result of the bank becoming the primary dealer for additional European countries during the year, as well as from an increase in trading activity towards the end of the year The growth in assets corresponding to the deposit taking business reflected an increase in total deposits to US$3,671 million, compared to US$681 million in the prior year, as the bank began taking deposits from institutional clients in addition to group undertakings Subsequent to the year end, the bank began offering overnight deposits to individuals, further diversifying and increasing the deposit base

Share Capital

During the year, the directors and shareholders of the bank reviewed the bank's capital requirements under the forthcoming European Union Fourth Capital Requirements Directive ('CRD IV') In order to maintain the equivalent level of Tier 1 capital under the new requirements, the bank converted its preference shares, together with associated premium, into ordinary shares (see note 21 to the financial statements)

On 27 April 2012, 7,442,519 ordinary shares of £1 each were allotted at £37 33 (US$60 46) to Goldman Sachs Group Holdings (U K) The total contribution received was £277,829,228 (US$450,000,000) in cash incorporating a share premium of £270,386,709 (US$437,945,532) These shares were issued to support the ongoing activities of the European Government Bonds business

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Business environment

The bank'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

In most major economies gross domestic product ('GDP') growth generally weakened or only experienced modest growth in 2012 Market sentiment was affected by continued broad market concerns and uncertainties, although positive developments helped to improve market conditions These developments included certain central bank actions to ease monetary policy and address funding risks for European financial institutions These improvements resulted in tighter credit spreads, higher global equity prices and lower levels of volatility

In the U S , real GDP increased by 2 2% in 2012, compared with an increase of 1 8% in 2011, as the U S Federal Reserve maintained its federal funds rate at a target range of zero to 0 25% and extended its program to lengthen the maturity of the U S Treasury debt it holds In the Eurozone, real GDP declined by 0 5% in 2012, compared with an increase of 1 5% in 2011, due to a sharp fall in domestic demand as business and consumer confidence declined These negative developments reflected the impact of the sovereign debt crisis on the region's economic growth, particularly during the first half of the year, as concerns regarding Greece's debt situation and the fiscal outlook in Spain and Italy intensified To address these issues, the European Central Bank injected liquidity through its longer term refinancing operations ('LTROs') and decreased its main refinancing operations rate by 25 basis points to 0 75% In the U K , real GDP increased by 0 2% in 2012, compared with an increase of 0 9% in 2011, as The Bank of England maintained its official bank rate at 0 5% and increased the size of its asset purchase programme In Japan, real GDP increased by 1 9% in 2012, compared with a decline of 0 6% in 2011, as fixed investment growth was supported by reconstruction efforts following the earthquake and tsunami in 2011 The Bank of Japan maintained its target overnight call rate at a range of zero to 0 1% and increased the size of its asset purchase programme

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

As part of The Goldman Sachs Group, Inc , the bank seeks to be a leading participant in the global financial markets in which it participates

Principal risks and uncertainties

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

Economic and market conditions

The bank'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

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Market volatility

Certain areas 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 bank 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 bank's profitability, even though spreads are widening and the bank 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 bank 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 bank's risk weighted assets and capital requirements, both of which in turn increase funding costs

Liquidity

Liquidity is essential to the bank's businesses The bank'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 bank may be unable to control, such as a general market disruption or an operational problem that affects third parties or the bank or even the perception amongst market participants that the bank is experiencing greater liquidity risk Furthermore, the bank'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 bank 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 bank is exposed to the risk that third parties who owe money, securities or other assets will not perform under their obligations These parties may default on their obligations to the bank 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 bank

The bank 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 bank could result in losses and / or adversely affect the bank's ability to use those securities or obligations for liquidity purposes A significant downgrade in the credit ratings of the bank's counterparties could also have a negative impact on the bank's results While, in many cases, the bank is permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral the bank is entitled to receive and the value of pledged assets The termination of contracts and the foreclosure on collateral may subject the bank 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

Derivative transactions

The bank 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 Many derivatives require that the bank delivers to the counterparty the underlying security, loan or other obligation in order to receive payment In a number of cases, the bank does not hold or is not able to obtain the underlying security, loan or other obligation This could cause the bank 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 bank 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

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

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 bank 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 instruments, disputes about the terms of the underlying contracts could arise, which could impair the bank'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 certain 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 bank's ability to develop derivatives that best suit client and bank needs and adversely affect the bank's profitability and increase the credit exposure to such a platform

Operational infrastructure

The bank's businesses are highly dependent on their 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 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 bank'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 bank's control, such as a spike in transaction volume, adversely affecting the ability to process these transactions or provide these services The bank 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

The bank 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 bank will increasingly face the risk of operational failure with respect to clients' systems Any such failure, termination or constraint could adversely affect the bank'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 bank'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 bank is located This may include a disruption involving electrical, communications, transportation or other services facilities used by the bank or third parties with which the bank conducts business

Technology

Technology is fundamental to the bank's businesses and industry The growth of electronic trading and the introduction of new technologies is changing these businesses and presenting the bank with new challenges Securities, futures and options transactions are increasingly occurring electronically, both on the bank'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 bank'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 bank's systems to trade directly in the markets, the bank 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 bank 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

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Regulatory uncertainty

As a participant in the financial services industry, the bank is subject to regulation in jurisdictions around the world The bank faces the risk of intervention by regulatory and taxing authorities in all jurisdictions in which it conducts its businesses Among other things, as a result of regulators enforcing existing laws and regulations, the bank could be fined, prohibited from engaging in some of its business activities, subject to limitations or conditions on its business activities or subjected to new or substantially higher taxes or other governmental charges in connection with the conduct of its business or with respect to its employees

There is also the risk that new laws or regulations or changes in enforcement of existing laws or regulations applicable to the bank's businesses or those of the bank's clients, including capital, liquidity and margin requirements, tax burdens and compensation restrictions, could be imposed on a limited subset of financial institutions (either based on size, activities, geography or other criteria), which may adversely affect the bank's ability to compete effectively with other institutions that are not affected in the same way In addition, regulation imposed on financial institutions or market participants generally, such as taxes on financial transactions, could adversely impact levels of market activity more broadly, and thus impact the bank's businesses

The impact of such developments could impact the bank's profitability in the affected jurisdictions, or even make it uneconomic to continue to conduct all or certain businesses in such jurisdictions, or could result in the bank incurring significant costs associated with changing business practices, restructuring businesses, moving certain businesses and employees to other locations or complying with applicable capital requirements, including liquidating assets or raising capital in a manner that adversely increases the bank's funding costs or otherwise adversely affects shareholders and creditors

Risk management

The bank 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 bank's ability to profit from market making positions with exposure to potential losses Whilst the bank 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 bank may, in the course of its activities, incur losses In addition, refer to the financial risk management section in note 24 to the financial statements

Future outlook

The directors consider that the year end financial position of the bank was satisfactory The directors will continue to assess opportunities available to the bank, but no significant change in the bank's principal business activity is expected

3. Dividends

The directors did not declare or pay a preference dividend during the year (year ended 31 December 2011 US$7,920,660) The directors do not recommend the payment of an ordinary dividend in respect of the year (year ended 31 December 2011 US$nil)

4. Exchange rate

The sterling / US Dollar exchange rate at the balance sheet date was £ / US$ 1 6244 (31 December 2011 £ / US$ 1 5511) The average rate for the year was £ / US$ 1 5925 (year ended 31 December 2011 £ / US$ 1 6103)

REPORT OF THE DIRECTORS (continued)

5. 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

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 bank who served throughout the year and to the date of this report, except where noted, were

Name	Appointed	Resigned
E G Corrigan, Chairman		
D P Coleman		24 January 2012
S Davies		24 January 2012
Lord Griffiths of Fforestfach	5 March 2012	
G Lee		24 January 2012
E H Leouzon	28 September 2012	25 January 2012
D W McDonogh		
D G J Paterson		
E E Stecher		
M T Tejada		25 January 2012
R A Vince		
D D Wildermuth	22 March 2012	

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

8. Financial risk management

The bank's risk management objectives and policies, as well as exposures to market risk, credit risk and liquidity risk are described in note 24 to the financial statements

9. Disclosure of information to auditors

In the case of each of the persons who are directors of the bank 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 bank'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 bank's auditors are aware of that information

REPORT OF THE DIRECTORS (continued)

10. Independent auditors

Prior to 1 October 2007, the bank 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 bank 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

11. Credit ratings

During the year, the bank was assigned 'A / A-1' long and short term counterparty credit ratings by Standard & Poor's Rating services and 'A /F1' long and short term counterparty credit rating from Fitch Ratings

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 bank as at the end of the financial period and of the profit or loss of the bank 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 bank 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 bank 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 bank 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 9 April 2013

BY ORDER OF THE BOARD

W. J. Elliott

Secretary

9 APRIL 2013

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 year ended 31 December 2012 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 Statement of directors' responsibilities (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 bank'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 bank'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 bank's affairs as at 31 December 2012 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 matter 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

Duncan McNab (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 April 2013

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2012

	Note	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Interest receivable and similar income	4	29,892	15,868
Interest payable and similar charges	5	(91,220)	(19,416)
Net interest expense		(61,328)	(3,548)
Trading profits	3	210,165	66,318
TOTAL OPERATING INCOME		148,837	62,770
Administrative expenses		(111,478)	(52,164)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	37,359	10,606
Tax on profit on ordinary activities	10	(9,333)	(2,990)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL YEAR	22	28,026	7,616

The profit of the bank is derived from continuing operations in the current and prior years

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2012

	Note	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Profit for the financial year		28,026	7,616
Translation gain / (loss)	22	15,435	(5,905)
(Loss) / gain on investment hedge	22	(20,246)	1,259
Foreign exchange adjustment	22	-	1,140
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL YEAR AND SINCE LAST FINANCIAL STATEMENTS		23,215	4,110

The notes on pages 11 to 41 form an integral part of these financial statements
Independent Auditors' report – page 8

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

BALANCE SHEET

as at 31 December 2012

	Note	31 December 2012 US$'000	31 December 2011 US$'000
ASSETS			
Cash at bank and in hand	12	113,540	138,610
Customer accounts receivable	13	4,585,267	7,981,732
Financial instruments owned	14	5,330,165	3,108,500
Financial instruments owned, pledged as collateral	14	18,529,630	9,161,833
Securities purchased from group undertakings under agreements to resell		24,808,704	15,062,512
Tangible fixed assets	15	484	645
Other assets	16	18,028	19,725
Total assets		53,385,818	35,473,557
LIABILITIES AND SHAREHOLDER'S FUNDS			
Customer accounts payable	18	7,617,069	7,311,265
Financial instruments sold, but not yet purchased	14	17,665,600	12,915,054
Securities sold to group undertakings under agreements to repurchase		20,789,755	12,576,871
Other liabilities	19	5,240,134	1,070,322
Subordinated debt	20	726,922	726,922
Total liabilities		52,039,480	34,600,434
Called up share capital	21	33,614	21,560
Share premium account	22	923,247	485,301
Other reserve account	22	(12,722)	(7,911)
Profit and loss account	22	402,199	374,173
Total shareholder's funds	22	1,346,338	873,123
Total liabilities and shareholder's funds		53,385,818	35,473,557
MEMORANDUM ITEMS			
Commitments	23	56,349	95,350
Contingent liabilities	23	1,048,663	720,337

The financial statements were approved by the Board of Directors on 9 April 2013 and signed on its behalf by

D. W. McDonogh

Director

9 April 2013

The notes on pages 11 to 41 form an integral part of these financial statements
Independent Auditors' report – page 8
Company number 1122503

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

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(d) and 1(h)), the accounting policies set out below and in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('SI2008/410') relating to banking companies, accounting standards and Statements of Recommended Accounting Practice issued by the British Bankers' Association The principal accounting policies are set out below and have been applied consistently throughout the year

b. Fixed asset investments

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

c. 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

d. Repurchase and resale agreements

Collateralised agreements (securities purchased under agreements to resell) and collateralised financing (securities sold under agreements to repurchase) are treated as collateralised financing transactions and are carried at fair value under the fair value option as they are managed and performance evaluated on a fair value basis The collateral can be in the form of cash or securities Cash collateral is recognised / derecognised when received / paid Collateral posted by the bank 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

e. 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 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 US Dollar 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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

1. ACCOUNTING POLICIES (continued)

f. 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

g. Revenue recognition

Trading profit after charging related expenses comprises revenues from loan origination, secondary dealing in bank loans and related activities, bond and derivative trading and fees and commission from agency lending Related expenses include trading interest payable and trading interest receivable

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

h. Financial instruments

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 trading profits

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, credit curves and funding rates The fair value of certain financial assets and financial liabilities may include valuation adjustments for counterparty and the bank's credit quality, transfer restrictions, large and / or concentrated positions, 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, less liquid publicly listed equities, certain state and municipal obligations and certain money market instruments and loan 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

1. **ACCOUNTING POLICIES (continued)**

h. Financial instruments (continued)

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 exit price 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 bank 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 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

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 typically 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 '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 Subsequent to the initial valuation on such derivatives, the bank 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 bank cannot verify the model value by reference to market transactions, it is possible that a different valuation could produce a materially different estimate of fair value

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

1. ACCOUNTING POLICIES (continued)

i. 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 bank 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

j. Offsetting financial assets and liabilities

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

(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

k. 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 years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

l. Dividends

Final dividends on financial instruments classified as 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 These dividends are debited directly to equity

m. Pension cost

The bank 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 year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

1. **ACCOUNTING POLICIES (continued)**

n. Share-based payments

The Goldman Sachs Group, Inc , issues awards in the form of restricted stock units ('RSUs') and stock options to the bank's employees for services rendered to the bank The cost of equity-based transactions with employees is measured based on the grant-date fair value of the award Share-based awards that do not require future service (i e , vested awards, including awards granted to retirement eligible employees) are expensed immediately Share-based employee awards that require future service are amortised over the relevant service period Expected forfeitures are included in determining share-based employees compensation expense

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 ('RSUs') The bank has also entered into a chargeback agreement with The Goldman Sachs Group, Inc under which it is committed to pay the group 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

o. Other financial assets and liabilities

Other financial assets and liabilities primarily comprise long term subordinated debt, deposits and loans Certain term deposits are held at fair value under the fair value option, with changes in the fair value included in the profit and loss account All other financial assets and liabilities 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

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 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

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 bank, 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

q. Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all liabilities. Instruments 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

1. **ACCOUNTING POLICIES (continued)**

r. Reporting and disclosure exemption

i. FRS1 (revised 1996) 'Cash Flow Statements'

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

ii. FRS8 'Related Party Disclosures'

The bank is a wholly owned subsidiary of The Goldman Sachs Group, Inc, whose consolidated accounts include the bank and are publicly available As a result, under the terms of paragraph 3(c) of FRS8, 'Related Party Disclosures', the bank is exempt from disclosing transactions with companies also wholly owned within The Goldman Sachs Group, Inc There were no other related party transactions requiring disclosure

2. **PRESENTATIONAL CHANGES**

In the current period the bank has revised its policy for presentation of trading interest income and expense on bilateral repurchase agreements used to fund the European Government Bonds business, to include it in trading profits, instead of net interest as this more appropriately represents the nature of the business The comparative figures have been amended to conform with the current year's classification methodology The impact was to decrease both net interest expense and trading profits by US$8 1 million (31 December 2011 US$3 4 million).

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
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Trading profits	206,443	47,344	3,722	18,974	210,165	66,318
Profit / (loss) on ordinary activities before taxation	48,648	3,942	(11,289)	6,664	37,359	10,606
Net assets	1,162,508	695,806	183,830	177,317	1,346,338	873,123

Both the head office and branch operate within the Institutional Client Services business, which includes client execution activities related to secondary bank dealing, agency lending and making markets in European Government Bonds, interest rate products and currencies As a result, no disclosure of segmental information by business has been provided

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Interest on securities purchased from group undertakings under agreements to resell	27,933	13,509
Interest on loans to banks and customers	1,959	2,342
Interest on loans to group undertakings	-	17
	29,892	15,868

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Interest payable on subordinated debt from group undertaking (see note 20)	21,350	3,977
Interest on loans from group undertakings	58,203	14,904
Interest payable on loans from banks and customers	11,667	535
	91,220	19,416

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Auditors' remuneration - audit services	255	249
Management fees charged by group undertakings	93,413	37,942
Staff related costs (see note 8)	7,968	6,959
Depreciation of tangible fixed assets (see note 15)	384	366
Foreign exchange gain	(963)	(930)
Operating lease rentals - land and buildings	486	483
Trading interest payable	566,721	49,031
Trading interest receivable	(528,954)	(53,874)

The bank has taken the exemption not to disclose fees payable to the auditor and its associates related to audit services for client money purposes as the consolidated financial statements of Goldman Sachs Group Holdings (U K) are required to disclose such information on a consolidated basis

7. DIRECTORS' EMOLUMENTS

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Aggregate emoluments	464	152
Company pension contributions to money purchase schemes	2	1
	466	153

	US$'000	US$'000
Highest paid director:		
Aggregate emoluments and benefits	314	24
Company pension contributions to money purchase schemes	1	-

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 In accordance with Schedule 5 Statutory Instrument 2008 / 410, this only includes the value of cash and benefits in kind Directors also receive emoluments for non-qualifying services which are not required to be disclosed Nine persons, who were directors for some or all of the year, are members of a defined contribution pension scheme and six persons are members of a defined benefit pension scheme Eleven 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 bank'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 bank are included in the management fees charged by group undertakings (see note 6)

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

	Year Ended 31 December 2012 Number	Year Ended 31 December 2011 Number
Institutional client services	7	9
Support functions	23	23
	30	32

8. STAFF COSTS (continued)

The employment costs incurred by the branch were

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Aggregate gross wages and salaries	7,186	6,087
Employer's National Insurance Contributions	334	428
Employer's contributions to the defined contribution plan	448	444
Total direct costs of employment	7,968	6,959

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 two to five years of service, the branch contributes the higher of 14% of each employee's annual base salary capped at 240,000,000 Korean Won (US$225,456) or 8 33% of total annual base salary with no cap For employees with more than five years service, the branch contributes the higher of 16% of each employee's annual base salary capped at 240,000,000 Korean Won (US$225,456) or 8 33% of total annual base salary with no cap

The total contribution for the year ended 31 December 2012 is US$447,827 (year ended 31 December 2011 US$443,871) 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

The 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')

The branches recorded share-based compensation in respect of the amortisation of grant equity awards, net of forfeitures of US$122,056 for the year ended 31 December 2012 (year ended 31 December 2011 US$512,764) The corresponding credit to equity has been transferred to liabilities as a result of the terms of the intercompany agreements with the group

Restricted stock units

The Goldman Sachs Group, Inc issued RSUs to the branch'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 transactions 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

9. SHARE-BASED PAYMENTS (continued)

	31 December 2012		31 December 2011	
	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 year	5,886	8,745	6,351	10,562
Granted	45	2,441	-	4,400
Forfeited	-	(2,047)	(54)	(1,040)
Delivered	(5,597)	-	(6,348)	-
Transferred in	-	51	206	554
Transferred out	-	(17)	-	-
Vested	4,017	(4,017)	5,731	(5,731)
Outstanding at the end of the year	**4,351**	**5,156**	**5,886**	**8,745**

The weighted average grant-date fair value of the equity instruments granted during the year ended 31 December 2012 was US$81 38 (year ended 31 December 2011 US$140 45) The fair value of the RSUs granted during the year ended 31 December 2012 and the year ended 31 December 2011 includes a liquidity discount of 24 4% and 14 9%, respectively, to reflect post vesting transfer restrictions of up to 4 years

During the year, The Goldman Sachs Group, Inc , issued RSUs to the employees of the branches

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

a. Analysis of tax charge for the year:

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Current tax:		
UK corporation tax	9,631	2,911
Adjustment to taxation in respect of prior years	(346)	(121)
Total current tax (see note b below)	9,285	2,790
Deferred tax:		
Other timing differences (see note 17)	48	200
Tax charge on profit on ordinary activities	9,333	2,990

b. Factors affecting tax charge for the year

The difference between total current tax shown above and the amount calculated by applying weighted average UK corporation tax applicable to the bank for the year of 24 5% (31 December 2011 26 5%) to the profit on ordinary activities before tax is as follows

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Profit on ordinary activities before tax	37,359	10,606
Profit on ordinary activities multiplied by standard rate in the UK 24 5% (2011 26 5%)	9,153	2,811
Expenses not deductible for tax purposes	224	280
Other timing differences	65	(71)
Tax losses surrendered from group undertakings for nil consideration	-	(81)
Exchange differences	189	(28)
Adjustment to tax in respect of prior years	(346)	(121)
Current tax charge for the year	9,285	2,790

11. DIVIDENDS PAID

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
Dividend on equity shares		
£0 01 fixed rate preference shares	-	7,921

12. CASH AT BANK AND IN HAND

Included within cash at bank and in hand is US$11 1 million (31 December 2011 US$4 2 million) that is held on behalf of clients in segregated accounts

13. CUSTOMER ACCOUNTS RECEIVABLE

	31 December 2012 US$'000	31 December 2011 US$'000
Customer accounts comprise the following repayable on demand:		
Amounts due from customers	1,549,333	1,168,341
Amounts due from group undertakings	3,035,934	6,813,391
	4,585,267	**7,981,732**

14. 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 trading activities of the bank Financial instruments owned, pledged as collateral represents financial instruments owned and pledged to group undertakings that have the right to deliver or repledge

Financial instruments owned, including financial instruments pledged as collateral, comprises

	31 December 2012 US$'000	31 December 2011 US$'000
Cash Instruments:		
Government and agency bonds	19,612,612	9,920,486
	19,612,612	**9,920,486**
Derivative Instruments:		
Interest rate	3,849,749	1,810,456
Foreign currency	394,705	533,291
Government	2,729	6,100
	4,247,183	**2,349,847**
	23,859,795	**12,270,333**
Financial instruments owned	5,330,165	3,108,500
Financial instruments owned, pledged as collateral	18,529,630	9,161,833
	23,859,795	**12,270,333**

14. FINANCIAL INSTRUMENTS OWNED AND FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED (continued)

Financial instruments sold, but not yet purchased comprises

	31 December 2012 US$'000	31 December 2011 US$'000
Cash Instruments:		
Government and agency bonds	13,498,138	10,656,076
	13,498,138	**10,656,076**
Derivative Instruments:		
Interest rate	3,713,924	1,715,644
Foreign currency	450,170	537,886
Government	3,368	5,448
	4,167,462	**2,258,978**
	17,665,600	**12,915,054**

15. TANGIBLE FIXED ASSETS

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

	Leasehold improvements US$'000	Fixtures, fittings & equipment US$'000	Total US$'000
Cost			
At 1 January 2012	851	1,848	2,699
Additions	39	97	136
Currency translation	66	188	254
Asset transfer	-	41	41
At 31 December 2012	**956**	**2,174**	**3,130**
Depreciation			
At 1 January 2012	673	1,381	2,054
Charge for the year (see note 6)	112	272	384
Currency translation	60	148	208
At 31 December 2012	**845**	**1,801**	**2,646**
Net Book Value			
At 31 December 2011	**178**	**467**	**645**
At 31 December 2012	**111**	**373**	**484**

16. OTHER ASSETS

	31 December 2012 US$'000	31 December 2011 US$'000
Other amounts due from group undertakings	12,770	17,613
Deferred tax (see note 17)	350	395
Other assets	4,908	1,717
	18,028	19,725

17. DEFERRED TAXATION

	31 December 2012 US$'000	31 December 2011 US$'000
Deferred taxation balance comprises:		
Other timing differences	350	395
	350	395

	31 December 2012 US$'000
The movements in the deferred taxation balance were as follows:	
At 1 January 2012	395
Translation adjustments	3
Transfer to the profit and loss account for the year (see note 10)	(48)
At 31 December 2012	350

18. CUSTOMER ACCOUNTS PAYABLE

	31 December 2012 US$'000	31 December 2011 US$'000
Customer accounts comprise the following repayable on demand:		
Customer deposits	1,985,086	-
Deposits from group undertaking	1,686,787	680,675
Amounts due to customers	1,467,300	2,217,448
Amounts due to group undertakings	2,477,896	4,413,142
	7,617,069	7,311,265

Customer deposits are held at fair value The fair value option is elected in order to mitigate the accounting mismatch that would otherwise arise between the cost measurement of such instruments and their related hedges

19. OTHER LIABILITIES

	31 December 2012 US$'000	31 December 2011 US$'000
Other amounts due to group undertakings	5,235,755	1,064,682
Corporation tax payable	-	2,703
Accruals and deferred income	4,379	2,937
	5,240,134	1,070,322

20. SUBORDINATED DEBT

	31 December 2012 US$'000	31 December 2011 US$'000
Subordinated loan capital payable to ultimate parent undertaking	**726,922**	**726,922**

Subordinated loan capital payable to ultimate parent undertaking constitutes regulatory capital as approved by the FSA Of this balance US$386,181,700 matures on 16 December 2060, which is repayable on 5 years and 1 day's notice to or from the holder The remaining US$340,740,440 matures on 16 December 2060, which is repayable on 2 years and 1 day's notice to or from the holder The repayment of subordinated debt is also subject to FSA approval Interest is payable on the loan at a margin over the U S Federal Reserve's federal funds Rate The rights of the lender are subordinated to the claims of the senior creditors

21. SHARE CAPITAL

At 31 December 2012 and 31 December 2011, allotted, called up and fully paid share capital comprised

	31 December 2012		31 December 2011	
	No.	US$'000	No.	US$'000
Allotted, called up and fully paid				
Ordinary shares of £1 each	21,213,110	33,614	13,131,415	20,562
Preference shares of £0 01 each	-	-	63,917,526	998
		33,614		**21,560**

On 27 April 2012, 7,442,519 ordinary shares of £1 each were allotted at £37 33 (US$60 46) to Goldman Sachs Group Holdings (U K) The total contribution received was £277,829,228 (US$450,000,000) in cash incorporating a share premium of £270,386,709 (US$437,945,532) These shares were issued to support the ongoing activities of the European Government Bonds business

During the year, the directors and shareholders of the bank reviewed the bank's capital requirements under the forthcoming Capital Requirements Directive ('CRD IV') In order to maintain the equivalent level of tier 1 capital under the new regulations, the bank undertook the following actions

On 13 November 2012, 74 non-cumulative preference shares with a par value of £0 01 were alloted to Goldman Sachs Group Holdings (U K) and the bank received a total contribution of £0 74 (US$1 31) Subsequently, all 63,917,600 preference shares were consolidated from a par value of £0 01 each to a par value of £1 each The preference shares and associated preference share premium were then reclassified as ordinary shares and ordinary share premium

22. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDER'S FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital	Share premium account	Other reserve account	Profit and loss account	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2011	**10,989**	**95,659**	**(14,820)**	**385,106**	**476,934**
Profit for the financial year	-	-	-	7,616	7,616
Non-cumulative preference dividend paid (see note 11)	-	-	-	(7,921)	(7,921)
Shares issued	10,549	389,451	-	-	400,000
Cumulative translation adjustment	-	-	(5,905)	-	(5,905)
Gain on net investment hedge	-	-	1,259	-	1,259
Share based payments	-	-	-	513	513
Management recharge on share based payments	-	-	-	(513)	(513)
Foreign exchange adjustment	22	191	11,555	(10,628)	1,140
At 1 January 2012	**21,560**	**485,301**	**(7,911)**	**374,173**	**873,123**
Profit for the financial year	-	-	-	28,026	28,026
Shares issued (see note 21)	12,054	437,946	-	-	450,000
Cumulative translation adjustment	-	-	15,435	-	15,435
Loss on net investment hedge	-	-	(20,246)	-	(20,246)
Share based payments	-	-	-	122	122
Management recharge related to share based payments	-	-	-	(122)	(122)
At 31 December 2012	**33,614**	**923,247**	**(12,722)**	**402,199**	**1,346,338**

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

23. 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 bank to collateralise the undrawn commitments fully

	31 December 2012	31 December 2011
	US$'000	US$'000
Undrawn loan commitments	55,815	94,865

23. FINANCIAL COMMITMENTS AND CONTINGENCIES (continued)

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

	31 December 2012 US$'000	31 December 2011 US$'000
Maturity of lease:		
Less than one year	-	-
Between one and two years	32	456
Between two and five years	-	29
Over five years	502	-
	534	485

Contingent Liabilities

a The bank has a contingent liability to tax authorities in relation with certain tax obligations of Goldman Sachs (UK) L L C and Goldman Sachs Holdings (U K) The present value of the guarantee is US$1,982,009 (31 December 2011 US$1,945,845) This is covered by a back to back guarantee with the ultimate parent company, The Goldman Sachs Group, Inc

b The bank, 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 year end is US$1,046,680,560 (31 December 2011 US$718,391,585) The market value of the collateral held to cover the loss was US$1,105,497,674 (31 December 2011 US$756,681,677) There is minimal performance risk associated with these guarantees

24. FINANCIAL RISK MANAGEMENT

Normal trading activities expose the bank to market, credit and liquidity risk These activities include bond trading, loan origination, secondary trading and related activities and derivatives 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 bank, as part of a global group, adheres to global risk management policies and procedures

The bank seeks to monitor and control its risk exposure through a variety of separate, but complementary, financial, credit, operational, compliance, 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 bank'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

a. Market risk

Market risk is the risk of loss in the value of the bank's financial instruments due to changes in market prices The bank holds financial instruments primarily for market making for clients Financial instruments therefore change based on client demands Financial instruments are accounted for at fair value and therefore fluctuate on a daily basis with the related gains and losses included in trading profits Categories of market risk include the following

24. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

- ınterest rate nsk pnmanly results from exposures to changes ın the level, slope and curvature of yıeld curves and credıt spreads

- currency rate nsk results from exposures to changes ın spot pnces and forward pnces of currency rates

The bank manages market nsk by dıversıfyıng exposures, controllıng posıtıon sızes and establıshıng economıc hedges ın related securıtıes or denvatıves Thıs ıncludes

- accurate and tımely exposure ınformatıon ıncorporatıng multıple nsk metncs,

- a dynamıc lımıt settıng framework, and

- constant communıcatıon among revenue-producıng unıts, nsk managers and senıor management

Market Rısk Management, whıch ıs ındependent of the revenue-producıng unıts and reports to the group's Chıef Rısk Officer, has pnmary responsıbılıty for assessıng, monıtonng and managıng market nsk firmwıde Rısks are monıtored and controlled through strong firmwıde oversıght and ındependent control and support functıons across the group's global busınesses

Managers ın revenue-producıng unıts are accountable for managıng nsk wıthın prescnbed lımıts These managers have ın-depth knowledge of theır posıtıons, of markets and the ınstruments avaılable to hedge theır exposures

Managers ın revenue-producıng unıts and Market Rısk Management dıscuss market ınformatıon, posıtıons and estımated nsk and loss scenanos on an ongoıng basıs

Market Rısk Management produces nsk measures and monıtors them agaınst market nsk lımıts set by the group's nsk commıttees These measures reflect an extensıve range of scenanos and the results are aggregated at tradıng desk, busıness, entıty and firmwıde levels

A vanety of nsk measures are used to estımate the sıze of potentıal losses for both moderate and more extreme market moves over both short-term and long-term tıme honzons Rısk measures used for shorter-term penods ınclude VaR and sensıtıvıty metncs For longer-term honzons, the pnmary nsk measures are stress tests The nsk reports detaıl key nsks, dnvers and changes for each desk and busıness, and are dıstnbuted daıly to senıor management of both the revenue-producıng unıts and ındependent control and support functıons

The group has made a sıgnıficant ınvestment ın technology to monıtor market nsk ıncludıng

- an ındependent calculatıon of VaR and stress measures,

- nsk measures calculated at ındıvıdual posıtıon levels,

- attnbutıon of nsk measures to ındıvıdual nsk factors of each posıtıon,

- the abılıty to report many dıfferent vıews of the nsk measures (e g by desk, busıness or product type), and

- the abılıty to produce ad hoc analyses ın a tımely manner

24. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

Value-at-Risk

VaR is the potential loss in value of financial instruments due to adverse market movements over a defined time horizon with a specified confidence level A one-day time horizon with a 95% confidence level is typically employed The VaR model captures risks including interest rates and currency rates As such, VaR facilitates comparison across portfolios of different risk characteristics VaR also captures the diversification of aggregated risk across the bank

There are inherent limitations to VaR and therefore a variety of risk measures are used in the market risk management process Inherent limitations to VaR include

- VaR does not estimate potential losses over longer time horizons where moves may be extreme,
- VaR does not take account of the relative liquidity of different risk positions, and
- previous moves in market risk factors may not produce accurate predictions of all future market moves

When calculating VaR, historical simulations are used and the historical data is weighted to give greater importance to more recent observations and reflect current asset volatilities This improves the accuracy of the estimates of potential loss As a result, even if financial instrument positions were unchanged, VaR would increase with increasing market volatility and vice versa

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

The VaR measure does not include

- positions that are best measured and monitored using sensitivity measures, and
- the impact of changes in counterparty and the bank's credit spreads on derivatives as well as changes in the bank's credit spreads on unsecured borrowings for which the fair value option was elected

The accuracy of the VaR model is evaluated through daily backtesting (i e comparing daily trading net revenues to the VaR measure calculated as of the prior business day) at the firmwide level and for each of the group's businesses and major regulated subsidiaries The VaR model is regularly reviewed and enhanced in order to incorporate changes in the composition of financial instruments, as well as variations in market conditions Prior to implementing significant changes to the VaR assumptions and / or model, test runs are performed Changes to the VaR model must also be reviewed and approved by the group's independent model validation group Significant changes to the VaR model are reviewed with the group's Chief Risk Officer and Chief Financial Officer, and approved by the Firmwide Risk Committee

The VaR model is also subject to independent review and validation by the group's independent model validation group at least annually This review includes

- critical evaluation of the model, its theoretical soundness and adequacy for intended use,
- verification of the testing strategy utilised by the model developers to ensure that the model functions as intended, and
- verification of the suitability and properties of the numerical algorithms incorporated in the model

24. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

Stress testing

Stress testing is used to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the bank It uses a variety of scenarios to calculate the potential loss from a wide range of market moves on its portfolios These scenarios include the default of single corporate or sovereign entities, the impact of a move in a single risk factor across all positions (e g equity prices or credit spreads) or a combination of two or more risk factors

Unlike VaR measures, which have an implied probability because they are calculated at a specified confidence level, there is generally no implied probability that the bank's stress test scenarios will occur Instead, stress tests are used to model both moderate and more extreme moves in underlying market factors When estimating potential loss, the bank generally assumes that its positions cannot be reduced or hedged (although experience demonstrates that it is generally able to do so)

Stress test scenarios are conducted on a regular basis as part of routine risk management process and on an ad hoc basis in response to market events or concerns Stress testing is an important part of risk management process because it allows the group to highlight potential loss concentrations, undertake risk / reward analysis and assess and mitigate its risk positions

Limits

Risk limits are used at various levels in the bank (including product and business) to govern risk appetite by controlling the size of its 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 bank's Risk Committee sets market risk limits at relevant business and product levels The purpose of the limits is to assist senior management in controlling the 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, business level limits are a management tool designed to ensure appropriate escalation rather than to establish maximum tolerance Business level limits also 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 that of The Goldman Sachs Group, Inc and relevant entities 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 appropriate Risk Committees 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

The following table sets forth the period end and daily VaR

	31 December 2012	31 December 2011
	US$'000	US$'000
Total VaR at the end of the year	4,241	3,583
Average daily VaR for the period	4,412	771

The increase in average daily VaR reflects the first full year of the European Governments Bonds business, which transferred into the bank from a group undertaking in the latter part of the prior year

24. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

Sensitivity Measures

The bank's VaR excludes certain funding liabilities As at 31 December 2012, the carrying value of these liabilities was US$2,811,211,822 (31 December 2011 US$1,711,313,979) 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 bank's net profit by US$13,135,778 (31 December 2011 US$5,658,145), mainly attributable to exposure to interest rates on the bank'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 bank 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 lending activities) and receivables from brokers, dealers, clearing organisations, customers and counterparties

Credit 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 credit risk at the firm The Credit Policy Committee and the Firmwide Risk Committee establish and review credit policies and parameters In addition, the bank holds other positions that give rise to credit risk (e g bonds held in financial instruments) These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other financial instruments

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

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 bank'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, 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

24. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of the bank'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 bank'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 bank

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

Risk Measures and Limits

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 bank after taking into account applicable netting and collateral

Credit limits are used at various levels (counterparty, economic group, industry, country) to control the size of our credit exposures Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing appetites for a given counterparty or group of counterparties Limits for industries and countries are based on the firm's risk tolerance and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations

Stress Tests / Scenario Analysis

Regular stress tests are used to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e g currency rates, interest rates, equity prices) These shocks include a wide range of moderate and more extreme market movements Some stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event In the case of sovereign default, we estimate the direct impact of the default on sovereign credit exposures, changes to the bank's credit exposures arising from potential market moves in response to the default, and the impact of credit market deterioration on corporate borrowers and counterparties that may result from the sovereign default Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring

Stress tests are are run on a regular basis as part of routine risk management processes and conduct tailored stress tests on an ad hoc basis in response to market developments Stress tests are regularly conducted jointly with the bank's market and liquidity risk functions

24. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

Risk Mitigants

To reduce the credit exposures on derivatives and securities financing transactions, the bank may enter into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties The bank may also reduce credit risk with counterparties by entering into agreements that enable it to obtain collateral from them on an upfront or contingent basis and / or terminate transactions if the counterparty's credit rating falls below a specified level When the bank does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent bank, the bank may obtain third party guarantees of the counterparty's obligations The bank also mitigates its credit risk using credit derivatives or participation agreements The following tables disclose the carrying values of financial assets recorded in the financial statements and represent the bank's maximum exposure to credit risk before and after taking account of the value of collateral and other credit enhancements (i e master netting agreements)

31 December 2012

	Gross credit exposure	Master netting agreements	Cash collateral	Security collateral received	Net credit exposure
	US$'000	US$'000	US$'000	US$'000	US$'000
Exposure to credit risk by class					
Financial instruments owned	5,330,165	(3,771,233)	(144,120)	-	1,414,812
Financial instruments owned, pledged as collateral	18,529,630	-	-	-	18,529,630
Securities purchased from group undertakings under agreements to resell	24,808,704	-	-	(24,808,704)	-
Customer accounts receivable	4,585,267	-	(68,680)	-	4,516,587
Other assets (excluding deferred tax asset of US$350,000 and fixed assets of US$484,000)	17,679	-	-	-	17,679
Cash at bank and in hand	113,540	-	-	-	113,540
	53,384,985	(3,771,233)	(212,800)	(24,808,704)	24,592,248

24. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

	31 December 2011				
	Gross credit exposure	Master netting agreements	Cash collateral	Security collateral received	Net credit exposure
	US$'000	US$'000	US$'000	US$'000	US$'000
Exposure to credit risk by class					
Financial instruments owned	3,108,500	(1,807,376)	(175,682)	-	1,125,442
Financial instruments owned pledged as collateral	9,161,833	-	-	-	9,161,833
Securities purchased from group undertakings under agreements to resell	15,062,512	-	-	(15,062,512)	-
Customer accounts receivable	7,981,732	-	(35,210)	-	7,946,522
Other assets (excluding deferred tax asset of US$395,000)	19,330	-	-	-	19,330
Cash at bank and in hand	138,610	-	-	-	138,610
	35,472,517	(1,807,376)	(210,892)	(15,062,512)	18,391,737

Master netting agreements of US$3,771 million (31 December 2011 US$1,807 million) reflect the offsetting of derivative assets with liabilities for which the bank has a right to set off in the event of default Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet

The table below groups gross and net credit exposure based on internal ratings Financial instruments owned includes cash inventory (e g bonds) of US$19,613 million (31 December 2011 US$9,920 million) These instruments are captured by market risk in the bank's risk management process, they are not assigned internal ratings and constitute the majority of the exposures classified as unrated in the current year

	31 December 2012				
	Gross credit exposure	Master netting agreements	Cash collateral	Security collateral received	Net credit exposure
	US$'000	US$'000	US$'000	US$'000	US$'000
Credit Rating					
AAA	1,841	-	-	-	1,841
AA	474,971	-	(2,150)	-	472,821
A	32,250,116	(3,741,552)	(192,680)	(24,808,704)	3,507,180
BBB	161,601	(29,681)	(17,970)	-	113,950
BB	8,065	-	-	-	8,065
B	595,698	-	-	-	595,698
Unrated	19,892,693	-	-	-	19,892,693
	53,384,985	(3,771,233)	(212,800)	(24,808,704)	24,592,248

24. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

31 December 2011

	Gross credit exposure	Master netting agreements	Cash collateral	Security collateral received	Net credit exposure
	US$'000	US$'000	US$'000	US$'000	US$'000
Credit Rating					
AA	118,647	-	(5,350)	-	113,297
A	24,347,543	(1,780,314)	(193,282)	(15,062,512)	7,311,435
BBB	217,579	(27,062)	(5,430)	-	185,087
BB	3,732	-	-	-	3,732
B	424,537	-	(6,830)	-	417,707
Unrated	10,360,479	-	-	-	10,360,479
	35,472,517	(1,807,376)	(210,892)	(15,062,512)	18,391,737

As of current and prior year ends, financial assets past due or impaired were insignificant

Collateralised Transactions

The bank receives financial instruments as collateral, primarily in connection with financing and 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 bank 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 2012, the fair value of financial instruments received as collateral and which the bank is permitted to deliver or repledge was US$24,940 million (31 December 2011 US$15,085 million), of which the bank delivered or repledged US$23,191 million (31 December 2011 US$13,028 million)

The bank also pledges assets that they own to group undertakings who have the right to deliver or repledge These amounts are included within 'Financial instruments owned, pledged as collateral' in the financial statements and were US$18,530 million as of 31 December 2012 (31 December 2011 US$9,162 million)

The bank has posted cash collateral in respect of financial instruments of US$69 million (31 December 2011 US$35 million)

c. Liquidity risk

Liquidity is of critical importance to financial institutions Most of the recent failures of financial institutions occurred in large part due to insufficient liquidity Accordingly, the bank has in place a comprehensive and conservative set of liquidity and funding policies to address both bank-specific and broader industry or market liquidity events The principal objective is to be able to fund the bank and to enable the core businesses to continue to serve clients and generate revenues even under adverse circumstances

24. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

Liquidity risk is managed 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 anticipated holding periods for our 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 - maintain a contingency funding plan 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

The following table details the bank's undiscounted cash flows of its financial liabilities by contractual maturity including interest that will accrue except where the bank 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 bank considers this more accurately represents the liquidity risk arising from derivatives and is consistent with how those risks are managed

As at 31 December 2012

	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
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Liabilities:							
Customer accounts payable	3,760,626	184,669	2,514,956	1,156,818	-	-	7,617,069
Financial instruments	17,665,600	-	-	-	-	-	17,665,600
Securities sold to group undertakings under agreements to repurchase	-	-	20,789,755	-	-	-	20,789,755
Other liabilities	4,789,290	38	24,635	425,008	1,163	-	5,240,134
Subordinated debt	-	-	-	21,815	375,510	386,182	783,507
Total at 31 December 2012	26,215,516	184,707	23,329,346	1,603,641	376,673	386,182	52,096,065

24. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

As at 31 December 2011

	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
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Liabilities:							
Customer accounts payable	6,850,500	176,630	681,255	-	-	-	7,708,385
Financial instruments	12,915,054	-	-	-	-	-	12,915,054
Securities sold to group undertakings under agreements to repurchase	12,576,871	-	-	-	-	-	12,576,871
Other liabilities	652,109	9	19,330	516	1,238	-	673,202
Subordinated debt	-	-	-	22,553	399,237	386,182	807,972
Total at 31 December 2011	32,994,534	176,639	700,585	23,069	400,475	386,182	34,681,484

d. Transferred assets

During the year the bank transferred certain financial instruments where the transfers failed to meet the derecognition criteria, therefore, the bank continues to recognise these assets in full on the balance sheet

These financial instruments have been transferred under repurchase agreements with other financial institutions The fair value of the financial instruments subject to repurchase and securities lending agreements was US$18,530 million and their related liabilities priced at 1% - 1 15% over the fair value of the asset collateral pledged

As the substance of these transactions is repurchase agreements the asset collateral continues to be recognised in full and the related liability reflecting the bank's obligations to repurchase the transferred assets at a future date is recognised in other liabilities The bank remains exposed to interest rate risk and credit risk on these pledged instruments The counterparties' recourse is not limited to the transferred assets

e. 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

24. FINANCIAL RISK MANAGEMENT (continued)

e. Fair value of financial instruments (continued)

	Carrying Value		Approximate fair value	
	2012	2011	2012	2011
	US$'000	US$'000	US$'000	US$'000
Long-term subordinated debt (see note 20)	726,922	726,922	756,209	669,399

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

f. Fair value hierarchy

FRS 29 has a three-level fair value hierarchy for disclosure of fair value measurements The fair value hierarchy prioritises inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs A financial instrument's level in the fair value hierarchy is based on the lowest level of any input that is significant to its fair value measurement The fair value hierarchy is as follows

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

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

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

The fair values for substantially all of the bank's financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and the bank's credit quality, funding risk, transfer restrictions, liquidity and bid / offer spreads Valuation adjustments are generally based on market evidence

The following table presents the level within the fair value hierarchy, financial instruments owned at fair value and financial instruments sold, but not yet purchased, at fair value, and other financial assets and financial liabilities accounted for at fair value under the fair value option

24. FINANCIAL RISK MANAGEMENT (continued)

Financial Assets at Fair Value as of 31 December 2012	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total balance US$'000
Securities purchased from group undertakings under agreements to resell	-	24,808,704	-	24,808,704
Financial instruments owned	19,531,835	4,284,549	43,411	23,859,795
Total financial assets at fair value	19,531,835	29,093,253	43,411	48,668,499

Financial Liabilities at Fair Value as of 31 December 2012	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total balance US$'000
Securities sold to group undertakings under agreements to repurchase	-	20,789,755	-	20,789,755
Customer deposits	-	1,984,983	-	1,984,983
Financial instruments sold but not yet purchased	13,239,344	4,392,530	33,726	17,665,600
Total financial liabilities at fair value	13,239,344	27,167,268	33,726	40,440,338

Financial Assets at Fair Value as of 31 December 2011	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Securities sold under agreements to repurchase, at fair value	-	15,062,512	-	15,062,512
Financial instruments owned	9,926,586	2,321,693	22,054	12,270,333
Total financial assets at fair value	9,926,586	17,384,205	22,054	27,332,845

Financial liabilities at Fair Value as of 31 December 2011	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial instruments sold but not yet purchased	-	12,576,871	-	12,576,871
Financial instruments sold but not yet purchased	10,661,524	2,232,084	21,446	12,915,054
Total financial liabilities at fair value	10,661,524	14,808,955	21,446	25,491,925

24. FINANCIAL RISK MANAGEMENT (continued)

f. Fair value hierarchy (continued)

During 2012, there were no significant transfers between level 1 and 2 The following table presents the changes in level 3 instruments for the year ended 31 December 2012

Reconciliation of Level 3 Items	Financial instruments owned US$'000	Total assets designated at fair value US$'000	Financial instruments sold but not yet purchased US$'000	Total liabilities designated at fair value US$'000
At 1 January 2012	22,054	22,054	(21,446)	(21,446)
Profit or loss	21,594	21,594	(16,500)	(16,500)
Purchases	7,598	7,598	-	-
Settlements	(7,835)	(7,835)	4,220	4,220
At 31 December 2012	43,411	43,411	(33,726)	(33,726)

Reconciliation of level 3 items:	Financial assets designated at fair value US$'000	Total assets designated at fair value US$'000	Financial liabilities designated at fair value US$'000	Total liabilities designated at fair value US$'000
At 1 January 2011	2,950	2,950	(2,953)	(2,953)
Profit or loss	20,208	20,208	(19,696)	(19,696)
Settlements	(1,104)	(1,104)	1,203	1,203
At 31 December 2011	22,054	22,054	(21,446)	(21,446)

The fair value of financial instruments may be determined in whole or in party using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value The potential impact as of 31 December 2012 of using reasonable possible alternative assumptions for the valuations including significant unobservable inputs has been quantified as approximately US$1 million for the year (year ended 31 December 2011 US$nil) for favourable changes and approximately US$1 million for the year (year ended 31 December 2011 US$nil) for unfavorable changes

The value of customer deposits held under fair value option for the year ended 31 December 2012 was US$1,985 million (year ended 31 December 2011 US$ nil) The impact of changes in the market value of these customer deposits driven by changes in the bank's credit spreads during the period and cumulatively was immaterial

g. Capital management

The bank is regulated by the 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 bank monitors and demonstrated compliance with the relevant regulatory capital requirements of the FSA at all times during the period

24. FINANCIAL RISK MANAGEMENT (continued)

g. Capital management (continued)

From 1 April 2013, the FSA's regulatory role was replaced by the Financial Conduct Authority ('the FCA') and the Bank of England's Prudential Regulation Authority ('the PRA')

The level and composition of the bank's capital is principally determined by 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 bank's business and market environment

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

As at 31 December 2012

- Tier 1 capital - US$1,346,338,000 (31 December 2011 US$873,123,000) - comprises permanent share capital, profit and loss account and reserves, share premium account, perpetual non-cumulative preference shares

- Tier 2 capital - US$386,182,000 (31 December 2011 US$386,182,000) - solely comprises qualifying long term subordinated debt

- Tier 3 capital - US$340,740,000 (31 December 2011 US$340,740,000) - comprises qualifying short term subordinated debt

Various regulatory limits and deductions are applied

25. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS

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 in the United States of America Copies of its consolidated financial statements, as well as certain regulatory filings, for example forms 10-K and 10-Q, that provide additional information on the group and business activities, can be obtained from 200 West Street, New York, NY 10282, United States of America, the group's principal place of business or at www goldmansachs com/shareholders/