Company Number: 1122503

GOLDMAN SACHS INTERNATIONAL BANK

(unlimited company)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

REPORT OF THE DIRECTORS

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

1. Principal activities

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

2. Review of business and future developments

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

During the year, part of the European Government Bonds business, which acts as a primary dealer and market maker across multiple countries in Europe, was transferred to the company from Goldman Sachs International, a group undertaking The remaining part of the business is expected to transfer to the company in 2012 The company issued additional share capital of US$400m and subordinated debt of US$600m, in order to support the transfer and ongoing activities of the European Government Bonds business

On 1 October 2011, the company changed its functional currency from sterling to the US Dollar This change occurred following the transfer of the European Government Bonds business to the company

The profit and loss account for the year is set out on page 8 Trading profits of US$70 million has been reported for the year (year ended 31 December 2010 US$146 million) The results for the company show a pre-tax profit of US$11 million for the year (year ended 31 December 2010 US$64 million) The company has reported total assets of US$35,474 million (31 December 2010 US$4,103 million), reflecting the transfer of the bonds business

Business environment

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

During the first half of 2011, concerns surrounding European sovereign debt risk, supply chain disruptions resulting from the earthquake and tsunami in Japan and intensifying inflation in emerging markets weighed on the early economic growth in most economies Global equity markets were negatively impacted by these concerns and additional uncertainties regarding political unrest in the Middle East and the resolution of the U S Federal debt ceiling Whilst the U S Federal Reserve and the Bank of England maintained their base rates during the period, the European Central Bank increased its main refinancing operations rate by 25 basis points to 1 25%, reflecting early growth and increased inflation in the eurozone The Bank of Japan left its overnight call rate unchanged at 0 10% and expanded its liquidity and asset purchase program significantly in order to promote economic stability following the earthquake and tsunami

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

During the second half of 2011, concerns about European sovereign debt risk and its impact on the European banking system intensified, while concerns about U S growth and the uncertainty regarding the U S Federal debt ceiling continued, contributing to higher volatility levels, significantly lower global equity prices and significantly wider corporate credit spreads This prompted the U S Federal Reserve and the European Central Bank to announce easing measures in order to stimulate economic growth both in the U S and across Europe The U S Federal Reserve, the Bank of England and the Bank of Japan left interest rates unchanged, whilst the European Central Bank increased and then reduced its interest rates, ending the year unchanged compared with 2010 In the U K, real GDP increased by 0 8% for 2011, compared with an increase of 2 1% in 2010 Long term government bond yields generally declined during the year, although long term government bond yields in certain eurozone economies increased significantly In addition, spreads between German bond yields and those of most economies within the eurozone widened

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 company seeks to be a leading participant in the global financial markets in which it participates

Principal risks and uncertainties

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

Economic and market conditions

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

Market volatility

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

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Liquidity

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

Credit quality

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

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

Derivative transactions

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

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

REPORT OF THE DIRECTORS (continued)

2. Review of business and future developments (continued)

Operational infrastructure

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

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

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

Technology

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

Risk management

The company seeks to monitor and control risk exposure through a risk and control framework encompassing a variety of separate, but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms The risk management process seeks to balance the company's ability to profit from market making positions with exposure to potential losses Whilst the company employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes Thus, the company may, in the course of its activities, incur losses In addition, refer to the financial risk management section in note 24 to the financial statements

Future outlook

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

REPORT OF THE DIRECTORS (continued)

3. Dividends

The directors declared and paid a preference dividend of US$7,920,660 during the year (year ended 31 December 2010 US$8,063,835) The directors do not recommend the payment of an ordinary dividend in respect of the year (year ended 31 December 2010 US$nil)

4 Exchange rate

The sterling / US Dollar exchange rate at the balance sheet date was £ / US$ 1 5511 (31 December 2010 £ / US$ 1 5590) The average rate for the year was £ / US$ 1 6103 (year ended 31 December 2010 £ / US$ 1 5422)

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

Name	Appointed	Resigned
E G Corrigan Chairman		
L S D Chan		24 May 2011
D P Coleman		24 January 2012
S Davies		24 January 2012
G P Earle		5 August 2011
Lord Griffiths of Fforestfach	5 March 2012	
G Lee	24 May 2011	24 January 2012
E H Leouzon		25 January 2012
D W McDonogh		
D G J Paterson		
E E Stecher	21 July 2011	
M T Tejada		25 January 2012
R A Vince	11 November 2011	

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

8. Financial risk management

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

REPORT OF THE DIRECTORS (continued)

9. Disclosure of information to auditors

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

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

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

10. Auditors

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

11. Statement of Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently,

- make judgements and estimates that are reasonable and prudent,

- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements, and

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

12. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 22 March 2012

BY ORDER OF THE BOARD

W J Elliott

Secretary
22 MARCH 2012

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 2011 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement (set out on page 6) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other 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

Christopher Rowland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London 23 March 2012

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2011

	Note	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Interest receivable and similar income	3	18,131	11,034
Interest payable and similar charges	4	(25,084)	(9,269)
Net interest (expense) / income		(6,953)	1,765
Trading profits	2	69,723	145,888
TOTAL OPERATING INCOME		62,770	147,653
Administrative expenses		(52,164)	(84,128)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	10,606	63,525
Tax on profit on ordinary activities	9	(2,990)	(17,984)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL YEAR	22	7,616	45,541

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

The notes on pages 11 to 35 form an integral part of these financial statements
Independent Auditors' report – page 7

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2011

	Note	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Profit for the financial year		7,616	45,541
Translation (loss) / gain	22	(5,905)	11,522
Gain / (loss) on investment hedge	22	1,259	(13,217)
Foreign exchange adjustment	22	1,140	(15,386)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL YEAR AND SINCE LAST FINANCIAL STATEMENTS		4,110	28,460

The notes on pages 11 to 35 form an integral part of these financial statements
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GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

BALANCE SHEET

as at 31 December 2011

	Note	31 December 2011 US$'000	31 December 2010 US$'000
ASSETS			
Cash at bank and in hand	11	138,610	233,290
Customer accounts receivable	12	7,981,732	84,040
Financial instruments owned	13	3,108,500	2,121,219
Financial instruments owned, pledged as collateral	13	9,161,833	-
Securities purchased from group undertakings under agreements to resell		15,062,512	1,660,785
Tangible fixed assets	14	645	804
Other assets	15	19,725	3,344
Total assets		35,473,557	4,103,482
LIABILITIES AND SHAREHOLDER'S FUNDS			
Customer accounts payable	18	7,708,385	1,441,313
Financial instruments sold, but not yet purchased	13	12,915,054	1,866,264
Securities sold to group undertakings under agreements to repurchase		12,576,871	-
Other liabilities	19	673,202	92,696
Long term debt		-	100,000
Subordinated debt	20	726,922	126,275
Total liabilities		34,600,434	3,626,548
Called up share capital	21	21,560	10,989
Share premium account	22	485,301	95,659
Other reserve account	22	(7,911)	(14,820)
Profit and loss account	22	374,173	385,106
Total shareholder's funds	22	873,123	476,934
Total liabilities and shareholder's funds		35,473,557	4,103,482
MEMORANDUM ITEMS			
Commitments	23	95,819	190,580
Contingent liabilities	23	720,337	808,513

The financial statements were approved by the Board of Directors on 22 March 2012 and signed on its behalf by

Director

D W. McDONAGH

The notes on pages 11 to 35 form an integral part of these financial statements
Independent Auditors' report – page 7
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

1. ACCOUNTING POLICIES

a Accounting convention

These financial statements have been prepared on a going concern basis, under the historical cost convention (except as explained in note 1(e) and 1(i)), the accounting policies set out below and in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('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. Consolidation

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

c. Fixed asset investments

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

d. Tangible fixed assets

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

	%
Fixtures, fittings and equipment	14-33

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

e. Repurchase and resale agreements

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 The collateral can be in the form of cash or securities Cash collateral is recognised / derecognised when received / paid Collateral posted by the company in the form of securities is not derecognised from the balance sheet, whilst collateral received in the form of securities is not recognised on the balance sheet If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet

f. 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

1 ACCOUNTING POLICIES (continued)

f. Foreign currencies (continued)

As a result of the fundamental change in the nature of the company's business, the company changed its functional currency from sterling to US Dollars with effect from 1 October 2011 All balances were translated from sterling to US Dollars using the exchange rate at this date Comparative profit and loss account and balance sheet figures have been translated to US Dollars using the average exchange rate and closing exchange for that period, respectively The resulting exchange differences are recognised as a separate component of equity, within the 'Other reserve account', through the statement of total recognised gains and losses

g. Net investment hedging

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

h. Revenue recognition

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

Financial instruments owned and financial instruments sold but not yet purchased are recognised at fair value with realised and unrealised gains and losses as well as associated interest and dividend income and expenses included in trading profit Financial instruments owned are marked to bid prices and financial instruments sold but not yet purchased are marked to offer prices Fair value measurements do not include transaction costs

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

i. Financial instruments held for trading

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 profit

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 and credit curves The fair value of certain financial assets and financial liabilities may include valuation adjustments for counterparty and the company's credit quality, transfer restrictions, large and / or concentrated positions, illiquidity and bid / offer inputs

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 where available 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)

i. Financial instruments held for trading (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 where available

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

The company's derivative contracts consist of exchange-traded and over-the-counter ('OTC') derivatives 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 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 The company generally uses similar models to value similar instruments 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 volatilities, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets Subsequent to the initial valuation of such derivatives, the company updates the observable inputs to reflect observable market changes Unobservable inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and / or broker or dealer quotations or other empirical market data In circumstances where the company cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value

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

Financial instruments owned are classified as held for trading and 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)

j. Leases

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

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

k. Offsetting financial assets and liabilities

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

(i) currently has a legally enforceable right to set off the recognised amounts, and

(ii) intends to settle on a net basis or to realise the asset and settle the liability simultaneously

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

l. Deferred taxation

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

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

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

m. Dividends

Final dividends on financial instruments classified as equity are recognised in the 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

n. Pension cost

The company sponsors a defined contribution plan The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the 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)**

o. Share-based payments

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

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

p. Other financial assets and liabilities

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

q. Provisions and contingent liabilities

Provisions are recognised in the financial statements when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation

Contingent liabilities are

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

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

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

r. Financial liabilities and equity

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

1. ACCOUNTING POLICIES (continued)

s. Reporting and disclosure exemption

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

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

ii. FRS8 'Related Party Disclosures'

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

2. 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
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Trading profits	50,749	125,047	18,974	20,841	69,723	145,888
Profit on ordinary activities before taxation	3 942	54,793	6 664	8,732	10,606	63,525
Net assets	695,806	300,620	177,317	176,314	873,123	476,934

The Goldman Sachs Group, Inc reports its activities in four business segments Investment Banking, Institutional Client Services, Investing & Lending and Investment Management

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

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Interest on securities purchased from group undertakings under agreements to resell	15,772	7,580
Interest on loans to banks and customers	2,342	3,340
Interest on loans to group undertakings	17	114
	18,131	11,034

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Interest payable on subordinated debt from group undertaking (see note 20)	3,977	3,480
Interest on loans from group undertakings	14,904	4,415
Interest payable on securities sold to group undertakings under agreements to repurchase	5,668	-
Interest payable on loans from banks and customers	535	1,374
	25,084	**9,269**

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Profit on ordinary activities before taxation is stated after charging / (crediting):		
Auditors' remuneration - audit services	249	190
Management fees charged by group undertakings	37,942	69,267
Staff related costs (see note 7)	6,959	8,371
Depreciation of tangible fixed assets (see note 14)	366	475
Foreign exchange (gain) / loss	(930)	379
Operating lease rentals - land and buildings	483	514
Trading interest payable	43,363	-
Trading interest receivable	(51,611)	-

6. DIRECTORS' EMOLUMENTS

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Aggregate emoluments	152	201
Company pension contributions to money purchase schemes	1	1
	153	**202**

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 The disclosure has been revised, for the current and prior year, to exclude the value of equity awards in accordance with the provision of Schedule 5 of Statutory Instrument 2008 / 410

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 eight persons are members of a defined benefit pension scheme

Eleven directors have been granted shares in respect of long term incentive schemes One director has exercised options

7. STAFF COSTS

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

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

The average number of employees of the branch is analysed below

	Year Ended 31 December 2011 Number	Year Ended 31 December 2010 Number
Institutional client services	9	8
Support functions	23	19
	32	**27**

The employment costs incurred by the branch were

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Aggregate gross wages and salaries	6,087	7,950
Employer's National Insurance Contributions	428	103
Employer's contributions to the defined contribution plan	444	318
Total direct costs of employment	**6,959**	**8,371**

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$206,784) 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$206,784) or 8 33% of total annual base salary with no cap

The total contribution for the year ended 31 December 2011 is US$443,871 (year ended 31 December 2010 US$317 127) and there is no amount in respect of this cost that remains payable as at the balance sheet date

8. SHARE-BASED PAYMENTS

Stock incentive plan

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

During the year, the ultimate parent company issued RSUs to the employees of the branch

8. SHARE-BASED PAYMENTS (continued)

Restricted stock units

The ultimate parent company 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 Year end RSUs generally vest as outlined in the applicable RSU agreements All employee-RSU agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence In all cases, delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements The activity related to these RSUs is set out below

	31 December 2011		31 December 2010	
	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	6,351	10,562	5,606	4,321
Granted	-	4,400	1,700	10,496
Forfeited	(54)	(1,040)	-	-
Delivered	(6,348)	-	(5,159)	-
Transferred in	206	554	-	-
Transferred out	-	-	-	(51)
Vested	5,731	(5,731)	4 204	(4.204)
Outstanding at the end of the year	**5,886**	**8,745**	**6,351**	**10,562**

The weighted average grant-date fair value of the equity instruments granted during the year ended 31 December 2011 was US$140 45 (year ended 31 December 2010 US$140 78) The fair value of the RSUs granted during the year ended 31 December 2011 and the year ended 31 December 2010 includes a liquidity discount of 14 9% and 6 6%, respectively, to reflect post vesting transfer restrictions of up to 4 years

The branch recorded expenses of US$827,185 for the year ended 31 December 2011 (year ended 31 December 2010 US$720,264) related to the amortisation of equity awards The corresponding credit to equity has been transferred to liabilities as a result of the terms of the intercompany agreements with the group

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

a. Analysis of tax charge for the year:

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Current tax:		
UK corporation tax	2,911	18,255
Adjustment to taxation in respect of prior years	(121)	(4,606)
Total current tax (see note b below)	**2,790**	**13,649**
Deferred tax:		
Other timing differences (see note 16)	200	4,335
Tax charge on profit on ordinary activities	**2,990**	**17,984**

9 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

b. Factors affecting tax charge for the year

The current tax assessed for the year differs from the standard rate of corporation tax in the UK of 26 5% (31 December 2010 28%) The differences are explained below

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Profit on ordinary activities before tax	10,606	63,525
Profit on ordinary activities multiplied by standard rate in the UK 26 5% (2010 28%)	2,811	17,787
Expenses not deductible for tax purposes	280	215
Other timing differences	(71)	253
Tax losses surrendered from group undertakings for nil consideration	(81)	-
Exchange differences	(28)	-
Adjustment to tax in respect of prior years	(121)	(4,606)
Current tax charge for the year	**2,790**	**13,649**

10. DIVIDENDS PAID

	Year Ended 31 December 2011 US$'000	Year Ended 31 December 2010 US$'000
Dividend on equity shares		
£0 01 fixed rate preference shares	**7,921**	**8,063**

11. CASH AT BANK AND IN HAND

Included within cash at bank and in hand is US$4 2 million (31 December 2010 US$nil) that is held on behalf of clients in segregated accounts

12. CUSTOMER ACCOUNTS RECEIVABLE

	31 December 2011 US$'000	31 December 2010 US$'000
Customer accounts comprise the following repayable on demand:		
Amounts due from customers	1,168,341	27,568
Amounts due from group undertakings	6,813,391	56,472
	7,981,732	**84,040**

13. 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 company 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 2011 US$'000	31 December 2010 US$'000
Cash Instruments:		
Government bonds	9,920,486	2,290
	9,920,486	**2,290**
Derivative Instruments:		
Interest rate	1,810,456	1,435,036
Foreign currency	533,291	683,893
Government	6,100	-
	2,349,847	**2,118,929**
	12,270,333	**2,121,219**
Financial instruments owned	3,108,500	2,121,219
Financial instruments owned, pledged as collateral	9,161,833	-
	12,270,333	**2,121,219**

Financial instruments sold, but not yet purchased comprises

	31 December 2011 US$'000	31 December 2010 US$'000
Cash Instruments:		
Government bonds	10,656 076	-
	10,656,076	**-**
Derivative Instruments:		
Interest rate	1,715,644	1,147,001
Foreign currency	537,886	719,263
Government	5,448	-
	2,258,978	**1,866,264**
	12,915,054	**1,866,264**

14. 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 31 December 2010	739	1,818	2,557
Additions	137	91	228
Currency translation	(25)	(61)	(86)
At 31 December 2011	**851**	**1,848**	**2,699**
Depreciation			
At 31 December 2010	614	1,139	1,753
Charge for the year (see note 5)	79	287	366
Currency translation	(20)	(45)	(65)
At 31 December 2011	**673**	**1,381**	**2,054**
Net Book Value			
At 31 December 2010	**125**	**679**	**804**
At 31 December 2011	**178**	**467**	**645**

15 OTHER ASSETS

	31 December 2011 US$'000	31 December 2010 US$'000
Other amounts due from group undertakings	17,613	251
Deferred tax (see note 16)	395	596
Other assets	1,717	2,497
	19,725	3,344

16. DEFERRED TAXATION

	31 December 2011 US$'000	31 December 2010 US$'000
Deferred taxation balance comprises:		
Other timing differences	395	596
	395	**596**
The movements in the deferred taxation balance were as follows:		
At 31 December 2010	596	
Translation adjustments	(1)	
Transfer to the profit and loss account for the year (see note 9)	(200)	
At 31 December 2011	**395**	

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

17. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The company owned 100% of the £1 ordinary shares of Restamove Limited, a non-trading company that was registered in England and Wales and was dissolved during the year

	$
Cost and Net Book Value	
At 31 December 2010	3
Disposals	(3)
At 31 December 2011	-

18. CUSTOMER ACCOUNTS PAYABLE

	31 December 2011 US$'000	31 December 2010 US$'000
Customer accounts comprise the following repayable on demand.		
Demand deposits from group undertaking	680,675	1,011,076
Amounts due to customers	2,217,448	372,815
Amounts due to group undertakings	4,810,262	57,422
	7,708,385	**1,441,313**

19. OTHER LIABILITIES

	31 December 2011 US$'000	31 December 2010 US$'000
Other amounts due to group undertakings	667 562	82,527
Corporation tax payable	2,703	5,358
Accruals and deferred income	2,937	4,811
	673,202	**92,696**

20. SUBORDINATED DEBT

	31 December 2011 US$'000	31 December 2010 US$'000
Subordinated loan capital payable to ultimate parent undertaking	**726,922**	**126,275**

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 Federal Funds Rate The rights of the lender are subordinated to the claims of the senior creditors

21. SHARE CAPITAL

At 31 December 2011 and 31 December 2010, allotted, called up and fully paid share capital comprised

	31 December 2011		31 December 2010	
	No	US$'000	No.	US$'000
Allotted, called up and fully paid				
Ordinary shares of £1 each	13,131,415	20,562	6,410,256	9,993
Preference shares of £0 01 each	63,917,256	998	63,917,256	996
		21,560		**10,989**

The preference shares carry limited voting rights and on a winding up the holders have a preferential right to return of capital together with any premium The company's preference shares carry a discretionary non-cumulative preferential dividend at the rate of 8 pence per share per annum

On 8 December 2011, 6,721,159 ordinary shares of £1 each were allotted at £37 92 (US$59 58) to Goldman Sachs Group Holdings (U K) The total contribution received was £254,866,354 (US$400,000,000) in cash incorporating a share premium of £248,145,195 (US$389,451,477) These shares were issued to support the transfer and ongoing activities of the European Government Bonds business

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

	Called up share capital US$'000	Share premium account US$'000	Other reserve account US$'000	Profit and loss account US$'000	Total US$'000
At 1 January 2010	**11,387**	**99,123**	**(1,601)**	**347,628**	**456,537**
Profit for the financial year	-	-	-	45,541	45,541
Non-cumulative preference dividend paid (see note 10)	-	-	-	(8,063)	(8,063)
Cumulative translation adjustment	-	-	11,522	-	11,522
Loss on net investment hedge	-	-	(13,217)	-	(13,217)
Share based payments	-	-	-	720	720
Management recharge on share based payments	-	-	-	(720)	(720)
Foreign exchange adjustment	(398)	(3 464)	(11,524)	-	(15,386)
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 10)	-	-	-	(7,921)	(7,921)
Shares issued (see note 21)	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	-	-	-	827	827
Management recharge related to share based payments	-	-	-	(827)	(827)
Foreign exchange adjustment	22	191	11,555	(10,628)	1,140
At 31 December 2011	**21,560**	**485,301**	**(7,911)**	**374,173**	**873,123**

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

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

As a result of the fundamental change in the nature of the company's business, the company changed its functional currency from sterling to US Dollars with effect from 1 October 2011 All balances were translated from sterling to US Dollars using the exchange rate at this date, the impact of which is included within the foreign exchange adjustment Comparative profit and loss account and balance sheet figures have translated to US Dollars using the average exchange rate and closing exchange for that period, respectively The resulting exchange differences are recognised as a separate component of equity, within the 'Other reserve account', through the statement of total recognised gains and losses

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 company to collateralise the undrawn commitments fully

	31 December 2011	31 December 2010
	US$'000	US$'000
Undrawn loan commitments	94,865	190,167

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 2011	31 December 2010
	US$'000	US$'000
Maturity of lease:		
Less than one year	485	413
Between one and two years	447	-
Between two and five years	22	-
	954	413

Contingent Liabilities

a The company has a contingent liability to tax authorities in relation with certain tax obligations of Goldman Sachs (U K) L L C and Goldman Sachs Holdings (U K) The present value of the guarantee is US$1,945,845 (31 December 2010 US$13,392,389) This is covered by a back to back guarantee with the ultimate parent company, The Goldman Sachs Group, Inc

b The company, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities The maximum exposure to loss under guarantee at year end is US$718,391,585 (31 December 2010 US$795,120,692) The market value of the collateral held to cover the loss was US$756,681,677 (31 December 2010 US$837,706,865) There is minimal performance risk associated with these guarantees

24. FINANCIAL RISK MANAGEMENT

Normal trading activities expose the company 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 company, as part of a global group, adheres to global risk management policies and procedures

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

a. Market risk

Market risk is the risk of loss in the value of the company's financial instruments due to changes in market prices The company 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 Categories of market risk include the following

- interest rate risk primarily results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates and credit spreads

- currency rate risk results from exposures to changes in spot prices and forward prices of currency rates

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

- accurate and timely exposure information incorporating multiple risk metrics,

- a dynamic limit setting framework, and

- constant communication among revenue-producing units, risk managers and senior management

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

Managers in revenue-producing units are accountable for managing risk within prescribed limits These managers have in-depth knowledge of their positions, of markets and the instruments available to hedge their exposures

Managers in revenue-producing units and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis

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

24. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

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

The group has made a significant investment in technology to monitor market risk including

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

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 company

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
- Previous moves in market risk factors may not produce accurate predictions of all future market moves

When calculating VaR, historical simulations with full valuation of approximately 70,000 market factors are used The historical data used in the VaR calculation 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 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 following table sets forth the period end and daily VaR

	31 December 2011 US$'000	31 December 2010 US$'000
Total VaR at the end of the year	3,583	421
Average daily VaR for the period	771	484

24. FINANCIAL RISK MANAGEMENT (continued)

a Market risk (continued)

The increase in VaR reflects the transfer of the European Government Bonds business during the year

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 company's credit spreads on derivatives as well as changes in the company's credit spreads on unsecured borrowings for which the fair value option was elected

Sensitivity Measures

The company's VaR excludes certain funding liabilities As at 31 December 2011, the carrying value of these liabilities was US$726,922,140 (31 December 2010 US$126,724,950) If interest rates had been 50 basis points higher or lower and all other variables were held constant, the impact on these funding liabilities would be to increase / decrease the company's net profit by US$708,806 (31 December 2010 US$523,731), mainly attributable to exposure to interest rates on the company's variable rate borrowings

b. Credit risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e g an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments the company holds Exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments Credit risk also comes from cash placed with banks, securities financing transactions (i e resale and repurchase agreements and 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 company holds other positions that give rise to credit risk (e g bonds held in inventory) These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions

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

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

• approving transactions and setting and communicating credit exposure limits,

• monitoring compliance with established credit exposure limits,

• assessing the likelihood that a counterparty will default on its payment obligations,

• measuring the company's current and potential credit exposure and losses resulting from counterparty default,

• reporting of credit exposures to senior management, the Board and regulators,

24. FINANCIAL RISK MANAGEMENT (continued)

- 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

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of the company's counterparties A credit review is an independent judgement about the capacity and willingness of a counterparty to meet its financial obligations For substantially all of the company's credit exposures, the core of the process is an annual counterparty review A counterparty review is a written analysis of a counterparty's business profile and financial strength resulting in an internal credit rating which represents the probability of default on financial obligations to the company

The determination of internal credit ratings incorporates assumptions with respect to the counterparty's future business performance, the nature and outlook for the counterparty's industry and the economic environment Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings

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

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

The following tables disclose the carrying values of financial assets recorded in the financial statements and represent the company'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 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**

24. FINANCIAL RISK MANAGEMENT (continued)

31 December 2010

	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	2,121,219	(1 473,953)	(322,644)	(1,013)	323,609
Securities purchased from group undertakings under agreements to resell	1,660,785	-	-	(1,660,785)	-
Customer accounts receivable	84,040	-	(55,585)	-	28,455
Other assets (excluding deferred tax asset of US$596,000)	2,748	-	-	-	2,748
Cash at bank and in hand	233,290	-	-	-	233,290
	4,102,082	**(1,473,953)**	**(378,229)**	**(1,661,798)**	**588,102**

Master netting agreements of US$1,807 million (31 December 2010 US$1,474 million) reflect the offsetting of derivative assets with liabilities and collateralised agreements with collateralised financing for which the company 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$9,920 million (31 December 2010 US$2 million) These instruments are captured by market risk in the company's risk management process, they are not assigned internal ratings and constitute the majority of the exposures classified as unrated in the current year

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

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**

24. FINANCIAL RISK MANAGEMENT (continued)

31 December 2010

	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	43,986		(8,120)		35,866
A	3,885,724	(1,397,419)	(370,109)	(1,660,785)	457,411
BBB	122,811	(76,534)	-	(1,013)	45,264
BB	16,162	-	-	-	16,162
B	10,595	-	-	-	10,595
CCC	45	-	-	-	45
Unrated	22,759	-	-	-	22,759
	4,102,082	(1,473,953)	(378,229)	(1,661,798)	588,102

Collateralised Transactions

The company 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 company is permitted to deliver or repledge these financial instruments in connection with entering into repurchase financings, collateralising derivative transactions and meeting firm or customer settlement requirements As of 31 December 2011, the fair value of financial instruments received as collateral and which the company is permitted to deliver or repledge was US$15,085 million (31 December 2010 US$1,690 million), of which the company delivered or repledged US$13 028 million (31 December 2010 US$nil)

The company 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$9,051 million as of 31 December 2011 (31 December 2010 US$nil)

The company has posted cash collateral in respect of financial instruments of US$35 million (31 December 2010 US$62 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 company has in place a comprehensive and conservative set of liquidity and funding policies to address both company-specific and broader industry or market liquidity events The principal objective is to be able to fund the company and to enable the core businesses to continue to generate revenues under adverse circumstances

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

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**

As at 31 December 2010

	Trading / On Demand	Subject to Notice	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Liabilities:							
Customer accounts payable	51,612	324,614	54,011	1,011,076	-	-	1,441,313
Financial instruments	1,866,264	-	-	-	-	-	1,866,264
Other liabilities	46,318	385	44,272	-	1,721	-	92,696
Long term debt	-	-	-	2,683	10,729	113,409	126,821
Subordinated debt	-	-	-	3,472	51,696	85,742	140,910
Total at 31 December 2010	**1,964,194**	**324,999**	**98,283**	**1,017,231**	**64,146**	**199,151**	**3,668,004**

24. FINANCIAL RISK MANAGEMENT (continued)

d. Fair value of financial instruments

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

	Carrying Value		Approximate fair value	
	2011	2010	2011	2010
	US$'000	US$'000	US$'000	US$'000
Long-term subordinated debt (see note 20)	726,922	126,275	669,399	124,663

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

e. Fair value hierarchy

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities This level includes listed debt instruments on exchanges and exchange traded derivatives

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) This level includes the majority of the OTC derivative contracts

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs) This level includes financial instruments with significant unobservable components

The hierarchy requires the use of observable market data when available The company considers relevant and observable market prices in its valuations where possible The following table presents the company's financial instruments owned and financial instruments sold but not yet purchase measured at fair value at 31 December 2011

Financial Assets at Fair Value as of 31 December 2011	**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	-	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**

24. FINANCIAL RISK MANAGEMENT (continued)

Financial Liabilities at Fair Value as of 31 December 2011	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	-	(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)**

During 2011, there were no transfers between level 1 and 2 The following table presents the changes in level 3 instruments for the year ended 31 December 2011

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 31 December 2010	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)**

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

f. Capital management

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

The level and composition of the company'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 company's business and market environment

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

As at 31 December 2011

- Tier 1 capital - US$873,123,000 (2010 US$476,934,000) - 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 (2010 US$85,742,000) - solely comprises qualifying long term subordinated debt

- Tier 3 capital - US$340,740,000 (2010 US$40,533,000) - 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 accounts can be obtained from 200 West Street, New York, NY 10282, United States of America, the group's principal place of business