Company Number. 3769030

GOLDMAN SACHS GROUP HOLDINGS (U.K.)

(unlimited company)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2010

REPORT OF THE DIRECTORS

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

1. Principal activities

Goldman Sachs Group Holdings (U K) ('the company') is a holding company to subsidiaries (together 'the group') that provide a wide range of financial services to clients located worldwide The company operates in a US Dollar environment as part of The Goldman Sachs Group, Inc Accordingly, the company'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 52 week period ended 31 December 2010 Comparative information has been presented for the 57 week period ended 31 December 2009

Business environment

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

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

The profit and loss account for the period is set out on page 10 Net revenue was US$7,844 million for the 52 week period ended 31 December 2010 (57 week period ended 31 December 2009 US$11,989 million) The results for the group show a pre-tax profit of US$1 270 million for the 52 week period ended 31 December 2010 (57 week period ended 31 December 2009 US$5,368 million) The group has total assets of US$753 billion (31 December 2009 US$761 billion) and the company has total assets of US$23 billion (31 December 2009 US$23 billion)

During the period, the group reorganised its three business segments into four new reportable business segments Investment Banking, Institutional Client Services, Investing & Lending and Investment Management Consequently, the prior period information has been presented on a comparable basis Details of the group s business segments are given in note 2 to the financial statements

Investment Banking

The decrease in Investment Banking reflected lower revenues in the Underwriting business, partially offset by higher net revenues in Financial Advisory The decline in Underwriting reflected lower revenues in equity underwriting, principally due to a decline in client activity

REPORT OF THE DIRECTORS

2. Review of business and future developments (continued)

Institutional Client Services

The decrease in Institutional Client Services reflected significantly lower net revenue in Fixed Income, Currency and Commodities Client Execution ('FICC') and, to a lesser extent, Equities During 2010, FICC operated in a challenging environment characterised by lower client activity levels, which reflected broad market concerns including European sovereign debt risk and uncertainty over regulatory reform, as well as tighter bid / offer spreads The decrease in net revenue primarily reflected significantly lower results in interest rate and credit products

The decline in Equities primarily reflected significantly lower net revenues in Equities Client Execution, principally due to significantly lower results in derivatives and shares reflecting lower client activity levels In addition, securities services net revenues were significantly lower, primarily reflecting tighter securities lending spreads, principally due to the impact of changes in the composition of customer balances During 2010, although equity markets were volatile during the first half of the year, equity prices generally improved and volatility levels declined in the second half of the year

Investing & Lending

The decrease in Investing & Lending mainly reflects the liquidation of substantially all of the positions held within the Principal Strategies business during the period

Investment Management

The increase in Investment Management primarily reflect the increase in management and other fees, resulting from both a favourable change in the mix of assets under management and higher average assets under management, as well as higher incentive fees

Administrative Expenses and Interest Payable

Administrative expenses decreased to US$6,216 million for the period (57 week period ended 31 December 2009 US$6,334 million) Administrative expenses include a charge of US$455 million (57 week period ended 31 December 2009 US$1,800 million) relating to the mark-to-market of equity-based compensation awarded in prior periods charged by the The Goldman Sachs Group, Inc and the UK Bank Payroll Tax of US$465 million

Interest payable increased to US$351 million for the period (57 week period ended 31 December 2009 US$344 million) Interest payable primarily includes interest on subordinated debt and senior debt balances during the period

Pension

The group has a pension surplus of US$164 million as at 31 December 2010 (31 December 2009 deficit of US$157 million) following the triennial full valuation performed as at 31 December 2009 including a review of actuarial assumptions The review included a change in the reference price inflation index from the Retail Prices Index ('RPI) to the Consumer Prices Index ('CPI') following the UK Government's announcements on the indexation of benefits, which resulted in a £59 9 million (US$92 5 million) contribution to the surplus In addition, the group made a one-off contribution of £142 million (US$222 million) driving the decrease in the pension deficit and creating the majority of the pension surplus

REPORT OF THE DIRECTORS

2. Review of business and future developments (continued)

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 this group, the company and its subsidiary undertakings seek to be the advisor of choice for its clients and a leading participant in the global financial markets The group's strategy, consistent with that of The Goldman Sachs Group Inc , is to grow its four core businesses, Investment Banking, Institutional Client Services, Investing & Lending and Investment Management in markets throughout the world

Principal risks and uncertainties

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

Economic and market conditions

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

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

Liquidity

Liquidity is essential to the businesses The group'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 group may be unable to control such as a general market disruption or an operational problem that affects third parties or the group or even by the perception amongst market participants that the group is experiencing greater liquidity risk Furthermore, the group'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 group 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

REPORT OF THE DIRECTORS

2 Review of business and future developments (continued)

Credit quality

The group is exposed to the risk that third parties that owe money, securities or other assets will not perform on their obligations These parties may default on their obligations to the group 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 group The group 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 group could result in losses and / or adversely affect the group's ability to use those securities or obligations for liquidity purposes A significant downgrade in the credit ratings of the group's counterparties could also have a negative impact on the group's results While, in many cases, the group is permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral the group is entitled to receive and the value of pledged assets The termination of contracts and the foreclosure on collateral may subject the group to claims for the improper exercise of its rights Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and liquidity

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

Derivative transactions

The group 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 group delivers to the counterparty the underlying security, loan or other obligation in order to receive payment In a number of cases, the group does not hold or is not able to obtain the underlying security, loan or other obligation This could cause the group 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 group 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 group 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 group'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 group's ability to develop derivatives that best suit client and group needs and adversely affect the group's profitability and increase the credit exposure to such a platform

REPORT OF THE DIRECTORS

2. Review of business and future developments (continued)

Operational infrastructure

The group's businesses are highly dependent on its ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies 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 group'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 group's control, such as a spike in transaction volume, adversely affecting the ability to process these transactions or provide these services The group 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 group also faces the risk of operational failure or 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 group will increasingly face the risk of operational failure with respect to clients' systems Any such failure or termination could adversely affect the group'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 group'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 group is located This may include a disruption involving electrical communications, transportation or other services used by the group or third parties with which we conduct business

Technology

Technology is fundamental to the group's businesses and industry The growth of electronic trading and the introduction of new technologies is changing these businesses and presenting the group with new challenges Securities, futures and options transactions are increasingly occurring electronically both on the group'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 group'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 group's systems to trade directly in the markets, the group 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 group 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 group 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 group's ability to profit from market-making positions with exposure to potential losses Whilst the group 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 group may, in the course of its activities, incur losses In addition refer to the financial risk management section (note 29), below

REPORT OF THE DIRECTORS

2. Review of business and future developments (continued)

Future outlook

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

3. Post balance sheet events

On 19 July 2011, the UK Government enacted legislation that imposes an annual non-deductible tax on relevant liabilities, as defined in the legislation, for periods ending on or after 1 January 2011 for certain financial services activities of large banks, including their subsidiaries, that operate in the UK The current estimate of the tax for the year ending 31 December 2011 is approximately US$130 million, which will be accrued in the second half of 2011 The final amount may vary from this estimate as the tax will be based on the relevant liabilities as of 31 December 2011

In addition, on 9 August 2011 Standard & Poor's Ratings Services assigned its 'A+ / A-1' long term and short term counterparty credit ratings to Goldman Sachs International, a subsidiary undertaking of the group

4. Dividends

The directors of Goldman Sachs (UK) L L C, the immediate parent undertaking, agreed to waive receipt of a preference dividend from the company in respect of the period (57 week period ended 31 December 2009 US$nil) The directors do not recommend the payment of a final ordinary dividend in respect of the period (57 week period ended 31 December 2009 US$nil)

5. Exchange rate

The sterling / US Dollar exchange rate at the balance sheet date was £ / US$ 1 5590 (31 December 2009 £ / US$ 1 6154) The average rate for the period was £ / US$ 1 5422 (57 week period ended 31 December 2009 £ / US$ 1 5616)

6. 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

7. 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

REPORT OF THE DIRECTORS

8. Directors

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

Name

M A Allen
D W McDonogh
A S Naik

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

9. Financial risk management

The group's risk management objectives and policies, as well as its risk exposures, are described in note 29 to the financial statements

10 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

11. 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

12. Charitable contributions

During the period, an amount of US$71,745 913 (57 week period ended 31 December 2009 US$92,583 387) was donated to charity

REPORT OF THE DIRECTORS

13. Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss of the company and the group 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 and the group 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 the group 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 the group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities

14. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 28 September 2011

BY ORDER OF THE BOARD

D W. MCDONOGH
Director

28 September 2011

Independent Auditors' Report to the members of Goldman Sachs Group Holdings (U.K.) (unlimited company)

We have audited the financial statements of Goldman Sachs Group Holdings (U K) for the 52 week period ended 31 December 2010 which comprise the group profit and loss account, the group and company balance sheets, the statement of total recognised gains and losses and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group and company's affairs as at 31 December 2010 and of the group's profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Christopher Rowland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 September 2011

PROFIT AND LOSS ACCOUNT

for the 52 week period ended 31 December 2010

	Note	The Group 52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Net revenue	2	7,844,070	11,988,661
Administrative expenses		(6,216,048)	(6,334,230)
OPERATING PROFIT	3	1,628,022	5,654,431
(Loss) / gain on sale of subsidiary undertaking	13(a)	(20,312)	45,756
Share of loss of associate undertaking		-	(1 149)
Other interest receivable and similar income	4	4,562	8,464
Interest payable and similar charges	5	(351 080)	(344,217)
Net finance income	7	8,636	4,841
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,269,828	5,368 126
Tax on profit on ordinary activities	9	(320,670)	(1,269,576)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE PERIOD	26	949,158	4,098,550

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 52 week period ended 31 December 2010

	Note	The Group 52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Profit on ordinary activities after taxation and for the period		949,158	4,098,550
Actuarial gain / (loss) relating to the pension scheme	7	88,214	(300,452)
UK deferred tax attributable to the actuarial gain / (loss)	18	(23 818)	84,127
Exchange (loss) / gain on consolidation		(5,053)	8,008
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL PERIOD AND SINCE LAST FINANCIAL STATEMENTS		1,008,501	3,890,233

The notes on pages 12 to 57 form an integral part of these financial statements
Independent Auditors' report – page 9

GOLDMAN SACHS GROUP HOLDINGS (U.K.)
(unlimited company)

BALANCE SHEET

as at 31 December 2010

	Note	The Group 31 December 2010 US$'000	The Group 31 December 2009 US$'000	The Company 31 December 2010 US$'000	The Company 31 December 2009 US$'000
FIXED ASSETS					
Intangible assets	11	5 380	3 079	-	-
Tangible fixed assets	12	6 029	7 649	-	-
Investments					
Shares in subsidiary undertakings	13(a)	-	-	6,494,173	6,509 861
Shares in associate investment	13(b)	-	-	-	-
Other investments other than loans	13(c)	1 367	5 932	-	11,656
		12,776	16,660	6,494,173	6,521,517
CURRENT ASSETS					
Financial instruments owned	15	474 989 765	500 575 670	-	-
Financial instruments owned and pledged as collateral	15	21,805 808	18,547,582	-	-
Securities purchased under agreements to resell	16	134,393 470	113,687 284	-	-
Debtors	17	109,329,210	113,871,917	16 540 068	16 405 731
Cash at bank and in hand	19	11,970,709	13,857 358	-	-
		752,488 962	760 539 811	16 540 068	16 405 731
CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR					
Financial instruments sold but not yet purchased	15	(427 792 329)	(446 077 907)	-	-
Securities sold under agreements to repurchase	20	(82,366 962)	(65 670 960)	-	-
Other creditors	21	(209 674 074)	(219 426 354)	(13 759 834)	(13,993 651)
		(719 833 365)	(731 175 221)	(13 759 834)	(13,993,651)
NET CURRENT ASSETS		32 655 597	29 364,590	2,780,234	2,412,080
TOTAL ASSETS LESS CURRENT LIABILITIES		32 668 373	29 381 250	9 274 407	8,933,597
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	22	(14 096,061)	(11 527 161)	(5 078 000)	(5 078 000)
PROVISIONS FOR LIABILITIES AND CHARGES	24	(65 000)	(40 000)	-	-
NET ASSETS EXCLUDING PENSION SURPLUS / (DEFICIT)		18,507 312	17,814 089	4 196 407	3,855,597
Pension surplus / (deficit)	7	164 002	(157,178)	-	-
NET ASSETS INCLUDING PENSION SURPLUS / (DEFICIT)		18,671,314	17 656,911	4,196 407	3 855 597
CAPITAL AND RESERVES					
Called up share capital	25	22,473	22 473	22,473	22 473
Capital contribution	26	73,089	67 187	73,089	67,187
Share premium account	26	1 547 032	1 547 032	1 547,032	1 547 032
Merger reserve	26	1 021 395	1 021 395	1 021 395	1 021 395
Capital redemption reserve	26	305 012	305 012	-	-
Profit and loss account	26	15 702 313	14 693 812	1,532 418	1,197 510
TOTAL SHAREHOLDER'S FUNDS	27	18 671 314	17 656 911	4 196 407	3 855 597

The financial statements were approved by the Board of Directors on 28 September 2011 and signed on its behalf by

D.W McDONOGH
Director
28 September 2011

The notes on pages 12 to 57 form an integral part of these financial statements
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Company number 3769030

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES

a. Accounting convention

The financial statements have been prepared on a going concern basis under the historical cost convention (modified as explained in note 1(n) and note 1(o)), the accounting policies set out below and in accordance with the Companies Act 2006 and applicable accounting standards

b Consolidation

The consolidated financial statements include the company and all of its subsidiaries Acquisition accounting is used to consolidate subsidiaries acquired during the period In accounting for subsidiaries the group consolidates fully their assets, liabilities and results for the period All inter-company balances and transactions are eliminated from the consolidated accounts The accounting reference date of the company and its subsidiary undertakings is 31 December, with the exception of those subsidiaries which because of certain considerations, have different accounting reference dates The financial statements of these subsidiaries have been consolidated on the basis of interim financial statements for the period to 31 December

c. Revenue recognition

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

i. Investment banking

Financial advisory / underwriting revenues

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

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

ii Investment management

Management fees

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

Incentive fees

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

c Revenue recognition (continued)

iii. Institutional client services and investing & lending

Financial assets and liabilities held for trading

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

Commissions

Commission revenues from executing and clearing client transactions on stock, options and futures, fees and commissions for the provision of prime brokerage custodian services and fees and commission from agency lending business are recognised on the day the trade is executed and are included in net revenues

d. Leases

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

The group acts as the lessor under finance lease agreements Assets leased to counterparties are derecognised at the inception of the lease Debtors under finance leases are included within other debtors and represent outstanding amounts due under the agreements less finance charges allocated to future periods Finance lease interest income is recognised in other interest receivable and similar income over the period of the lease so as to give a constant rate of return on the net investment in the leases

The group acts as the lessee under operating lease agreements Assets leased from counterparties are not recognised on the balance sheet Rental expense in respect of operating leases less any incentives granted by the lessor, are charged on a straight-line basis over the lease term and included within administrative expenses in the profit and loss account

e. Short-term employee benefits

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

f Share-based payments

The Goldman Sachs Group, Inc issues awards in the form of restricted stock units ('RSUs') and stock options to the group's employees for services rendered to the group 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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1 ACCOUNTING POLICIES (continued)

f. Share-based payments (continued)

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

g Foreign currencies

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

h Pension cost

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

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

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

i Goodwill

Where the fair value of the separable net assets is less than the fair value of the consideration for an acquired undertaking the difference is treated as positive goodwill Positive goodwill is capitalised and amortised in the profit and loss account on a straight line basis Provision is made for any impairment

Where the fair value of the separable net assets exceeds the fair value of the consideration for an acquired undertaking the difference is treated as negative goodwill which is initially recognised on the balance sheet Negative goodwill, up to the amount of the fair value of the non monetary assets acquired is recognised in the profit and loss account in the period in which the non monetary assets are recovered Any negative goodwill in excess of the fair value of the non monetary assets acquired is recognised in the profit and loss account in the period expected to benefit

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1 ACCOUNTING POLICIES (continued)

j. Dividends

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

k. 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
Motor vehicles	20

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

l Fixed asset investments

Fixed asset investments comprise shares in subsidiary undertakings, shares in associate investments and other investments other than loans These are stated at cost or amortised cost, as applicable less provision for any impairment except for equity investments in the group accounts which are stated at fair value and shares in associate investments, which are accounted for under the equity method by the group

m Offsetting financial assets and liabilities

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

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

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

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

n. Financial instruments held for trading

Financial assets and liabilities held for trading are recorded at fair value The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i e the exit price Financial assets are marked to bid prices and financial liabilities are marked to offer prices Fair value measurements do not include transaction costs Fair value gains or losses are included in net revenue

The best evidence of fair value is a quoted price in an active market If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market-based or independently sourced parameters, including but not limited to interest rates, volatilities equity or debt prices, foreign exchange rates and credit curves The fair value of certain financial assets and financial liabilities may include valuation adjustments for counterparty and The Goldman Sachs Group, Inc 's credit quality, transfer restrictions, large and / or concentrated positions, illiquidity and bid / offer inputs

1. ACCOUNTING POLICIES (continued)

n. Financial instruments held for trading (continued)

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 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 group 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 group'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 group 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 group 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 group 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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1 ACCOUNTING POLICIES (continued)

n Financial instruments held for trading (continued)

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

o. Repurchase and resale agreements

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

p. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax in the future or a right to pay less tax in the future Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date Deferred tax is recognised in the profit and loss account or directly in the statement of total recognised gains and losses according to where the associated gain or loss, to which the deferred tax is attributable, is recognised

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis

q. Provisions and contingent liabilities

Provisions are recognised 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 Legal obligations that may arise as a result of proposed new laws are recognised as obligations only when the legislation is virtually certain to be enacted as drafted

Contingent liabilities are

(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 group 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, but disclosure is made, unless the probability of settlement is remote

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

1 ACCOUNTING POLICIES (continued)

r. Non-trading financial assets and liabilities

Non-trading financial assets and liabilities primarily comprise long term subordinated debt, loan notes issued other debtors, other creditors, amounts due from group undertakings and amounts due to group undertakings They are initially recognised at fair value and subsequently measured at amortised cost, with finance income and expense recognised on an accruals basis All finance income and expense is recognised in the profit and loss account

s. Classification of financial instruments issued

Financial liabilities and equity instruments issued 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 company after deducting all liabilities Financial 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 which is measured at fair value, and the equity component is assigned the residual amount

t. Reporting and disclosure exemption

i. FRS1 - 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 - 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 FRS 8 - Related party disclosures, the company and those of its subsidiaries that are wholly-owned are exempt from disclosing transactions with other companies also wholly owned within The Goldman Sachs Group, Inc There were no other related party transactions requiring disclosure

2 SEGMENTAL REPORTING

The group has revised its reporting segments in line with that of The Goldman Sachs Group, Inc This change is a reallocation between segments and does not impact net revenue in either the current or prior periods The group's net revenue is categorised into the following principal segments

	52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Investment Banking	1,020,240	1,236,706
Institutional Client Services	5 936,187	9 853 270
Investing & Lending	271 774	313,934
Investment Management	615,869	584,751
	7,844,070	**11,988,661**

2. SEGMENTAL REPORTING (continued)

Investment Banking

Investment Banking activities consist of

- *Financial Advisory* – includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defence activities, risk management, restructuring and spin offs, and
- *Underwriting* – includes public offerings and private placements of a wide-range of securities, loans and other financial instruments, and derivative transactions directly related to client underwriting activities

Institutional Client Services

Institutional Client Services is comprised of

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

Investing & Lending

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

Investment Management

Investment Management provides investment management services and offers investment products across all major asset classes to a diverse set of institutional and individual clients Investment management also offers investment advisory services including portfolio management and counselling services, and brokerage and other transaction services to high-net-worth individuals and families

Geographical Analysis

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

3 OPERATING PROFIT

		The Group	
		52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Operating profit is stated after charging / (crediting):			
Depreciation of tangible fixed assets (see note 12)		3,904	5,291
Fees payable to the company's auditors for the audit of the company's annual accounts		186	189
Fees payable to the company's auditor and its associates for other services			
Audit of the company's subsidiaries pursuant to legislation		5,819	5,557
Other services pursuant to legislation provided by auditors		329	333
Management fees charged by group undertakings		456,630	498,386
Management fees charged to group undertakings		(77,201)	(46,562)
Amortisation of goodwill (see note 11)		2 301	4,387
Operating lease rentals	- land and buildings	94,476	103,625
Trading interest payable	- group undertakings	827,116	2,298,223
	- other	1,935,008	2,967,356
Trading interest receivable	- group undertakings	(196,538)	(1,391,129)
	- other	(2,874,837)	(3,890,965)

4. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group	
	52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Interest on overnight deposits	122	28
Interest on loans to parent and group undertakings	219	1,614
Interest on loans to banks and customers	3 340	3,033
Other interest receivable	881	3,789
	4,562	**8,464**

5. INTEREST PAYABLE AND SIMILAR CHARGES

	The Group	
	52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Interest on loans from parent and group undertakings	349,251	338,917
Interest on deposits from banks and customers	1,376	1,977
Other interest payable	453	3,323
	351,080	**344,217**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

6. DIRECTORS' EMOLUMENTS

	The Group	
	52 week period ended 31 December 2010 US$'000	**57 week period ended 31 December 2009 US$'000**
Aggregate emoluments	38	52
Company pension contributions to money purchase schemes	-	-
	38	**52**

In accordance with the Companies Act 2006, directors emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only Directors also receive emoluments for non-qualifying services which are not required to be disclosed

All directors are members of the defined contribution pension scheme and the defined benefit pension scheme All directors have been granted shares in respect of a long term incentive scheme One director has exercised options

7. STAFF COSTS

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

	52 week period ended 31 December 2010 Number	**57 week period ended 31 December 2009 Number**
Investment Banking	574	568
Institutional Client Services	1 540	1,390
Investing & Lending	127	140
Investment Management	439	389
Support Functions	2,707	2,525
	5,387	**5,012**

The group's average number of employees is categorised into the four principal segments, per note 2, and Support Functions Accordingly, the comparatives have been revised to be consistent with the current period's presentation

The group has the use of a number of individuals who are employed by affiliated entities and seconded to the group These seconded individuals are included in the disclosure of headcount and related staff costs

In addition to the above, an average number of 600 (57 week period ended 31 December 2009 526) consultants and temporary staff are included in the group's headcount, the costs of whom are included in the staff costs, below

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

7. STAFF COSTS (continued)

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

	52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Aggregate gross wages and salaries	4,336,700	4,862,140
Employer's National Insurance Contributions	447,585	510,506
UK Bank Payroll Tax	465,000	-
Pension costs, employer contributions to the		
Defined contribution scheme (including defined contributions to the hybrid scheme)	50,615	39,873
Defined benefit scheme	46,486	54,337
Total direct costs of employment	**5,346,386**	**5,466,856**

Staff costs include a charge of US$455 million (57 week period ended 31 December 2009 US$1,800 million) relating to the mark-to-market of equity-based compensation

Pension schemes

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

A full actuarial valuation of the Plan was carried out by a qualified independent actuary as at 31 December 2009 using the projected unit funding method and updated to 31 December 2010

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

	52 week period ended 31 December 2010 % per annum	57 week period ended 31 December 2009 % per annum
Discount rate	5 40	5 65
Rate of increase in salaries	4 00	4 00
Rate of increase in pensions (post-30 November 1996 accrual)	3 85	3 90
Rate of increase in pensions in deferment (post-30 November 2006 accrual)	3 15	3 90
Rate of price inflation	3 85	3 90

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

The rate of price inflation assumption was changed from referencing the Retail Prices Index ('RPI') to the Consumer Prices Index ('CPI) following the UK Government's announcements on the indexation of benefits resulting in a gain of £59 9 million (US$92 5 million)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

7. STAFF COSTS (continued)

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

	31 December 2010		31 December 2009	
	Expected rate of return % p.a.	Market value US$m	Expected rate of return % p.a.	Market value US$m
Equities	8 7	645 0	8 4	493 2
Bonds	4 5	129 2	4 9	126 2
Cash and reinvested cash	4 1	279 4	4 6	125 5
Total market value of assets		**1,053.6**		**744.9**

Development of the balance sheet:

	31 December 2010 US$m	31 December 2009 US$m	28 November 2008 US$m	30 November 2007 US$m	24 November 2006 US$m
Market value of Plan assets	1,053 6	744 9	524 1	590 3	430 1
Actuarial value of Plan liabilities	889 6	902 1	395 0	698 5	547 6
Surplus / (deficit) in the Plan and pension asset / (liability) recognised in the balance sheet before deferred taxation	**164 0**	**(157.2)**	**129 1**	**(108.2)**	**(117.5)**

The defined benefit cost was formed of the following components:

	52 week period ended 31 December 2010 US$m	57 week period ended 31 December 2009 US$m
Analysis of amounts charged to operating profit:		
Current service cost	51 4	42 5
Total charged to operating profit	**51.4**	**42.5**
Analysis of the amount credited to net finance income·		
Interest on Plan liabilities	48 4	31 1
Expected return on assets in the Plan	(57 0)	(35 9)
Total credited to net finance income	**(8.6)**	**(4 8)**
Total charged to profit and loss before tax	**42 8**	**37.7**
Analysis of amounts recognised in the statement of total recognised gains and losses.		
Gain on assets	(14 0)	(107 0)
Experience gain on liabilities	(48 6)	(17 2)
(Gain) / loss in assumptions (financial and demographic)	(25 6)	424 7
Total (gain) / loss recognised in the statement of total recognised gains and losses before tax	**(88.2)**	**300.5**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

7 **STAFF COSTS (continued)**

History of experience gains and losses are as follows:

	31 December 2010	31 December 2009	28 November 2008	30 November 2007	24 November 2006
(Gain) / loss on Plan assets					
Amount (US$m)	(14 0)	(107 0)	115 8	(66 8)	(47 5)
% of Plan assets at end of the period	1 3%	14 4%	22 1%	11 3%	11 0%
Experience (gain) / loss on Plan liabilities:					
Amount (US$m)	(48 6)	(17 2)	(15 9)	38 7	30 4
% of Plan liabilities at end of the period	5 5%	1 9%	4 0%	5 5%	5 6%
Total actuarial (gain) / loss recognised in statement of total recognised gains and losses.					
Amount (US$m)	(88 2)	300 5	(153 9)	(46 5)	12 3
% of Plan liabilities at end of the period	9 9%	33 3%	39 0%	6 7%	2 3%

Analysis of the movement in Plan assets during the period

	52 week period ended 31 December 2010 US$m	57 week period ended 31 December 2009 US$m
Plan assets at the start of the period	744 9	524 1
Expected return on Plan assets	57 0	35 9
Gain on assets	14 0	107 0
Contributions paid – Employer	266 8	55 0
Benefits paid	(6 8)	(10 2)
Foreign exchange (loss) / gain on translation of Plan assets	(22 3)	33 1
Plan assets at the end of the period	**1,053.6**	**744.9**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

7. STAFF COSTS (continued)

Analysis of the movement in Plan liabilities during the period

	52 week period ended 31 December 2010 US$m	57 week period ended 31 December 2009 US$m
Plan liabilities at the start of the period	902 1	395 0
Current service cost	51 4	42 5
Interest on Plan liabilities	48 4	31 1
(Gain) / loss on change in assumptions	(25 6)	424 7
Experience gain	(48 6)	(17 2)
Benefits paid	(6 8)	(10 2)
Foreign exchange (gain) / loss on translation of Plan liabilities	(31 3)	36 2
Plan liabilities at the end of the period	**889.6**	**902.1**

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

	52 week period ended 31 December 2010 US$m	57 week period ended 31 December 2009 US$m
(Deficit) / surplus in the Plan at the start of the period	(157 2)	129 1
Contributions paid – Employer	266 8	55 0
Current service cost	(51 4)	(42 5)
Net finance income	8 6	4 8
Actuarial gain / (loss)	88 2	(300 5)
Foreign exchange gain / (loss) on translation of (deficit) / surplus	9 0	(3 1)
Surplus / (deficit) in the Plan at the end of the period	**164.0**	**(157.2)**

Additional disclosures:

	52 week period ended 31 December 2010 US$m	57 week period ended 31 December 2009 US$m
Expected future benefit payments for the period to 31 December 2011 / 31 December 2010	7 0	10 3
Expected contributions for the period to 31 December 2011 / 31 December 2010 – Employer	46 0	277 4
Actual return on Plan assets during the period ended 31 December 2010 / 31 December 2009		
Expected return on Plan assets	57 0	35 9
Asset gain during the period	14 0	107 0
Actual return on Plan assets	**71.0**	**142.9**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

7. STAFF COSTS (continued)

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

	31 December 2010 US$m	31 December 2009 US$m
Actuarial loss relating to the pension scheme	(39 4)	(127 6)
UK deferred tax attributable to the actuarial loss	12 4	36 2
Net cumulative amount recognised in the statement of total recognised gains and losses	**(27.0)**	**(91.4)**

In addition to the plan described above, the group also operates a number of defined contribution plans The total contribution cost of these plans for the period is the £221,573 (US$341,710) (57 week period ended 31 December 2009 £187,159 (US$292,265)) There is no amount in respect of this cost that remains payable at the balance sheet date (2009 US$nil)

8. SHARE-BASED PAYMENTS

Stock incentive plan

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

Restricted stock units (RSUs')

The Goldman Sachs Group Inc issued RSUs to the group's employees under the SIP, primarily in connection with period-end compensation RSUs are valued based on the closing price of the underlying shares at the date of grant Period end RSUs generally vest and deliver as outlined in the applicable restricted stock unit 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 forth below

	31 December 2010 No. of RSUs		31 December 2009 No. of RSUs	
	No future service requirement	Future service requirement	No future service requirement	Future service requirement
Outstanding at the beginning of the period	6,730,435	5 728,832	9,924,544	3,822,556
Granted during the period	4,201,454	9,129,145	51,560	7,068,872
Forfeited during the period	(67 459)	(478,345)	(47,366)	(725,666)
Delivered during the period	(4,977,933)	-	(7,528,978)	-
Transferred in / (out) during the period	2,430	(370,320)	18,257	(124,512)
Vested during the period	5,207,496	(5,207 496)	4,312,418	(4,312,418)
Outstanding at the end of the period	**11,096,423**	**8,801,816**	**6,730,435**	**5,728,832**

The weighted average fair value of the equity instruments granted during the 52 week period ended 31 December 2010 was US$134 24 (57 week period ended 31 December 2009 US$75 47) The fair value of the RSUs granted during the 52 week period ended 31 December 2010 and the 57 week period ended 31 December 2009 includes a liquidity discount of 11 1% and 11 4%, respectively, to reflect post-vesting transfer restrictions of up to 4 years

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

8. SHARE-BASED PAYMENTS (continued)

Stock options

Stock options granted to employees generally vest as outlined in the applicable stock option agreement No options were granted for the 52 week period ended 31 December 2010 Options granted for the 57 week period ended 31 December 2009 are exercisable in one-third annual instalments from January 2010 and expire on 31 December 2018 All employee stock option agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence In general all stock options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the SIP and the applicable stock option agreement The activity related to these stock options is set forth below

	31 December 2010		31 December 2009	
	No of share options	Weighted average exercise price US$	No. of share options	Weighted average exercise price US$
Outstanding at the beginning of the period	13,787,180	89 24	5,580,549	104 57
Granted during the period	-	-	9,606,716	78 78
Forfeited during the period	(95,144)	78 37	(90 422)	78 82
Transferred out during the period	(64 672)	78 78	(57 794)	78 78
Exercised during the period	(1,684,352)	84 39	(1,250,801)	78 57
Expired during the period	(7,089)	82 88	(1,068)	95 85
Outstanding at the end of the period	**11,935,923**	**90.07**	**13,787,180**	**89.24**
Exercisable at the end of the period	**5,258,044**	**92.41**	**3,481,757**	**90.10**

For those options exercised during the period, the weighted average share price at the date of exercise was US$163 15 (57 week period ended 31 December 2009 US$150 48) The options outstanding as at 31 December 2010 and 31 December 2009 are set forth below

	31 December 2010		31 December 2009	
	No. of share options outstanding	Weighted average remaining contractual life (years)	No of share options outstanding	Weighted average remaining contractual life (years)
Exercise price				
\$75 00-\$89 99	9,679,264	7 61	11,098,980	7 94
\$90 00-\$104 99	1,120,629	1 01	1,552,170	2 01
\$120 00-\$134 00	288,720	4 92	288 720	5 92
\$195 00-\$209 99	847,310	6 51	847 310	7 51
Outstanding at the end of the period	**11,935,923**		**13,787,180**	

8. SHARE-BASED PAYMENTS (continued)

The fair value of options granted during the 57 week period ended 31 December 2009 was estimated as of the grant date based on a Black-Scholes option-pricing model principally using the following weighted average assumptions

	31 December 2009
Risk-free interest rate	1 1%
Expected volatility	50 1%
Expected dividends	$1 40
Expected life	4 0 years

The expected volatility assumption is determined by management based on implied volatility data for listed options on The Goldman Sachs Group, Inc common stock This information is typically not available for the full term of the options which have been granted Accordingly, management estimates longer-dated volatilities using a combination of available market data for these shorter dated listed options and other implied volatility data for comparable entities and / or benchmark indices

The common stock underlying the options granted during the 57 week period ended 31 December 2009 is subject to transfer restrictions until January 2014 The value of the common stock underlying the options granted during the 57 week period ended 31 December 2009 has been discounted by 26 7% to reflect these transfer restrictions

The group recorded total share-based compensation expenses net of forfeitures of US$1,272 million for the 52 week period ended 31 December 2010 (57 week period ended 31 December 2009 US$743 million) related to the amortisation of equity awards The corresponding credit to equity has been transferred to liabilities as a result of the terms of the intercompany agreements with The Goldman Sachs Group, Inc

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

a. Analysis of tax charge for the period

	The Group	
	52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Current tax		
UK corporation tax at 28% - current period	458,834	1,667,547
UK corporation tax - prior period	72,377	(43,907)
Overseas taxation	59,147	67,095
Total current tax (see note 9b)	**590,358**	**1,690,735**
Deferred tax		
Provisions and other timing differences	(269,917)	(421,159)
Adjustments in respect of prior periods	229	-
Total deferred tax (see note 18)	**(269,688)**	**(421,159)**
Tax on profit on ordinary activities	**320,670**	**1,269,576**

9 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

b. Factors affecting tax charge for the period:

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

	The Group	
	52 week period ended 31 December 2010 US$'000	57 week period ended 31 December 2009 US$'000
Profit on ordinary activities before tax	1,269,828	5,368,126
Profit on ordinary activities multiplied by standard rate in the UK 28% (2009 28%)	355,552	1,503,075
Expenses disallowed for the purposes of tax provision	132,739	2,518
Accelerated capital allowances and other timing differences	(98 487)	(70,729)
Timing differences in respect of equity-based compensation	282,876	531,089
Exchange differences	5,037	4,765
Pension contribution relief in excess of net pension cost charge	(4,137)	(2 727)
Group relief surrendered for nil consideration	(38 005)	(72,777)
Adjustment to tax in respect of prior periods	72,377	(43 907)
Non taxable net income	(117,594)	(160,572)
Current tax charge for the period	**590,358**	**1,690,735**

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

10. COMPANY PROFIT FOR THE PERIOD

Of the group's profit for the period, a profit of US$334 9 million (2009 loss of US$7 9 million) has been dealt with in the financial statements of the company As permitted by section 408 of the Companies Act 2006 the company's profit and loss account has not been included in these financial statements

11. INTANGIBLE ASSETS

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

	The Group		
	Positive Goodwill US$'000	Negative Goodwill US$'000	Total US$'000
Cost			
At 31 December 2009 and 31 December 2010	**27,447**	**(23,946)**	**3,501**
Accumulated Amortisation			
At 31 December 2009	(4,768)	4,346	(422)
Charge for period	(5,246)	7,547	2,301
At 31 December 2010	**(10,014)**	**11,893**	**1,879**
Net Book Value			
At 31 December 2009	22,679	(19,600)	3,079
At 31 December 2010	**17,433**	**(12,053)**	**5,380**

12. TANGIBLE FIXED ASSETS

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

	The Group			
	Leasehold improvements US$'000	Fixtures fittings & equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost				
At 31 December 2009	19,444	8,596	16	28,056
Additions	1,864	505	-	2,369
Disposals	-	(1,211)	-	(1,211)
Currency translation	(3)	33	-	30
At 31 December 2010	**21,305**	**7,923**	**16**	**29,244**
Accumulated Depreciation				
At 31 December 2009	15,258	5 133	16	20 407
Charge for period	2 425	1 479	-	3,904
Disposals	-	(1,113)	-	(1,113)
Currency translation	(8)	25	-	17
At 31 December 2010	**17,675**	**5,524**	**16**	**23,215**
Net Book Value				
At 31 December 2009	4,186	3,463	-	7,649
At 31 December 2010	**3,630**	**2,399**	**-**	**6,029**

13. FIXED ASSET INVESTMENTS

a. Shares in subsidiary undertakings (at cost)

Shares in subsidiary undertakings are unlisted and stated at cost less provision for impairment

	The Company US$'000
At 31 December 2009	6,509,861
Additions (see note i)	24,454
Disposals (note ii)	(39,996)
Impairments (note iii)	(146)
At 31 December 2010	**6,494,173**

During the period, the following movements in shares in subsidiary undertakings took place

(i) On 21 January 2010, the company was allotted 90,000 redeemable shares of £1 each issued by Money Partners Holdings Limited, for a total consideration of £90,000 (US$145,881)

On 17 March 2010, the company was allotted 4,000,000 ordinary shares of US$1 each issued by Money Partners Financial Company Limited, for a total consideration of US$4,000,000

During the period, the company was allotted 20,308,000 ordinary shares of US$1 each issued by GS Liquid Trading Platform I PCC, for a total consideration of US$20,308,000 In addition, the company was allotted 42 ordinary shares of £1 each for a total consideration of £42 (US$66)

(ii) On 3 February 2010, the company sold 20 ordinary shares of US$1 each, being the entire share capital issued by GS Euro Investments to ELQ Investors Limited, a fellow group undertaking, for a total consideration of US$10 852,836 This sale resulted in a loss to the company of US$9,145,148

On 3 February 2010, the company sold 20 ordinary shares of US$1 each, being the entire share capital issued by GS Euro Management to ELQ Investors Limited, a fellow group undertaking, for a total consideration of US$8,831,244 This sale resulted in a loss to the company of US$11,166,740

(iii) A write down of US$145,881 has been made against the cost of shares in subsidiary undertakings as the value of the investments were less than their book value The directors consider that this represents a permanent diminution in value

13. FIXED ASSET INVESTMENTS (continued)

The subsidiaries of the group and the effective ownership interests to the nearest whole percent in the ordinary and preference shares at the period end are listed below

Name of company and principal activity	Group interest in shares issued	Of which, owned directly by the company
Goldman Sachs Asset Management International* (fund manager)	100% Ordinary shares 100% Preference shares	1% Ordinary shares 99% Preference shares
Goldman Sachs International Bank* (bank loan and related activities)	100% Ordinary shares 100% Preference shares	100% Ordinary shares 100% Preference shares
Montague Place Custody Services* (custodian services)	100% Ordinary shares	1% Ordinary shares
Goldman Sachs International* (securities dealer)	100% Ordinary shares 100% Preference shares	1% Ordinary shares 46% Preference shares
Goldman Sachs International Finance* (non-trading)	100% Ordinary shares	0% Ordinary shares
Goldman Sachs Europe Limited* (service company)	100% Ordinary shares	0% Ordinary shares
Fleet Trade & Transport Limited* (oil and shipping operations)	100% Ordinary shares	100% Ordinary shares
Goldman Sachs Holdings (U K)* (holding company)	100% Ordinary shares 100% Preference shares	100% Ordinary shares 100% Preference shares
Goldman Sachs Securities (Nominees) Limited* (nominee shareholder)	100% Ordinary shares	0% Ordinary shares
Restamove Limited* (dormant)	100% Ordinary shares	0% Ordinary shares
Dunvegan Investments Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
Goldman Sachs (Jersey) Limited* (issuer of covered warrants)	100% Ordinary shares	0% Ordinary shares
Shire UK Limited* (investment company)	100% Ordinary shares	100% Ordinary shares
Shire Funding Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
Shire Assets* (investment company)	100% Ordinary shares	0% Ordinary shares
Shire II Assets Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
Goldman Sachs (Monaco) S A M* (fund manager)	100% Ordinary shares	100% Ordinary shares
Scadbury UK Limited* (investment company)	100% Ordinary shares	100% Ordinary shares
Scadbury Funding Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
Scadbury Assets* (investment company)	100% Ordinary shares	0% Ordinary shares
Scadbury II Assets Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
Amagansett Financing Limited* (investment company)	100% Ordinary shares 100% Preference shares	100% Ordinary shares 0% Preference shares

13. FIXED ASSET INVESTMENTS (continued)

Name of company and principal activity	Group interest in shares issued	Of which, owned directly by the company
Killingholme Power Group Limited* (investment company)	100% Ordinary shares	100% Ordinary shares
Killingholme Generation Limited* (investment company)	100% Ordinary shares 100% Redeemable shares	0% Ordinary shares 0% Redeemable shares
Killingholme Holdings Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
GS Killingholme Cayman Investments Ltd * (investment company)	100% Ordinary shares	0% Ordinary shares
GS Killingholme Cayman Investments II Ltd * (investment company)	100% Ordinary shares	0% Ordinary shares
KPL Holdings Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
GS Leasing No 1 Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
GS Leasing No 3 Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
GS Leasing* (leasing partnership)	100% Partnership interest	0% Partnership interest
GS Equipment Finance II Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
GS Equipment Finance I Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
GS Leasing Management Limited* (investment company)	100% Ordinary shares	100% Ordinary shares
Forres LLC* (investment company)	100% Ordinary shares 100% Preference shares	0% Ordinary shares 0% Preference shares
Forres Investments Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
Hechshire* (investment company)	100% Ordinary shares	0% Ordinary shares
GS Funding Management Limited* (investment company)	100% Ordinary shares 100% Preference shares	0% Ordinary shares 0% Preference shares
GS Funding Investments Limited* (investment company)	100% Ordinary shares 100% Preference shares	0% Ordinary shares 0% Preference shares
GS Liquid Trading Platform I PCC* (investment company)	100% Ordinary shares	100% Ordinary shares
GS Liquid Trading Platform II Limited* (investment company)	100% Ordinary shares	100% Ordinary shares
GS Leasing Holdings Limited* (leasing holding company)	100% Ordinary shares	100% Ordinary shares
Money Partners Financial Company Limited* (investment company)	100% Ordinary shares	100% Ordinary shares
Money Partners Holdings Limited* (holding company)	100% Ordinary shares 100% Redeemable shares	100% Ordinary shares 100% Redeemable shares
Money Partners Limited* (dormant)	100% Ordinary shares	0% Ordinary shares
Money Partners Finance Limited* (dormant)	100% Ordinary shares	0% Ordinary shares

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

13. FIXED ASSET INVESTMENTS (continued)

Name of company and principal activity	Group interest in shares issued	Of which, owned directly by the company
Residential 1 Limited* (in liquidation)	100% Ordinary shares	0% Ordinary shares
KPL Finance Limited* (investment company)	100% Ordinary shares	100% Ordinary shares
KPL Acquisitions Limited* (investments company)	100% Ordinary shares	0% Ordinary shares
GS Killingholme Cayman Investments III* (investment partnership)	100% Partnership interest	0% Partnership interest
Beheer - En Beleggingsmaatschappij Befraco B V * (lease holding company)	100% Ordinary shares	0% Ordinary shares
Nufcor International Limited* (trading company)	100% Ordinary shares	100% Ordinary shares
Nufcor Capital Limited* (investment advisory services)	100% Ordinary shares	0% Ordinary shares
Sphere Fundo De Investimento Multimercado - Investimento No Exterior Credito Privado** (investment fund)	100% Units	0% Units
Sphere Fundo** (investment fund)	100% Units	0% Units

*Subsidiary undertakings of the group as at 31 December 2009

**Entity incorporated during the period by indirectly subscribing for 100% of the entity's units

All the above subsidiary undertakings are registered in England and Wales except for the following

- Goldman Sachs Europe Limited, Goldman Sachs (Jersey) Limited, GS Liquid Trading Platform I PCC and GS Liquid Trading Platform II Limited are incorporated in Jersey

- Dunvegan Investments Limited, Shire Funding Limited, Shire II Assets Limited, Scadbury Funding Limited, Scadbury II Assets Limited, Amagansett Financing Limited, GS Killingholme Cayman Investments Ltd , GS Killingholme Cayman Investments II Ltd , GS Leasing No 1 Limited, GS Leasing No 3 Limited, GS Leasing, GS Equipment Finance II Limited, GS Equipment Finance I Limited, GS Leasing Management Limited, Forres Investments Limited, GS Funding Management Limited, GS Funding Investments Limited, KPL Finance Limited, KPL Acquisitions Limited, GS Killingholme Cayman Investments III and KPL Holdings Limited are incorporated in the Cayman Islands

- Goldman Sachs (Monaco) S A M is incorporated in Monaco

- Forres LLC is incorporated in Delaware

- Beheer – En Beleggingsmaatschappij Befraco B V is incorporated in the Netherlands

- Sphere Fundo De Investimento Multimercado - Investimento No Exterior Credito Privado and Sphere Fundo are incorporated in Brazil

13. FIXED ASSET INVESTMENTS (continued)

b. Shares in associate investment

The associate of the group and the effective ownership interest in the ordinary shares at the period end is listed below

Name of company and activity	Group interest in shares issued	Of which, owned directly by the company
Barrie & Hibbert Limited Registered in Scotland (Financial risk consultancy)	30 94% Ordinary shares	30 94% Ordinary shares

The group's share of net assets at 31 December 2010 is US$nil (31 December 2009 US$nil) The company's cost of investment of US$14 6 million was fully impaired in the prior period

c. Other investments other than loans

The balance at 31 December 2010 and 31 December 2009 comprises

	The Group		The Company	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	US$'000	US$'000	US$'000	US$'000
Shares in group undertakings (see note i)	66	66	-	-
Other equity investments	1,290	5,848	-	11,656
Debentures (see note ii)	11	18	-	-
	1,367	**5,932**	**-**	**11,656**

(i) Shares in the group undertakings represent the following

Name of company and activity	%	Number in issue	Class	Nominal
Goldman Sachs Saudi Arabia	0 5	5,000,000	Ordinary	SAR 10

(ii) The movement in debentures during the period were as follows

	Debentures
	US$'000
Cost	
At 31 December 2009 and 31 December 2010	**78**
Amortisation	
At 31 December 2009	60
Charge for period	7
At 31 December 2010	**67**
Net Book Value	
At 31 December 2009	18
At 31 December 2010	**11**

The directors consider that the value of other investments other than loans is not less than their book value

14 QUASI SUBSIDIARIES

The group, in the ordinary course of business, utilises certain vehicles, which though not fulfilling the definition of a subsidiary, give rise to benefits for the group that are in substance no different from those that would arise were the vehicles treated as subsidiaries As a result, these entities are consolidated

The group utilises certain vehicles to meet investors objectives These are primarily

- Asset-repacked note issuing vehicles These vehicles purchase assets by issuing debt instruments and by entering into derivative contracts The group has entered into interest rate, foreign currency and equity derivatives with these vehicles The vehicles produce no material net cash flows Cash flows received from assets and derivatives held by the vehicles are paid either directly or indirectly, via debt securities issued, to the debt holders In addition, given that all derivatives held by the vehicles offset risks inherent in its assets and liabilities, the vehicles do not produce any material net profit or loss

- Fund linked note structures These vehicles issue notes that offer the investor exposure to a portfolio of investments predominantly in fund form Where these notes are principal protected, this protection is achieved via a mechanism under which the group pays the vehicle any shortfall between the net asset value and the notional of the issued notes at their maturity

The combined balance sheet of these quasi-subsidiaries consolidated into the group's financial statements, is as follows

	31 December 2010	31 December 2009
	US$'000	US$'000
Assets		
Financial instruments owned	621,406	2,851,676
Liabilities		
Debt securities issued	(621,406)	(2,851,676)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

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

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

	31 December 2010 US$'000	31 December 2009 US$'000
Cash instruments:		
Government & agency obligations	31,276,576	30,233,221
Equities	21,156,001	17,982,462
Corporate debt	13,105,651	15,859,215
Commercial paper	2,766,265	263,723
Commodities	119,264	62,604
	68,423,757	**64,401,225**
Derivative instruments:		
Credit	156,709,124	194,123,255
Interest rate	137,015,559	113,753,870
Equity	79,019,306	94,517,522
Foreign currency	44,525,594	39,089,278
Commodities	11,102,233	13,238,102
	428,371,816	**454,722,027**
	496,795,573	**519,123,252**
Financial instruments owned	474,989,765	500,575,670
Financial instruments owned pledged as collateral	21,805,808	18,547,582
	496,795,573	**519,123,252**

Financial instruments sold, but not yet purchased comprises

	31 December 2010 US$'000	31 December 2009 US$'000
Cash instruments:		
Government & agency obligations	23,313,148	20,415,648
Equities	12,559,308	10,645,428
Corporate debt	2,717,824	3,107,553
	38,590,280	**34,168,629**
Derivative instruments:		
Credit	136,775,581	169,394,530
Interest rate	131,330,550	110,264,360
Equity	66,757,981	82,731,197
Foreign currency	44,680,242	37,973,415
Commodities	9,657,695	11,545,776
	389,202,049	**411,909,278**
	427,792,329	**446,077,907**

16. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Included within the resale agreements are amounts of US$38,838 million (31 December 2009 US$12,542 million) which relate to group undertakings

17. DEBTORS

	The Group		The Company	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	US$'000	US$'000	US$'000	US$'000
Deposits as collateral for stock borrowed	5,632,258	4,197,253	-	-
Amounts due from brokers / dealers and customers	35,867,130	38,305,998	-	-
Amounts due from parent and group undertakings	66,295,462	70,054,366	16,326,034	16,190,111
Group relief receivable from group undertakings	-	-	214,000	215,585
Corporation tax recoverable	15,669	1,041	-	-
Deferred tax (see note 18)	1,088,751	842,851	-	-
Other debtors	285,520	377,641	34	35
Prepayments and accrued income	144,420	92,767	-	-
	109,329,210	**113,871,917**	**16,540,068**	**16,405,731**

Of the amount due from parent and group undertakings, US$27 million (31 December 2009 US$41 million) in relation to the group and US$5,078 million (31 December 2009 US$5,078 million) in relation to the company is due in more than one year With regard to the group this relates to equity based employee compensation With regard to the company this relates to long term subordinated loans to a subsidiary undertaking The loan is unsecured, carries interest at a margin over LIBOR and is repayable upon giving or receiving at least two years' notice to or from the subsidiary undertaking

The net investment in finance leases included within other debtors is US$112 8 million (31 December 2009 US$149 7 million) of which US$66 1 million is due in more than one year The cost of assets acquired in the period for the purpose of letting under finance leases was US$14 5 million (31 December 2009 US$nil)

The remaining debtors are all due within one year of the balance sheet date

18. DEFERRED TAX

	31 December 2010	31 December 2009
	US$'000	US$'000
Deferred tax balance comprises:		
Depreciation in excess of capital allowances	5,090	6,328
Post-retirement benefits	5,871	59,527
Other timing differences	1,077,790	776,996
	1,088,751	**842,851**

Other timing differences include deferred tax in respect of equity-based compensation

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

18. DEFERRED TAX (continued)

	US$'000
At 31 December 2009	842,851
Transfer to the profit and loss account for the period	269,688
Translation adjustment	30
Transfer to the statement of total recognised gains and losses for the period	(23,818)
At 31 December 2010	**1,088,751**

The directors consider that future profits will be available against which the deferred tax asset can be recovered

19. CASH AT BANK AND IN HAND

Included within cash at bank and in hand is US$10 780 million (31 December 2009 US$12,676 million) that is held on behalf of clients in segregated accounts

20. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Included within the repurchase agreements are amounts of US$21 914 million (31 December 2009 US$22,060 million) which relate to group undertakings

21. OTHER CREDITORS

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

	The Group		The Company	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	US$'000	US$'000	US$'000	US$'000
Bank loans and overdrafts	93,454	56,612	-	-
Debt securities issued	17,317,901	14,396,444	-	-
Deposits received as collateral for stock loans	16,621,245	18 697,973	-	-
Amounts due to brokers / dealers and customers	85,204,148	93,006,040	-	-
Amounts due to parent and group undertakings	86,472,535	89 027,546	13,753,405	13,986,350
Corporation tax payable	-	523,896	-	-
Group relief payable	-	-	906	-
Other taxes and social security costs	321,146	291,319	-	-
Accrual for management charges payable to parent and group undertakings (see note 22 iii)	2,489,558	1 854,093	-	-
Other creditors and accruals	1,154,087	1,572,431	5,523	7,301
	209,674,074	**219,426,354**	**13,759,834**	**13,993,651**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

21. OTHER CREDITORS (continued)

Of the other creditors falling due within one year US$60,002 million (31 December 2009 US$56,546 million) is secured by marketable securities, of which US$43,381 million (31 December 2009 US$35,729 million) relates to amounts due to parent and group undertakings

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

	The Group		The Company	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	US$'000	US$'000	US$'000	US$'000
Long-term subordinated loans (see note 23)	5,459,275	5 495,847	5,078,000	5,078 000
Debt securities issued (see note i)	5,504,190	5,222,129	-	-
Amounts due to parent and group undertakings (see note ii)	1,819,196	-	-	-
Accrual for management charges payable to parent and group undertakings (see note iii)	1,313,400	809,185	-	-
	14,096,061	**11,527,161**	**5,078,000**	**5,078,000**

(i) The maturity of debt securities due after more than one year is as follows

	31 December 2010	31 December 2009
	US$'000	US$'000
In more than one year but not more than two years	1,316,235	-
In more than two years but not more than five years	3,316,193	2,408,678
In more than five years	871,762	2,813,451
	5,504,190	**5,222,129**

Of the above, US$4,201 million (31 December 2009 US$1,538 million) is secured by marketable securities Amounts due in more than five years predominately relate to structured debt securities with maturities between 2017 to 2050 Payments on these securities are typically referenced to underlying financial assets including collateralised debt obligations and OTC mortgage portfolios

(ii) Included within amounts due to parent and group undertakings are loans of US$1,600 million (31 December 2009 US$nil) advanced by The Goldman Sachs Group Inc during the period These loans are unsecured, carry interest at a margin over the federal funds rate and mature on 31 December 2020

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

23. SUBORDINATED LOANS

	The Group		The Company	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	US$'000	US$'000	US$'000	US$'000
Repayable as follows				
Less than one year	-	32,000	-	-
Between two and five years	40,533	42,000	-	-
Over five years	5,418,742	5,421,847	5,078,000	5,078,000
	5,459,275	**5,495,847**	**5,078,000**	**5,078,000**

The amounts outstanding represent long-term and short-term subordinated loans from parent undertakings These loans are unsecured and carry interest at a margin over LIBOR

24 PROVISIONS FOR LIABILITIES AND CHARGES

	The Group
	US$'000
At 31 December 2009	40,000
Charge for the period	25,000
At 31 December 2010	**65,000**

The provision of US$65 million was made in respect of legal claims made against the group Further details relating to these claims have not been disclosed as permitted by accounting standard FRS12, 'Provisions, Contingent Liabilities and Contingent Assets , on the grounds that it would be seriously prejudicial to do so

25. SHARE CAPITAL

At 31 December 2010 and 31 December 2009 share capital comprised

	The Company			
	31 December 2010		31 December 2009	
	No.	US$'000	No.	US$'000
Allotted, called up and fully paid				
Ordinary shares of US$0 01 each	1,785,861 370	17 858	1 785,861,370	17,858
Preference shares of US$0 01 each	461,500,000	4,615	461,500,000	4,615
		22,473		**22,473**

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 Preference shares have a fixed non-cumulative dividend payable at a rate of 8 cents per share per annum

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010

26 SHARE PREMIUM ACCOUNT AND RESERVES

The Group

	Share premium account	Capital redemption reserve	Capital contribution	Profit and loss account	Merger reserve
	US$'000	US$'000	US$'000	US$'000	US$'000
At 31 December 2009	1,547,032	305,012	67,187	14,693,812	1,021,395
Profit for the period	-	-	-	949,158	-
Contributed capital	-	-	5,902	-	-
Other recognised gains	-	-	-	64,396	-
Exchange loss on consolidation	-	-	-	(5,053)	-
At 31 December 2010	**1,547,032**	**305,012**	**73,089**	**15,702,313**	**1,021,395**

The capital redemption reserve arose during a prior period as a result of transactions entered into by subsidiary undertakings within the group

The Company

	Share premium account	Capital contribution	Profit and loss account	Merger reserve
	US$'000	US$'000	US$'000	US$'000
At 31 December 2009	1,547,032	67,187	1,197,510	1,021,395
Profit for the period	-	-	334,908	-
Contributed capital	-	5,902	-	-
At 31 December 2010	**1,547,032**	**73,089**	**1,532,418**	**1,021,395**

As part of a group reorganisation in a prior period, the group took advantage of the relief afforded to it under section 132 of the Companies Act 1985 As a result, share premium of only US$698,381,000 was recorded and the remaining difference between the nominal value of the shares and the value at which the new shares were issued of US$1,021,395,000 was credited to a non-distributable merger reserve

27. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

The Group

	52 week period ended 31 December 2010	57 week period ended 31 December 2009
	US$'000	US$'000
Profit on ordinary activities after taxation and for the period	949,158	4,098,550
Exchange (loss) / gain on consolidation	(5,053)	8,008
Actuarial gain / (loss) relating to the pension scheme	88,214	(300,452)
UK deferred tax attributable to the actuarial gain / (loss)	(23,818)	84,127
Share-based payments (see note 8)	1,271 846	742,564
Management recharge related to share-based payments	(1,271,846)	(742,564)
Capital contribution	5,902	-
Net increase in shareholder's funds	1,014,403	3,890,233
Opening shareholder's funds	17,656,911	13 766,678
Closing shareholder's funds	**18,671,314**	**17,656,911**

28. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

b. The group has undrawn loan commitments of US$190,173,000 (31 December 2009 US$271 518,000) These commitments are sub-participated to third party institutions

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

	31 December 2010 US$'000	31 December 2009 US$'000
Maturity of lease		
Less than one year	1,812	-
Between 1 and 2 years	111	2,969
Between 2 and 5 years	15 125	12 639
Over 5 years	96,972	97,558
	114,020	**113,166**

d. The group, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities The maximum exposure to loss under guarantee at the period end is US$795,146,000 (31 December 2009 US$318,903,000) The market value of the collateral held to cover the loss was US$837,734,000 (31 December 2009 US$348,507,000) There is minimal performance risk associated with these guarantees

29. FINANCIAL RISK MANAGEMENT

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

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

The group 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 group's risk management process ('Risk Committees') These committees meet regularly and consist of senior members of both our revenue-producing units and departments that are independent of our revenue-producing units In addition to the committees functions that are independent of the revenue-producing units, such as Compliance, Finance (including Risk Management), Legal Internal Audit and Operations, perform global risk management functions, which include monitoring, analysing and evaluating risk

a. Market risk

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

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

The group 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 chief risk officer, has primary responsibility for assessing monitoring and managing market risk Risks are monitored and controlled through strong oversight and independent control and support functions across the global businesses

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

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

29. **FINANCIAL RISK MANAGEMENT (continued)**

a. Market risk (continued)

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

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

Value-at-Risk

VaR is the potential loss in value of inventory positions due to adverse market movements over a defined time horizon with a specified confidence level The group typically employs a one-day time horizon with a 95% confidence level Thus, it would expect to see reductions in the fair value of inventory positions at least as large as the reported VaR once per month

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

The historical data used in the group's VaR calculation is weighted to give greater importance to more recent observations and reflect current asset volatilities This improves the accuracy of its estimates of potential loss As a result, even if the group's inventory positions were unchanged, its 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 its VaR model is tested through daily backtesting (i e comparing daily trading net revenues to the VaR measure calculated as of the prior business day) for each of its businesses and major regulated subsidiaries

VaR does not include

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

Stress Testing

The group uses stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the group 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

29. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

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 group'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 group 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 group (including entity, 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 Risk Committees sets market risk limits at relevant entity, 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 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 2010	31 December 2009
	US$m	US$m
Total VaR at the end of the year	38 3	56 9
Average daily VaR for the period	50 0	97 6

Sensitivity Measures

As noted above, certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in asset value

The following table sets forth market risk for positions not included in the VaR

	31 December 2010	31 December 2009
Sensitivity Analysis – Material Areas not in VaR	US$m	US$m
Trading Risk Equity (10% sensitivity measure on carrying value) as at 31 December 2010 and 31 December 2009	33 9	29 2

29. FINANCIAL RISK MANAGEMENT (continued)

a Market risk (continued)

Other Market Risk Measures

In addition, the group's VaR excludes certain funding liabilities As at 31 December 2010, the carrying value of the liabilities was US$5 5 billion (31 December 2009 US$5 5 billion) 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 decrease / increase the group's net profit by US$19 6 million (31 December 2009 US$45 6 million), mainly attributable to exposure to interest rates on the group'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 group holds Exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments Credit risk also comes from cash placed with banks, securities financing transactions, i e resale and repurchase agreements and securities borrowing and lending activities, and receivables from brokers / dealers clearing organisations, customers and counterparties

The Credit Risk Management department, which is independent of the revenue-producing units and reports to the chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk The Credit Policy Committee and the Risk Committees establish and review credit policies and parameters In addition, the group holds other positions that give rise to credit risk, e g bonds held in inventory and secondary bank loans 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 Risk Committees and the Credit Policy Committee prescribe the level of formal approval required for the group 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 group s current and potential credit exposure and losses resulting from counterparty default,
- reporting of credit exposures to senior management the Board and regulators
- use of credit risk mitigants, including collateral and hedging, and
- communication and collaboration with other independent control and support functions such as Operations, Legal and Compliance

29. 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 group'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 group'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 group 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 firm 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 the group's 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 group's risk tolerance and 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 of the group's stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event 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 run on a regular basis as part of the group's routine risk management processes and conducts tailored stress tests on an ad hoc basis in response to market developments Stress tests are regularly conducted jointly with the group's market and liquidity risk functions

29. FINANCIAL RISK MANAGEMENT (continued)

b. Credit Risk (continued)

Risk Mitigants

To reduce the credit exposures on derivatives and securities financing transactions, the group may enter into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties The group 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

For loans and lending commitments, the group typically employs a variety of potential risk mitigants, depending on the credit quality of the borrower and other characteristics of the transaction Risk mitigants include collateral provisions, guarantees, covenants structural seniority of the bank loan claims and, for certain lending commitments, provisions in the legal documentation that allow the group to adjust loan amounts, pricing, structure and other terms as market conditions change The type and structure of risk mitigants employed can significantly influence the degree of credit risk involved in a loan

When the group does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent company, the group may obtain third-party guarantees of the counterparty's obligations The group also mitigates its credit risk using credit derivatives or participation agreements

Credit Exposures

The group's credit exposures are described further below

Cash and Cash Equivalents. Cash and cash equivalents include both interest-bearing and non-interest bearing deposits To mitigate the risk of credit loss, the group places substantially all of its deposits with highly rated banks and central banks

OTC Derivatives. Derivatives are reported at fair value on a gross-by-counterparty basis in the group s consolidated financial statements unless it has current legal right of set off and also intends to settle on a net basis OTC Derivatives are risk-managed using the risk processes, measures and limits described above

Lending Activities. The group manages its traditional credit organisation activities, including funded loans and lending commitments using the credit risk process, measures and limits described above Other lending positions, are risk-managed as a component of market risk

Resale Agreements and Securities Borrowed The group bears credit risk related to resale agreements and securities borrowed only to the extent that cash advanced to the counterparty exceeds the value of the collateral received Therefore, the group's credit exposure on these transactions is significantly lower than the amounts recorded on the consolidated balance sheet (which represent fair values or contractual value before consideration of collateral received) The group also has credit exposure on repurchase agreements and securities loaned which are liabilities on its consolidated balance sheet to the extent that the value of collateral pledged to the counterparty for these transactions exceeds the amount of cash received

Other Credit Exposures. The group is exposed to credit risk from its receivables from brokers, dealers and clearing organisations and customers and counterparties Receivables from brokers, dealers and clearing organisations are primarily comprised of initial margin placed with clearing organisations and receivables related to sales of securities which have traded but not yet settled These receivables have minimal credit risk due to the low probability of clearing organisation default and the short-term nature of receivables related to securities settlements Receivables from customers and counterparties are generally comprised of collateralised receivables related to customer securities transactions and have minimal credit risk due to both the value of the collateral received and the short - term nature of these receivables

29 FINANCIAL RISK MANAGEMENT (continued)

b. Credit Risk (continued)

The following tables disclose the carrying values of financial assets recorded in the consolidated financial statements and represent the group's maximum exposure to credit risk without taking account of the value of collateral obtained or any other credit enhancements (for example derivative master netting agreements)

Exposure to credit risk by class	Gross credit exposure 31 December 2010 US$m	Gross credit exposure 31 December 2009 US$m
Financial instruments owned	474,990	500,576
Financial instruments owned and pledged as collateral	21,806	18,548
Securities purchased under agreements to resell	134,393	113,687
Debtors (excluding deferred tax asset of US$1,089 million (31 December 2009 US$843 million))	108,240	113,029
Cash at bank and in hand	11,971	13,857
	751,400	**759,697**

Credit rating	Carrying value 31 December 2010 US$m	Carrying value 31 December 2009 US$m
AAA	15,989	15,050
AA	135,315	120,725
A	452,540	478,762
BBB	41,084	38,102
BB	11,238	11,485
B	12 344	15,183
CCC	591	7,577
Unrated	82 299	72,813
Total	**751,400**	**759,697**

The table above groups exposure based on internal ratings assigned by the Credit department Positions in cash inventory (e g equities, bonds) are captured as market risk in the group's risk management process and are not assigned internal ratings These positions constitute the majority of the exposures classified as unrated

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

Collateralised Transactions

The group and its subsidiaries receive financial instruments as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans 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 group and its subsidiaries are permitted to deliver or repledge these financial instruments in connection with entering into repurchase financings, collateralising derivative transactions and meeting firm or customer settlement requirements As of 31 December 2010, the fair value of financial instruments received as collateral by the group and its subsidiaries that they were permitted to deliver or repledge was US$277 9 billion (31 December 2009 US$255 8 billion), of which the group and its subsidiaries delivered or repledged US$249 0 billion (31 December 2009 US$210 8 billion)

29. FINANCIAL RISK MANAGEMENT (continued)

b. Credit Risk (continued)

The group and its subsidiaries also pledge assets that they own to counterparties who may or may not have the right to deliver or repledge Financial instruments owned and pledged to counterparties that have the right to deliver or repledge are included within 'Financial instruments owned and pledged as collateral' in the consolidated financial statements and were US$21 8 billion as of 31 December 2010 (31 December 2009 US$18 5 billion) Financial instruments owned and pledged in connection with repurchase agreements, securities lending agreements and other secured financings to counterparties that did not have the right to sell or repledge are included in 'Financial instruments owned' in the consolidated financial statements and were US$26 8 billion as of 31 December 2010 (31 December 2009 US$22 5 billion)

In addition to repurchase agreements and securities lending agreements, the group obtains secured funding through the use of other arrangements Other secured financings include arrangements that are non-recourse, that is, only the subsidiary that executed the arrangement or a subsidiary guaranteeing the arrangement is obligated to repay the financing Other secured financings consist of liabilities related to consolidated special purpose entities collateralised central bank financings, transfers of financial assets that are accounted for as financings rather than sales and other structured financing arrangements

c. Liquidity Risk

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

The group manages liquidity risk according to the following principles

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

- Asset-Liability Management - assess the overall anticipated holding periods for the group s assets and their potential illiquidity in a stressed environment Manage the maturities and diversity of funding across markets, products and counterparties, and seek to maintain liabilities of appropriate terms relative to the asset base, and

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

29. FINANCIAL RISK MANAGEMENT (continued)

c Liquidity Risk (continued)

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

31 December 2010

	On Demand	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	Greater than five years	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Liabilities:							
Financial instruments sold, but not yet purchased	427,792	-	-	-	-	-	427,792
Securities sold under agreements to repurchase	124	57,629	12,956	7,333	4,232	93	82,367
Other creditors	173,548	29,894	2,491	3,757	2	-	209,692
Creditors falling due after more than one year	-	-	-	-	6,964	7,648	14,612
	601,464	**87,523**	**15,447**	**11,090**	**11,198**	**7,741**	**734,463**

31 December 2009

	On Demand	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	Greater than five years	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Liabilities:							
Financial instruments sold but not yet purchased	446 078	-	-	-	-	-	446,078
Securities sold under agreements to repurchase	257	48,842	8,301	7,705	566	-	65,671
Other Creditors	188 983	22,793	6,096	1,557	1	-	219,430
Creditors falling due after more than one year	-	-	12	20	3,269	8,235	11,536
	635,318	**71,635**	**14,409**	**9,282**	**3,836**	**8,235**	**742,715**

29. 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

	31 December 2010		31 December 2009	
	Carrying value	Approximate fair value	Carrying value	Approximate fair value
	US$m	US$m	US$m	US$m
Subordinated loans (see note 23)	5,459	5,273	5,496	5,226

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

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date Financial assets are marked to bid prices and financial liabilities are marked to offer prices Fair value measurements do not include transaction costs

The best evidence of fair value is a quoted price in an active market If the listed prices or quotation are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models, that primarily use, as inputs, market based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates, commodities prices and credit curves

FRS 29 has 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 value of certain level 2 and level 3 financial assets and financial liabilities may include valuation adjustments for counter party and the group's credit quality, transfer restrictions, large and/or concentrated positions, illiquidity and bid/offer inputs

29. FINANCIAL RISK MANAGEMENT (continued)

e. Fair value hierarchy (continued)

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

Financial assets at fair value as of 31 December 2010	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Financial instruments owned, at fair value	45,435	432,015	19,346	496,796
Securities purchased under agreements to resell	-	134,393	-	134,393
Debtors	-	28,528	-	28,528
Total financial assets at fair value	**45,435**	**594,936**	**19,346**	**659,717**

Financial liabilities at fair value as of 31 December 2010	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Financial instruments sold but not yet purchased, at fair value	35,002	380,996	11,794	427,792
Securities sold under agreements to repurchase	-	80,307	2,060	82,367
Other creditors	-	40,469	6,293	46,762
Total financial liabilities at fair value	**35,002**	**501,772**	**20,147**	**556,921**

Level 3 Rollforward

During the period ended 31 December 2010, there were no significant transfers between level 1 and 2 financial assets and financial liabilities The following tables presents the changes in fair value for all the financial assets and financial liabilities categorised as level 3 for the period ended 31 December 2010 Gains and losses arising on level 3 assets are recognised within net revenue in the profit and loss account

If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3 Transfers between levels are recognised at the beginning of the reporting period in which they occur Accordingly, the tables do not include gains or losses that were reported in level 3 in prior periods for the financial instruments that were transferred out of level 3 prior to the end of the period

Level 3 financial instruments are frequently economically hedged with level 1, level 2 and level 3 financial instruments Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 or level 3 financial instruments

Included in the level 3 transfers out of financial assets of $4 6 billion is $1 1 billion which were principally due to the consolidation of certain VIEs which were eliminated on consolidation The remaining transfers out of the level 3 financial assets of $3 5 billion and financial liabilities of $3 6 billion are principally on certain credit, equity and commodity derivatives The transfers are due to the improved transparency of inputs used to value these financial instruments

Included in the level 3 transfers into financial assets of $2 9 billion and financial liabilities of $1 8 billion are principally on certain credit, equity and interest rate derivatives The transfers are due to reduced transparency of inputs used to value these financial assets and financial liabilities

29 FINANCIAL RISK MANAGEMENT (continued)

e. Fair value hierarchy (continued)

Reconciliation of level 3 financial assets:	Financial instruments owned US$m	Total financial assets US$m
At 1 January 2010	20,059	20,059
Profit for the period	5 900	5,900
Purchases	1,575	1,575
Sales	(591)	(591)
Settlements	(5,860)	(5,860)
Transfers in to level 3	2,896	2,896
Transfers out of level 3	(4,633)	(4,633)
At 31 December 2010	**19,346**	**19,346**

Reconciliation of level 3 financial liabilities:	Financial instruments sold but not yet purchased US$m	Securities sold under agreements to repurchase US$m	Other creditors US$m	Total financial liabilities US$m
At 1 January 2010	14,529	394	4,819	19,742
Loss for the period	1,429	-	194	1,623
Purchases	(64)	-	-	(64)
Sales	904	1,666	2,244	4,814
Settlements	(3,592)	-	(577)	(4,169)
Transfers in to level 3	1,648	-	193	1,841
Transfers out of level 3	(3,060)	-	(580)	(3,640)
At 31 December 2010	**11,794**	**2,060**	**6,293**	**20,147**

f. Financial instruments valued using techniques that incorporate unobservable inputs

The fair value of financial instruments may be determined in whole or part 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 at 31 December 2010 of using reasonable possible alternative assumptions for the valuations including significant unobservable inputs has been quantified as approximately $460 million (restated 31 December 2009 $426 million) for favourable changes and $411 million (restated 31 December 2009 $312 million) for unfavourable changes In determining reasonably possible alternative assumptions a detailed business and position level review has been performed to identify and quantify instances where potential uncertainty exists This has taken into account the positions current value as compared to the range of available market information

In prior periods a bid offer spread methodology was applied to determine reasonable possible assumptions A new approach is considered to give a more refined view of the uncertainty by more fully considering the characteristics of the positions and the 2009 figures have accordingly been restated Had the previous methodology been used there would have been no material movement in the numbers between 2009 and 2010

29. FINANCIAL RISK MANAGEMENT (continued)

f. Financial instruments valued using techniques that incorporate unobservable inputs (continued)

The amounts not recognised in the consolidated income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amounts determined at initial recognition using the valuation techniques ('Day 1 P&L') are as follows

	US$m
At 1 January 2010	149
New transactions	141
Amounts recognised in the consolidated profit and loss account during the period	(83)
At 31 December 2010	**207**

g. Capital management

The company is the holding company for a UK regulated group, which is regulated in the UK Financial Services Authority (FSA) and as such is subject 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 group 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 group'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 group's business and market environment

The group's capital is divided into three tiers

As at 31 December 2010

- Tier 1 capital - US$18 4 billion (31 December 2009 US$17 7 billion) - comprises permanent share capital, profit and loss account and reserves, share premium account, perpetual non-cumulative preference shares
- Tier 2 capital - US$5 3 billion (31 December 2009 US$5 4 billion) - solely comprises long term subordinated debt
- Tier 3 capital – US$40 5 million (31 December 2009 US$74 0 million) – comprises short term subordinated debt

Various regulatory limits and deductions are applied

30. POST BALANCE SHEET EVENT

On 19 July 2011, the UK Government enacted legislation that imposes an annual non-deductible tax on relevant liabilities, as defined in the legislation, for periods ending on or after 1 January 2011 for certain financial services activities of large banks, including their subsidiaries, that operate in the UK The current estimate of the tax for the year ending 31 December 2011 is approximately US$130 million, which will be accrued in the second half of 2011 The final amount may vary from this estimate as the tax will be based on the relevant liabilities as of 31 December 2011

In addition, on 9 August 2011, Standard & Poor's Ratings Services assigned its 'A+ / A-1' long term and short term counterparty credit ratings to Goldman Sachs International, a subsidiary undertaking of the group

31. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS

The immediate parent undertaking is Goldman Sachs (UK) L L C , a company registered in Delaware

The ultimate parent undertaking and the parent company of the smallest and 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