

Company Number: 3769030

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2012

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COMPANIES HOUSE

REPORT OF THE DIRECTORS

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

1. Principal activities

Goldman Sachs Group Holdings (U K) Limited (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 is the holding company for a U K regulated group, which, during the year, was regulated by the Financial Services Authority (the 'FSA'). From 1 April 2013, the regulatory responsibilities of the FSA have passed to the Financial Conduct Authority (the 'FCA') and the Prudential Regulation Authority (the 'PRA'). The company primarily operates in a US Dollar environment as part of The Goldman Sachs Group, Inc (the 'GS Group'). 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**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 concerns about sovereign defaults, declines in economic growth, business activity or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities, outbreaks of hostilities or other geopolitical instability, corporate, political or other scandals that reduce investor confidence in capital markets, natural disasters or pandemics, or a combination of these or other factors.

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

In the U S , real GDP increased by 2.2% in 2012, compared with an increase of 1.8% in 2011, as the U S Federal Reserve maintained its Federal Funds Rate at a target range of zero to 0.25% and extended its program to lengthen the maturity of the U S Treasury debt it holds. In the Eurozone, real GDP declined by 0.5% in 2012, compared with an increase of 1.5% in 2011, due to a sharp fall in domestic demand as business and consumer confidence declined. These negative developments reflected the impact of the sovereign debt crisis on the region's economic growth, particularly during the first half of the year, as concerns regarding Greece's debt situation and the fiscal outlook in Spain and Italy intensified. To address these issues, the European Central Bank injected liquidity through its longer-term refinancing operations ('LTROs') and decreased its main refinancing operations rate by 25 basis points to 0.75%. In the U K , real GDP increased by 0.2% in 2012, compared with an increase of 0.9% in 2011 as the Bank of England maintained its official bank rate at 0.5% and increased the size of its asset purchase programme. In Japan, real GDP increased by 1.9% in 2012, compared with a decline of 0.6% in 2011, as fixed investment growth was supported by reconstruction efforts following the earthquake and tsunami in 2011. The Bank of Japan maintained its target overnight call rate at a range of zero to 0.1% and increased the size of its asset purchase programme.

The profit and loss account for the year is set out on page 11. Net revenue for the group was US\$6,278 million for the year (year ended 31 December 2011: US\$5,696 million). The results for the group show a pre-tax profit of US\$866 million for the year (year ended 31 December 2011: US\$3,483 million). The group has total assets of US\$890 billion (31 December 2011: US\$937 billion) and the company has total assets of US\$49 billion (31 December 2011: US\$27 billion).

REPORT OF THE DIRECTORS**2 Review of business and future developments (continued)**

The group reports its activities in the following business segments: Investment Banking, Institutional Client Services, Investing & Lending, and Investment Management. Details of the group's business segments are given in note 3 to the financial statements.

Investment Banking

The decrease in net revenue in Investment Banking reflects a reduction in equity underwriting as a result of a decline in industry-wide initial public offerings and financial advisory due to a reduction in completed mergers and acquisitions during the year. This was partially offset by an increase in debt underwriting activity.

Institutional Client Services

The increase in Institutional Client Services reflected higher net revenue in Fixed Income, Currency and Commodities Client Execution ('FICC'). Although broad market concerns persisted during 2012, FICC operated in a generally improved environment characterised by tighter spreads and less challenging market-making conditions compared with 2011. In Equities, net revenues were lower as a result of a reduction in commissions, reflecting lower market volumes. This was partially offset by increased levels of client activity.

Investing & Lending

The increase in Investing & Lending net revenue mainly reflects the impact of higher asset prices.

Investment Management

The decrease in Investment Management net revenue mainly reflected a reduction in client activity offset by an increase in fees from assets under management.

Administrative expenses, other interest receivable and interest payable

Administrative expenses increased to US\$4,981 million for the year (year ended 31 December 2011: US\$2,358 million), mainly due to an increase in compensation costs including a charge of US\$793 million (year ended 31 December 2011: credit of US\$1,823 million) relating to the mark to market of equity-based compensation awarded in prior years, charged by GS Group.

Interest payable increased to US\$467 million for the year (year ended 31 December 2011: credit of US\$93 million). The prior period amount was lower as a result of a fee received on restructuring of subordinated loan facilities with GS Group (see note 6).

Pension arrangements

The group has a pension surplus of US\$213 million (see note 8) as at 31 December 2012 (31 December 2011: US\$132 million) with a full valuation performed, including a review of actuarial assumptions, as at 31 August 2012 and updated to 31 December 2012. The increase of US\$81 million was mainly driven by a gain in the pension plan's assets as a result of increasing asset prices.

REPORT OF THE DIRECTORS**2 Review of business and future developments (continued)****Strategy**

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

Principal risks and uncertainties

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

Economic and market conditions

The 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 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 company 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 who 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. Whilst, 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 illiquidity.

As part of its clearing and prime brokerage 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. Whilst 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 towards 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, 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 their ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as information technology services provided to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. As the 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, 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, termination or constraint 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, communication, transportation or other service facilities used by the group or third parties with which the group conducts business.

Technology

Technology is fundamental to the group's businesses and industry. The growth of electronic trading and the introduction of new technologies are 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 towards 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.

Regulatory uncertainty

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

REPORT OF THE DIRECTORS

2. Review of business and future developments (continued)

Regulatory uncertainty (continued)

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

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

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 (see note 30) below.

Future outlook

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

3. Share capital

During the year, the directors and shareholders of the company reviewed the group's capital requirements under the forthcoming European Union Fourth Capital Requirement Directive ('CRD IV'). In order to maintain the equivalent level of Tier 1 capital under the new requirements the company converted its preference shares into ordinary shares (see note 26).

4. Dividends

As a result of the conversion of preference shares (see section 3 above), no preference dividend was paid in the year. In the prior year, the directors of Goldman Sachs (U.K.) L.L.C. the immediate parent undertaking, agreed to waive the receipt of any preference dividend from the company in respect of the year. The directors do not recommend the payment of an ordinary dividend in respect of the year (year ended 31 December 2011: US\$nil).

REPORT OF THE DIRECTORS**5. Post balance sheet events**

On 1 March 2013, the company issued 68,692,608 ordinary shares of US\$0.01 for a total consideration of US\$686 million. The consideration received was the entire ordinary share capital of a fellow GS Group subsidiary undertaking.

On 9 July 2013, Goldman Sachs Group Holdings (U.K.) re-registered, under the Companies Act 2006, from an unlimited company to a company limited by shares. Consequently, the name of the company changed to Goldman Sachs Group Holdings (U.K.) Limited.

On 15 July 2013, the company issued 135,528,803 ordinary shares of US\$0.01 for a total consideration of US\$1,368 million. The consideration received was the entire ordinary share capital of a fellow GS Group subsidiary undertaking.

6. Exchange rate

The sterling / US Dollar exchange rate at the balance sheet date was £ / US\$ 1.6244 (31 December 2011 £ / US\$ 1.5511). The average rate for the year was £ / US\$ 1.5925 (year ended 31 December 2011 £ / US\$ 1.6103).

7. 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 GS Group. Training, career development and promotion of disabled persons are, to the extent possible, identical to that of other employees who are not disabled.

8. 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.

9. Directors

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

Name	Appointed	Resigned
M. A. Allen		26 June 2013
D. W. McDonogh		
A. S. Naik		27 January 2012
R. J. Taylor	26 June 2013	

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

10. Financial risk management

The group's risk management objectives and policies, as well as its exposures to market risk, credit risk and liquidity risk, are described in note 30 to the financial statements.

REPORT OF THE DIRECTORS

11. 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

12. Independent 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

13. Charitable contributions

During the year, an amount of US\$32,799,715 (year ended 31 December 2011 US\$19,435,364) was donated to charity Of this amount, US\$28,340,000 (year ended 31 December 2011 US\$16,740,000) was donated to Goldman Sachs Gives (UK), a charity registered in England and Wales, for general charitable purposes

14. Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the group and the company as at the end of the financial period and of the profit or loss of 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 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 group and the company, and to enable them to ensure that the accounts comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the group and the company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities

REPORT OF THE DIRECTORS

15. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 27 September 2013

BY ORDER OF THE BOARD



R J TAYLOR
Director

27 SEPTEMBER 2013

Independent Auditors' report to the members of GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

We have audited the group and parent company financial statements of Goldman Sachs Group Holdings (U K) Limited for the year ended 31 December 2012 which comprise the group profit and loss account, the group and company balance sheets, the group statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities (set out on page 8) 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 (U K 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 group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Duncan McNab (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

30 September 2013

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2012

	Note	The Group	
		Year Ended 31 December 2012 US\$'000	Year Ended 31 December 2011 US\$'000
Net revenue	2, 3	6,278,008	5,696,213
Administrative expenses		(4,980,786)	(2,358,107)
OPERATING PROFIT	4	1,297,222	3,338,106
Loss on sale of subsidiary undertakings		(4,039)	-
Gain on disposal of associate undertaking	14(b)	-	19,643
Other interest receivable and similar income	5	18,294	4,001
Interest payable and similar charges	2, 6	(466,918)	93,383
Net finance income	8	21,817	28,180
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		866,376	3,483,313
Tax on profit on ordinary activities	10	(96,154)	(683,135)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL YEAR	27, 28	770,222	2,800,178

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2012

	Note	The Group	
		Year Ended 31 December 2012 US\$'000	Year Ended 31 December 2011 US\$'000
Profit for the financial year		770,222	2,800,178
Actuarial gain / (loss) relating to the pension scheme	8	60,356	(51,852)
UK deferred tax attributable to the actuarial gain / (loss)	19	(13,882)	12,963
Currency translation differences		12,506	(1,000)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL YEAR AND SINCE LAST FINANCIAL STATEMENTS		829,202	2,760,289

The notes on pages 13 to 64 form an integral part of these financial statements
Independent Auditors' report – page 10

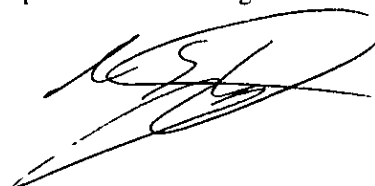
GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

BALANCE SHEET

as at 31 December 2012

Note	The Group		The Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	US\$'000	US\$'000	US\$'000	US\$'000
FIXED ASSETS				
Intangible assets	12	6,271	7 738	-
Tangible fixed assets	13	16,616	8 919	-
Shares in subsidiary undertakings	14	-	7,540,328	6,894,190
Other investments other than loans	14(c)	1 366	-	-
		24,253	18,042	7,540,328
				6,894 190
CURRENT ASSETS				
Financial instruments owned	16	578,257,050	610,947 921	1,509
Financial instruments owned, pledged as collateral	16	28,028,703	21 508,436	-
Collateralised agreements	17	200,741,716	226 071,517	-
Debtors	18	69,478,793	63,175,935	41,606 982
Cash at bank and in hand	20	13,833,650	15,571,924	1 305
		890,339,912	937,275 733	41,609,796
				19,906,797
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Financial instruments sold, but not yet purchased	16	(532,926,865)	(568,354,650)	(1,509)
Collateralised financing	21	(156,577,525)	(157 780 707)	-
Other creditors	22	(163,154,044)	(174 467,099)	(35,781 269)
		(852,658,434)	(900,602 456)	(35,782,778)
				(13,774,138)
NET CURRENT ASSETS				
		37,681,478	36,673,277	5,827 018
				6,132,659
TOTAL ASSETS LESS CURRENT LIABILITIES				
		37,705 731	36,691,319	13,367,346
				13,026,849
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
	23	(15,533,095)	(15,385,879)	(8,578,000)
				(8,578 000)
PROVISIONS FOR LIABILITIES				
	25	(28 305)	(5,991)	-
NET ASSETS EXCLUDING PENSION SURPLUS				
		22,144,331	21,299,449	4,789,346
Pension surplus	8	212 470	132,154	-
NET ASSETS INCLUDING PENSION SURPLUS				
		22,356,801	21,431,603	4,789 346
				4 448,849
CAPITAL AND RESERVES				
Called up share capital	26	22,565	22,473	22 565
Capital contribution	27	78,410	73,089	78 410
Share premium account	27	1,637,615	1,547,032	1 637 615
Merger reserve	27	1,021,395	1,021,395	1,021,395
Capital redemption reserve	27	305,012	305,012	-
Profit and loss account	27	19,291 804	18,462 602	2,029,361
TOTAL SHAREHOLDER'S FUNDS	28	22 356 801	21,431,603	4,789,346
				4 448 849

The financial statements were approved by the Board of Directors on 27 September 2013 and signed on its behalf by



R. J. TAYLOR
Director

The notes on pages 13 to 64 form an integral part of these financial statements
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Company number 3769030

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

1. ACCOUNTING POLICIES

a. Accounting convention

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

b. Consolidation

The consolidated financial statements include the company and all of its subsidiaries. Acquisition accounting is used to consolidate subsidiaries acquired during the year. In accounting for subsidiaries the group fully consolidates their assets, liabilities and results for the year. All intercompany 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 year 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.

- **Investment Banking**

Financial advisory / underwriting revenues

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

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

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

Financial assets and liabilities held for trading

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

Commissions

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

1. ACCOUNTING POLICIES (continued)

c. Revenue recognition (continued)

• Investment Management

Management fees

Management fees are recognised on an accruals basis. They 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 year.

d. Leases

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

The group acts as both the lessor and the lessee under finance lease agreements. Assets leased from counterparties are capitalised at the inception of the lease at the present value of the minimum lease payments and depreciated over the shorter of the lease term and the asset's useful life. The capital elements of future obligations under finance leases are included within other creditors and represent outstanding amounts due under the agreements less finance charges allocated to future periods.

Assets leased to counterparties are derecognised at the inception of the lease. Finance lease interest expense is recognised in interest payable and similar charges over the period of the lease. Lease rentals due under finance leases are included within debtors and represent outstanding amounts due under the agreements less finance income 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 has entered into operating lease agreements where the group acts as the lessee. Leased assets are not recognised on the balance sheet. Costs in respect of operating leases, including any incentives granted by the lessor, are charged on a straight-line basis over the lease term and included within administrative expenses in the profit and loss account.

e. Short-term employee benefits

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

f. Share-based payments

The GS Group 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 grant-date fair value of the award. Share-based awards that do not require future service (i.e., vesting awards, including awards granted to retired eligible employees) are expensed immediately. Share-based employee awards that require future service are amortised over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**1. ACCOUNTING POLICIES (continued)****f. Share-based payments (continued)**

The GS Group settles equity awards through the delivery of its ordinary shares. The GS Group pays cash dividend equivalents on outstanding RSUs. The group has also entered into a chargeback agreement with the GS Group 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 year 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 number of defined contribution pension schemes and a hybrid pension plan for the benefit of certain employees. The defined benefit and defined contribution sections of the hybrid plan and the defined contribution pension schemes are accounted for as follows:

- for the defined benefit section, the amounts charged to operating profit are the current service costs, any past service costs and any gains or losses on settlements and curtailments. They are included as part of staff costs. The interest cost and expected return on assets are shown as a net amount within net finance income. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The defined benefit section is funded, with the assets of the scheme held separately from those of the 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).
- for the defined contribution section and the defined contribution pension schemes, the amount charged to operating profit in respect of pension costs is the contributions payable for the year. Differences between contributions payable for the year and contributions actually paid are shown as either accruals or prepayments on the balance sheet.

i. 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 and 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 year 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 year the benefit is expected to arise.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**1. ACCOUNTING POLICIES (continued)****j. Dividends**

Final equity dividends (including dividends payable on preference shares classified as equity) are recognised in the year they are approved by the shareholders. Interim equity dividends are recognised in the year that they are paid. 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:

	<u>Years</u>
Fixtures, fittings and equipment	3 - 7

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

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

Where these conditions are not met, financial assets and liabilities are presented on a gross basis 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, commodities prices, credit curves and funding rates. The fair value of certain financial assets and financial liabilities may require appropriate valuation adjustments for counterparty and the group's credit quality, funding risk, transfer restrictions, illiquidity and bid / offer spreads.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

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

Certain cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used, the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, the 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.

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

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

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

Certain OTC derivatives are valued using models that utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs include certain correlations as well as credit spreads, equity volatility inputs, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. 'Day 1 P&L' is the term used to describe the difference between the initial transaction price and the fair value calculated by internal models. Day 1 P&L is released to profit and loss at the earlier of the fair value becoming observable using market parameters, or through reference to similar quoted products, and derecognition of the financial instrument. Subsequent to the initial valuation 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.

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**1. ACCOUNTING POLICIES (continued)****o. Collateralised agreements and financing**

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

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 years 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.

q. Provisions and contingent liabilities

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

Contingent liabilities are

- possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events outside the control of the group, or
- present obligations that have arisen from past events but which are not recognised because either an outflow of economic benefits is not probable or the amount of the obligations cannot be reliably measured.

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

r. Non-trading financial assets and liabilities

Non-trading financial assets and liabilities primarily comprise long-term subordinated debt, loan notes, other debtors, other creditors, amounts due from GS Group undertakings and amounts due to GS 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.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

1 ACCOUNTING POLICIES (continued)

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. Instruments are evaluated to determine whether they contain both liability and equity components. The initial carrying amount of a compound financial instrument is allocated first to the liability component, measured at fair value, and the equity component is assigned the residual amount.

t. Reporting and disclosure exemptions

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

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

ii. FRS8 'Related Party Disclosures'

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

2. PRESENTATIONAL CHANGES

In the current year the group has revised its policy for distinguishing trading interest income and expense, which is included in net revenue, from other interest income and expense, to align with subsidiary undertakings. The comparative figures have been amended to conform to the current year's classification methodology. The impact was to decrease both net revenue and interest expense in the current year by US\$524 million (31 December 2011: US\$166 million).

3. SEGMENTAL REPORTING

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

	Year Ended 31 December 2012 US\$'000	Year Ended 31 December 2011 US\$'000
Investment Banking	838,016	925,807
Institutional Client Services	4,347,711	4,122,827
Investing & Lending	509,595	29,949
Investment Management	582,686	617,630
	6,278,008	5,696,213

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

3. 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 derivative transactions directly related to client advisory assignments, 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 comprises

- *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 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 GS Group 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 (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) 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 financial counselling, 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

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

4. OPERATING PROFIT

	The Group	
	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$'000	US\$'000
Operating profit is stated after charging / (crediting):		
Depreciation of tangible fixed assets (see note 13)	3,655	3,312
Fees payable to the company's auditors for the audit of the company's annual accounts	159	161
Fees payable to the company's auditors and its associates for other services		
Audit of the company's subsidiaries, pursuant to legislation	6,098	6,441
Other services pursuant to legislation provided by auditors	13	990
Management fees charged by GS Group undertakings	468,099	397,157
Management fees charged to GS Group undertakings	(89,940)	(75,457)
Amortisation of goodwill (see note 12)	(1,467)	2,358
Operating lease rentals - land and buildings	94,311	98,325
Trading interest payable - GS Group undertakings	1,148,790	1,020,845
- other	2,256,189	2 894,903
Trading interest receivable - GS Group undertakings	(161,518)	(191,895)
- other	(3,063,022)	(3,804,394)

5. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group	
	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$'000	US\$'000
Interest on overnight deposits	105	253
Interest on loans to GS Group undertakings	356	672
Interest on loans to banks and customers	2,037	2,342
Other interest receivable	15,796	734
	18,294	4,001

6. INTEREST PAYABLE AND SIMILAR CHARGES

	The Group	
	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$'000	US\$'000
Interest on loans from GS Group undertakings	455,023	(94,275)
Interest on deposits from banks and customers	11,667	535
Other interest payable	228	357
	466,918	(93,383)

During the prior year, the group agreed to restructure subordinated loan facilities of US\$5,078 million, with the ultimate parent undertaking. Consequently, in the prior year, the group received a fee of US\$289 million, which is included in interest on loans from GS Group undertakings.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

7. DIRECTORS' EMOLUMENTS

	The Group	
	Year Ended	Year Ended
	31 December 2012	31 December 2011
	US\$'000	US\$'000
Aggregate emoluments	154	123
Company pension contributions to money purchase schemes	2	2
	156	125

In accordance with the Companies Act 2006, directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only. In accordance with Schedule 5 Statutory Instrument 2008 / 410, this only includes the value of cash and benefits in kind. Directors also receive emoluments for non-qualifying services which are not required to be disclosed.

The disclosure of directors' emoluments reflects a modified approach to the allocation of directors' time in circumstances where directors provide services to multiple group companies. Directors' emoluments for the year ended 31 December 2011 have been amended, accordingly, to be consistent with the current year's presentation.

Three persons, who were directors for some or all of the year, are members of a defined contribution pension scheme and three persons are members of a defined benefit pension scheme (including the defined benefit section of the hybrid plan). All directors have been granted shares in respect of a long term incentive scheme. One director exercised options.

8. STAFF COSTS

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

	Year Ended	Year Ended
	31 December 2012	31 December 2011
	Number	Number
Investment Banking	664	672
Institutional Client Services	1,486	1,625
Investing & Lending	96	105
Investment Management	493	486
Support functions	2,604	2,853
	5,343	5,741
Consultants and temporary staff	350	534
	5,693	6,275

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. Consultants and temporary staff costs are included in total direct costs of employment, below.

The above disclosure has been revised to include employees, consultants and temporary staff of the group's branches. The impact of this change is to increase average total headcount for the year ended 31 December 2012 by 151 (31 December 2011: 164) and total headcount as at 31 December 2012 by 152 (December 2011: 162).

The total number of employees as at 31 December 2012 was 5,594 (31 December 2011: 5,847).

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

8. STAFF COSTS (continued)

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$'000	US\$'000
Aggregate gross wages and salaries	3,369,138	904,494
Employer's National Insurance Contributions	365,674	146,561
Pension costs, employer's contributions to the		
Defined contribution scheme (including		
defined contributions to the hybrid scheme)	55,767	59,276
Defined benefit scheme	45,227	42,710
Total direct costs of employment	<u>3,835,806</u>	<u>1,153,041</u>

Staff costs include a charge of US\$793 million (year ended 31 December 2011 a credit of US\$1,823 million) relating to the mark-to-market of equity-based compensation

Pension arrangements

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 and was replaced by a defined contribution plan.

A full actuarial valuation of the defined benefit section of the Plan was carried out by a qualified independent actuary as at 31 August 2012 using the projected unit funding method and updated to 31 December 2012.

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

	Year Ended 31 December 2012	Year Ended 31 December 2011
	% per annum	% per annum
Discount rate	4.90	4.90
Rate of increase in salaries	4.00	4.00
Rate of increase in pensions		
(post-30 November 1996 accrual)	3.30	3.40
Rate of increase in pensions in deferment		
(post-30 November 1996 accrual)	2.40	2.20
Rate of price inflation	3.30	3.40

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

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

- in line with market practice, the discount rate setting methodology was changed during the year, which resulted in a discount rate of 0.45% per annum higher than the rate that would have been used had it been set in a consistent manner with that used as at 31 December 2011. The impact of this methodology change is to reduce Plan liabilities by US\$162.4 million.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

8. STAFF COSTS (continued)

- the difference between the Retail Price Index ('RPI') and Consumer Prices Index ('CPI') has reduced from 1.2% *per annum* to 0.9% *per annum* since 31 December 2011. This is partially offset by a decrease in the RPI assumption of 0.1% *per annum* during the year. This change in assumption increased Plan liabilities by US\$14.3 million.

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

	31 December 2012		31 December 2011	
	Expected rate of return	Market value	Expected rate of return	Market value
	% <i>per annum</i>	US\$m	% <i>per annum</i>	US\$m
Equities	7.5	771.6	8.2	638.4
Bonds	3.5	287.7	3.4	142.4
Cash and reinvested cash	2.4	207.3	3.1	278.8
Total market value of assets		1,266.6		1,059.6

Development of the balance sheet:

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	29 November 2008
	US\$m	US\$m	US\$m	US\$m	US\$m
Market value of Plan assets	1,266.6	1,059.6	1,053.6	744.9	524.1
Actuarial value of Plan liabilities	1,054.1	927.4	889.6	902.1	395.0
Surplus / (deficit) in the Plan and pension asset / (liability) recognised in the balance sheet before deferred taxation	212.5	132.2	164.0	(157.2)	129.1

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

8. STAFF COSTS (continued)

The defined benefit cost was formed of the following components:

	Year Ended 31 December 2012 US\$m	Year Ended 31 December 2011 US\$m
Analysis of amounts charged to operating profit:		
Current service cost	45.2	52.3
Total charged to operating profit	45.2	52.3
Analysis of the amount credited to net finance income:		
Interest on Plan liabilities	46.5	49.4
Expected return on assets in the Plan	(68.3)	(77.6)
Total credited to net finance income	(21.8)	(28.2)
Total charged to profit and loss before tax	23.4	24.1
Analysis of amounts recognised in the statement of total recognised gains and losses:		
(Gain) / loss on assets	(57.2)	101.1
Experience gain on liabilities	(17.5)	(28.5)
Loss / (gain) in assumptions (financial and demographic)	14.3	(20.7)
Total (gain) / loss recognised in the statement of total recognised gains and losses before tax	(60.4)	51.9

History of experience gains and losses are as follows:

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	29 November 2008
(Gain) / loss on Plan assets:					
Amount (US\$m)	(57.2)	101.1	(14.0)	(107.0)	115.8
% of Plan assets at end of the year	4.5%	9.5%	1.3%	14.4%	22.1%
Experience gain on Plan liabilities:					
Amount (US\$m)	(17.5)	(28.5)	(48.6)	(17.2)	(15.9)
% of Plan liabilities at end of the year	1.7%	3.1%	5.5%	1.9%	4.0%
Total actuarial (gain) / loss recognised in statement of total recognised gains and losses:					
Amount (US\$m)	(60.4)	51.9	(88.2)	300.5	(153.9)
% of Plan liabilities at end of the year	5.7%	5.6%	9.9%	33.3%	39.0%

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

8. STAFF COSTS (continued)

Analysis of the movement in Plan assets during the year:

	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$m	US\$m
Plan assets at the start of the year	1,059.6	1,053.6
Expected return on Plan assets	68.3	77.6
Gain / (loss) on assets	57.2	(101.1)
Contributions paid – employer	35.7	43.8
Benefits paid	(7.3)	(8.5)
Foreign exchange gains / (losses) on translation of Plan assets	53.1	(5.8)
Plan assets at the end of the year	1,266.6	1,059.6

Analysis of the movement in Plan liabilities during the year:

	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$m	US\$m
Plan liabilities at the start of the year	927.4	889.6
Current service cost	45.2	52.3
Interest on Plan liabilities	46.5	49.4
Loss / (gain) on change in assumptions	14.3	(20.7)
Experience gain	(17.5)	(28.5)
Benefits paid	(7.3)	(8.5)
Foreign exchange losses / (gains) on translation of Plan liabilities	45.5	(6.2)
Plan liabilities at the end of the year	1,054.1	927.4

Analysis of the movement in surplus in the Plan during the year:

	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$m	US\$m
Surplus in the Plan at the start of the year	132.2	164.0
Contributions paid – employer	35.7	43.8
Current service cost	(45.2)	(52.3)
Net finance income	21.8	28.2
Actuarial gain / (loss)	60.4	(51.9)
Foreign exchange gain on translation of surplus	7.6	0.4
Surplus in the Plan at the end of the year	212.5	132.2

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

8. STAFF COSTS (continued)

Additional disclosures:

	Year Ended 31 December 2012 US\$m	Year Ended 31 December 2011 US\$m
Expected future benefit payments for the year to 31 December 2013 / 31 December 2012	9.3	8.2
Expected contributions for the year to 31 December 2013 / 31 December 2012 – employer	33.6	36.0
Actual return on Plan assets during the year ended 31 December 2012 / 31 December 2011		
Expected return on Plan assets	68.3	77.6
Asset gain / (loss) during the year	57.2	(101.1)
Actual return on Plan assets	125.5	(23.5)

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

	31 December 2012 US\$m	31 December 2011 US\$m
Actuarial loss relating to the pension scheme	(30.9)	(91.3)
UK deferred tax attributable to the actuarial loss	11.5	25.4
Net cumulative amount recognised in the statement of total recognised gains and losses	(19.4)	(65.9)

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 year was US\$55.8 million (year ended 31 December 2011: US\$59.3 million). There is no amount in respect of this cost that remains payable at the balance sheet date (2011: US\$nil).

9. 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').

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

9. SHARE-BASED PAYMENTS (continued)

Restricted stock units ('RSUs')

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

	31 December 2012		31 December 2011	
	No. of RSUs		No. of RSUs	
	No future service requirement	Future service requirement	No future service requirement	Future service requirement
Outstanding at the beginning of the year	7,324,571	5,051,185	11,096,423	8,801,816
Granted	1,174,295	1,641,646	1,817,659	2,395,345
Forfeited	(12,531)	(490,323)	(52,812)	(521,640)
Delivered	(7,088,586)	-	(11,152,553)	-
Transferred (out) / in	(28,427)	(28,524)	50,980	(59,462)
Vested	3,635,746	(3,635,746)	5,564,874	(5,564,874)
Outstanding at the end of the year	5,005,068	2,538,238	7,324,571	5,051,185

The weighted average fair value of the equity instruments granted during the year ended 31 December 2012 was US\$87.55 (year ended 31 December 2011: US\$145.58). The fair value of the RSUs granted during the year ended 31 December 2012 and the year ended 31 December 2011 includes a liquidity discount of 19.1% and 9.5%, respectively, to reflect post-vesting transfer restrictions of up to 4 years.

In the first quarter of 2013, the GS Group granted 4.3 million year-end RSUs to the group's employees, of which 1.6 million RSUs require future service as a condition of delivery. These awards are subject to additional conditions as outlined in the awards agreements. Generally, shares underlying these awards, net of required withholding tax, deliver over a three-year period but are subject to post-vesting transfer restrictions through January 2017. These awards are not included in the above table.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

9. SHARE-BASED PAYMENTS (continued)

Stock options

Stock options granted to employees generally vest as outlined in the applicable stock option agreement. No options were granted for the year ended 31 December 2012 nor for the year ended 31 December 2011. 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 2012		31 December 2011	
	No. of share options	Weighted average exercise price US\$	No. of share options	Weighted average exercise price US\$
Outstanding at the beginning of the year	10,875,522	89.89	11,935,923	90.07
Forfeited	-	-	(7,681)	78.38
Transferred in	-	-	57,090	76.25
Exercised	(616,250)	78.95	(534,972)	90.69
Expired	(2,451)	78.87	(574,838)	91.69
Outstanding at the end of the year	10,256,821	90.55	10,875,522	89.89
Exercisable at the end of the year	10,256,821	90.55	7,741,204	94.39

For those options exercised during the year, the weighted average share price at the date of exercise was US\$118.82 (year ended 31 December 2011: US\$135.40). The options outstanding as at 31 December 2012 and 31 December 2011 are set forth below.

	31 December 2012		31 December 2011	
	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	9,078,709	6.00	9,694,275	6.64
\$90.00-\$104.99	42,082	0.92	45,217	1.92
\$120.00-\$134.00	288,720	2.92	288,720	3.92
\$195.00-\$209.99	847,310	4.51	847,310	5.51
Outstanding at the end of the year	10,256,821		10,875,522	

The group recorded total share-based compensation expenses net of forfeitures of US\$384 million for the year ended 31 December 2012 (year ended 31 December 2011: US\$880 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 GS Group.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

a. Analysis of tax charge for the year

	The Group	
	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$'000	US\$'000
Current tax		
UK corporation tax	155,264	(337)
Adjustments in respect of prior periods	(5,089)	(52,768)
Overseas taxation	50,534	32,421
Total current tax (see note b)	200,709	(20,684)
Deferred tax		
Provisions and other timing differences	(134,069)	643,834
Adjustments in respect of prior years	296	272
Effect of decreased tax rate on opening asset	28,523	59,713
Utilisation of losses brought forward	695	-
Total deferred tax (see note 19)	(104,555)	703,819
Tax on profit on ordinary activities	96,154	683,135

In July 2013, the Finance Act 2013 was substantively enacted, which will decrease the main rate of UK corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. The group did not include these rate reductions in its measurement of deferred tax balances as they were not substantively enacted as at 31 December 2012. The group estimates that the impact of these rate reductions in the next year will be to decrease the deferred tax asset by approximately US\$28 million.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

10. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

b. Factors affecting tax charge / (credit) for the year:

The difference between the total current tax shown above and the amount calculated by applying the weighted average rate of UK corporation tax applicable to the group for the year of 24.5% (31 December 2011: 26.5%) to the profit on ordinary activities before tax is as follows

	The Group	
	Year Ended	Year Ended
	31 December 2012	31 December 2011
	US\$'000	US\$'000
Profit on ordinary activities before taxation	866,376	3,483,313
Profit on ordinary activities multiplied by standard rate in the UK 24.5% (2011: 26.5%)	212,262	923,077
Expenses disallowed for the purposes of tax provision	18,258	21,954
Capital allowances	(18,834)	(16,906)
Timing differences in respect of equity-based compensation	164,814	(665,708)
Other timing differences	(16,779)	(19,413)
Permanent differences	(111,865)	(142,259)
Exchange differences	4,648	2,203
Pension contribution relief in excess of net pension cost charge	(1,330)	(5,714)
Tax losses surrendered from GS Group undertakings for nil consideration	(45,090)	(64,978)
Utilisation of losses brought forward	(695)	(771)
Other adjustments	409	599
Adjustment to tax in respect of prior years	(5,089)	(52,768)
Current tax charge / (credit) for the year	200,709	(20,684)

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

11. COMPANY PROFIT FOR THE YEAR

The profit for the financial year of the company was US\$244.5 million (year ended 31 December 2011: US\$252.4 million). 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.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

12. INTANGIBLE ASSETS

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

	The Group		
	Positive goodwill	Negative goodwill	Total
	US\$'000	US\$'000	US\$'000
Cost			
At 1 January 2012 and 31 December 2012	27,447	(23,946)	3,501
Accumulated Amortisation			
At 1 January 2012	(15,208)	19,445	4,237
Charge for year	(5,282)	3,815	(1,467)
At 31 December 2012	(20,490)	23,260	2,770
Net Book Value			
At 31 December 2011	12,239	(4,501)	7,738
At 31 December 2012	6,957	(686)	6,271

13. TANGIBLE FIXED ASSETS

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

	The Group		
	Leasehold improvements	Fixtures, fittings & equipment	Total
	US\$'000	US\$'000	US\$'000
Cost			
At 1 January 2012	16,526	8,784	25,310
Additions	9,539	1,984	11,523
Disposals	-	(784)	(784)
Currency translation	73	190	263
Asset Transfers	(146)	187	41
At 31 December 2012	25,992	10,361	36,353
Accumulated Depreciation			
At 1 January 2012	10,010	6,381	16,391
Charge for year	2,638	1,017	3,655
Disposals	-	(527)	(527)
Currency translation	68	150	218
At 31 December 2012	12,716	7,021	19,737
Net Book Value			
At 31 December 2011	6,516	2,403	8,919
At 31 December 2012	13,276	3,340	16,616

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

14. 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 1 January 2012	6,894,190
Additions	1,405,020
Disposals	(758,882)
At 31 December 2012	7,540,328

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

On 3 April 2012, the company was allotted 200,000,000 ordinary shares of US\$1 each issued by Fleet Trade & Transport Limited, for a total consideration of US\$200,000,000

On 27 April 2012, the company was allotted 7,442,519 ordinary shares of £1 each issued by Goldman Sachs International Bank, for a total consideration of £277,829,228 (US\$450,000,000)

On 21 September 2012, Money Partners Financial Company Limited effected a return of capital of 3,861,998 US\$1 ordinary shares to the company, for a total consideration of US\$3,746,138. The company incurred a loss on the investment of US\$115,860

The balance of additions and disposals during the year is attributable to Goldman Sachs Asset Management International, Goldman Sachs International, Goldman Sachs International Bank and Goldman Sachs Holdings (U.K.). The directors and shareholders of the companies reviewed their respective company's capital requirements under the forthcoming European Union Fourth Capital Requirements Directive ('CRD IV'). In order to maintain the equivalent level of Tier 1 capital under the new requirements these subsidiaries repaid their preference shares, together with associated premium, and allotted additional ordinary shares.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

14. FIXED ASSET INVESTMENTS (continued)

The subsidiaries over which the group and the effective ownership interests to the nearest whole percent in the ordinary and preference shares at the year 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	1% Ordinary shares
Goldman Sachs International Bank (bond trading, bank loan and related activities)	100% Ordinary shares	100% Ordinary shares
Montague Place Custody Services (custodian services)	100% Ordinary Shares	1% Ordinary shares
Goldman Sachs International (securities dealer)	100% Ordinary shares	1% Ordinary 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% Ordinary shares
Goldman Sachs Securities (Nominees) Limited (nominee shareholder)	100% Ordinary shares	0% Ordinary shares
Dunvegan Investments Limited (non-trading)	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% Ordinary shares
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

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

14. FIXED ASSET INVESTMENTS (continued)

Name of company and principal activity	Group interest in shares issued	Of which, owned directly by the company
Killingholme Holdings Limited (investment company)	100% Ordinary shares	0% Ordinary shares
GS Killingholme Cayman Investments 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 I Limited (investment company)	100% Ordinary shares	0% Ordinary shares
GS Investment Finance II 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 100% Class A shares	0% Ordinary shares 0% Preference shares 0% Class A shares
Forres Investments Limited (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 (in liquidation)	100% Ordinary shares 100% Redeemable shares	100% Ordinary shares 100% Redeemable shares
Money Partners Holdings Limited (in liquidation)	100% Ordinary shares 100% Redeemable shares	100% Ordinary shares 100% Redeemable shares
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 (investment company)	100% Ordinary shares	0% Ordinary shares
Beheer- En Beleggingsmaatschappij Bfraco B V (lease holding company)	100% Ordinary shares	0% Ordinary shares
Nufcor International Limited (commodities dealer)	100% Ordinary shares	100% Ordinary shares

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

14. FIXED ASSET INVESTMENTS (continued)

Name of company and principal activity	Group interest in shares issued	Of which, owned directly by the company
Nufcor Capital Limited (non-trading company)	100% Ordinary shares	0% Ordinary shares
Sphere Fundo De Investimento Multimercado - Investimento No Exterior Credito Privado (investment fund)	100% Units	0% Units
Sphere Fund (investment fund)	100% Units	0% Units
Pumbaa Luxembourg S A R L (investment company)	100% Ordinary shares	100% Ordinary shares
Goldman Sachs UK Retirement Plan Pension Trustee Limited (dormant)	100% Ordinary shares	100% Ordinary shares

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

- Goldman Sachs Europe 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 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 and KPL Holdings Limited are incorporated in the Cayman Islands
- GS (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 Fund are incorporated in Brazil
- Pumbaa Luxembourg S A R L is incorporated in Luxembourg

b. Shares in associate undertaking

During the prior year the group disposed of its 30.94% interest in Barrie & Hibbert Limited, a company registered in Scotland providing financial risk consultancy, for a consideration of US\$20 million

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

14. FIXED ASSET INVESTMENTS (continued)

c. Other investments other than loans

The balance at 31 December 2012 and 31 December 2011 comprises

	The Group		The Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	US\$'000	US\$'000	US\$'000	US\$'000
Shares in GS Group undertakings (see note i)	66	66	-	-
Other equity investments	1,300	1,319	-	-
Debentures (see note ii)	-	-	-	-
	1,366	1,385	-	-

(i) Shares in GS 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 debentures, which have been fully amortised in the prior year, have a cost of US\$78,000

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

15. 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 their 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. In addition, given that derivatives held by the vehicles offset risks inherent in their assets and liabilities, the vehicles do not produce any material net profit or loss.

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

	31 December 2012 US\$'000	31 December 2011 US\$'000
Assets		
Financial instruments owned		
Amounts due from GS group undertakings	1,244,026	1,032,915
Other	2,332,441	7,759,392
	3,576,467	8,792,307
Liabilities		
Debt securities issued		
Amounts due to GS group undertakings	(2,600,875)	(8,329,013)
Other	(975,592)	(463,294)
	(3,576,467)	(8,792,307)

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

16. 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 2012 US\$'000	31 December 2011 US\$'000
Cash instruments:		
Government & agency obligations	41,642,030	38,021,954
Equities	34,141,283	19,753,356
Corporate debt	12,664,322	14,492,036
Commercial paper	475,132	1,618,408
Commodities	451,850	160,907
	89,374,617	74,046,661
Derivative instruments:		
Credit	104,461,509	178,440,727
Interest rate	301,748,577	242,787,908
Equity	64,799,089	81,929,352
Foreign currency	40,588,727	47,657,688
Commodities	5,313,234	7,594,021
	516,911,136	558,409,696
	606,285,753	632,456,357
 Financial instruments owned	 578,257,050	 610,947,921
Financial instruments owned, pledged as collateral	28,028,703	21,508,436
	606,285,753	632,456,357

Financial instruments sold, but not yet purchased comprises

	31 December 2012 US\$'000	31 December 2011 US\$'000
Cash instruments:		
Government & agency obligations	21,056,885	25,733,167
Equities	13,579,934	14,556,429
Corporate debt	2,881,237	3,039,769
	37,518,056	43,329,365
Derivative instruments:		
Credit	93,420,837	161,593,761
Interest rate	297,634,901	237,598,237
Equity	59,493,447	71,151,469
Foreign currency	40,086,865	47,644,824
Commodities	4,772,759	7,036,994
	495,408,809	525,025,285
	532,926,865	568,354,650

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

17. COLLATERALISED AGREEMENTS

Included within the collateralised agreements are amounts of US\$102,185 million (31 December 2011 US\$98,919 million) which relate to GS Group undertakings

18. DEBTORS

	The Group		The Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	US\$'000	US\$'000	US\$'000	US\$'000
Amounts due from brokers / dealers and customers	56,365,448	52,163,473	-	-
Amounts due from GS Group undertakings	12,331,319	10,013,434	41,559,033	19,673,531
Group relief receivable from GS Group undertakings	-	-	47,948	213,578
Corporation tax receivable	69,207	243,470	-	-
Deferred tax (see note 19)	488,326	396,753	-	-
Other debtors	87,428	216,375	1	7
Prepayments and accrued income	137,065	142,430	-	-
	69,478,793	63,175,935	41,606,982	19,887,116

Of the amounts due from broker / dealers and customers, US\$165 million (31 December 2011 US\$170 million) is due in more than one year. This relates to secured lending on a collateralised debt obligation.

Of the amount due from GS Group undertakings, US\$8,578 million (31 December 2011 US\$8,578 million) in relation to the company is due in more than one year. This relates to long-term subordinated loans to a subsidiary undertaking. The loans are unsecured and accrue interest at a margin over Federal Funds Rate. The margin is reset on a periodic basis to reflect changes in the group's long-term debt spread. The loan is repayable upon giving or receiving at least five years' notice to or from the subsidiary undertaking.

Included within other debtors is a net investment in finance leases of US\$12.2 million (31 December 2011 US\$72.6 million) of which US\$4.1 million is due in more than one year (31 December 2011 US\$26.4 million). The cost of assets acquired in the year for the purpose of letting under finance leases was US\$nil million (31 December 2011 US\$16 million).

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

19. DEFERRED TAX

	31 December 2012	31 December 2011
	US\$'000	US\$'000
Deferred tax balance comprises:		
Depreciation in excess of capital allowances	6,630	5,919
Post-retirement benefits	(36,128)	(6,592)
Other timing differences	517,824	397,426
	488,326	396,753

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

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

19. DEFERRED TAX (continued)

	US\$'000
At 1 January 2012	396,753
Transfer to the profit and loss account for the year	104,555
Foreign exchange gain	900
Transfer to the statement of total recognised gains and losses for the year	(13,882)
At 31 December 2012	488,326

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

20. CASH AT BANK AND IN HAND

Included within cash at bank and in hand is US\$11,847 million (31 December 2011 US\$13,784 million) that is held on behalf of clients in segregated accounts

21. COLLATERALISED FINANCING

Included within collateralised financing are amounts of US\$81,235 million (31 December 2011 US\$85,423 million) which relate to GS Group undertakings

22. OTHER CREDITORS

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

	The Group		The Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	US\$'000	US\$'000	US\$'000	US\$'000
Bank loans and overdrafts	432,324	27,182	-	-
Debt securities issued	16,499,506	21,474,432	-	-
Amounts due to brokers / dealers and customers	79,226,790	91,653,421	-	-
Amounts due to GS Group undertakings	62,741,443	59,667,235	35,774,450	13,767,850
Corporation tax payable	21,579	3,047	-	-
Group relief payable to GS Group undertakings	-	-	-	902
Other taxes and social security costs	211,462	165,533	-	-
Accrual for management charges payable to GS Group undertakings (see note 23 ii)	1,112,336	742,269	-	-
Other creditors and accruals	2,908,604	733,980	6,819	5,386
	163,154,044	174,467,099	35,781,269	13,774,138

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

22 OTHER CREDITORS (continued)

Of debt securities issued, US\$2,653 million (31 December 2011 US\$3,293 million) relates to amounts due to GS Group undertakings

Of debt securities issued, US\$4,645 million (31 December 2011 US\$9,200 million) is secured by securities which have been pledged as collateral, of which US\$nil (31 December 2011 US\$nil) relates to amounts due to GS Group undertakings. This pledged collateral is either recognised within financial instruments owned or sourced through collateralised agreements

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

	The Group		The Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	US\$'000	US\$'000	US\$'000	US\$'000
Long-term subordinated loans (see note 24)	10,234,922	9,559,923	8,578,000	8,578,000
Debt securities issued (see note i)	3,621,957	3,853,145	-	-
Amounts due to GS Group undertakings	820,878	1,460,049	-	-
Accrual for management charges payable to GS Group undertakings (see note ii)	855,338	512,762	-	-
	15,533,095	15,385,879	8,578,000	8,578,000

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

	31 December 2012 US\$'000	31 December 2011 US\$'000
In more than one year but not more than two years	1,478,957	230,616
In more than two years but not more than five years	1,209,462	2,890,165
In more than five years	933,538	732,364
	3,621,957	3,853,145

Of debt securities issued, US\$167 million (31 December 2011 US\$169 million) relates to amounts due to GS Group undertakings

Of debt securities issued, US\$2,011 million (31 December 2011 US\$2,677 million) is secured by securities which have been pledged as collateral, of which US\$167 million (31 December 2011 US\$169 million) is repayable to GS Group undertakings. Collateral pledged is either recognised within financial instruments owned or sourced through collateralised agreements. Amounts due in more than five years predominately relate to structured debt securities with maturities between 2018 to 2050. Payments on these securities are typically referenced to underlying financial assets including collateralised debt obligations and OTC mortgage portfolios

(ii) The accrual for management charges (per above and note 22) is in respect of RSUs and long-term incentive plans

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

24 SUBORDINATED LOANS

	The Group		The Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	US\$'000	US\$'000	US\$'000	US\$'000
Repayable as follows				
Between two and five years	340,740	340,740	-	-
Over five years	9,894,182	9,219,183	8,578,000	8,578,000
	10,234,922	9,559,923	8,578,000	8,578,000

The amounts outstanding represent long-term and short-term subordinated loans from GS Group undertakings. These loans are unsecured and accrue interest at a margin over the Federal Funds Rate. The margin is reset on a periodic basis to reflect changes in the GS Group's long-term debt spread.

25 PROVISIONS FOR LIABILITIES

	The Group US\$'000
At 1 January 2012	5,991
Charge to the profit and loss account	22,233
Foreign exchange gain	81
At 31 December 2012	28,305

The provision of US\$28 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.

26. SHARE CAPITAL

At 31 December 2012 and 31 December 2011 share capital comprised

	The Company			
	31 December 2012		31 December 2011	
	No.	US\$'000	No.	US\$'000
<u>Allotted, called up and fully paid</u>				
Ordinary shares of US\$0.01 each	2,256,548,249	22,565	1,785,861,370	17,858
Preference shares of US\$0.01 each	-	-	461,500,000	4,615
		22,565		22,473

During the year, the directors and shareholders of the company reviewed the group's capital requirements under the forthcoming European Union Fourth Capital Requirement Directive ('CRD IV'). In order to maintain the equivalent level of Tier 1 capital under the new requirements the company converted its preference shares into ordinary shares.

On 30 November 2012, all 461,500,000 preference shares were reclassified as ordinary shares.

Up until repayment, the non-cumulative preference shares carried limited voting rights and, on a winding up, the holders held preferential right to return of capital together with any premium. Non-cumulative preference shares had a fixed non-cumulative dividend payable at a rate of 8 cents per share per annum.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

26. SHARE CAPITAL (continued)

On 27 December 2012, 9,186,879 ordinary shares of US\$0.01 each were allotted to Goldman Sachs (U.K.) L.L.C. The total consideration received was US\$90,674,500 in cash, incorporating a share premium of US\$90,582,631.

27. 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 1 January 2011	1,547,032	305,012	73,089	15,702,313	1,021,395
Profit for the year	-	-	-	2,800,178	-
Other recognised losses	-	-	-	(38,889)	-
Currency translation differences	-	-	-	(1,000)	-
At 1 January 2012	1,547,032	305,012	73,089	18,462,602	1,021,395
Profit for the year	-	-	-	770,222	-
Shares issued (see note 26)	90,583	-	-	-	-
Other recognised gains	-	-	-	46,474	-
Currency translation differences	-	-	-	12,506	-
Contributed capital	-	-	5,321	-	-
At 31 December 2012	1,637,615	305,012	78,410	19,291,804	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 1 January 2011	1,547,032	73,089	1,532,418	1,021,395
Profit for the year	-	-	252,442	-
At 1 January 2012	1,547,032	73,089	1,784,860	1,021,395
Profit for the year	-	-	244,501	-
Contributed capital	-	5,321	-	-
Shares issued (see note 26)	90,583	-	-	-
At 31 December 2012	1,637,615	78,410	2,029,361	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.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

28. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	The Group	
	Year Ended 31 December 2012	Year Ended 31 December 2011
	US\$'000	US\$'000
Profit on ordinary activities after taxation and for the financial year	770,222	2,800,178
Exchange gain / (loss) on consolidation	12,506	(1,000)
Actuarial gain / (loss) relating to the pension scheme	60,356	(51,852)
UK deferred tax attributable to the actuarial gain / (loss)	(13,882)	12,963
Share-based payments (see note 9)	384,378	879,948
Management recharge related to share-based payments	(384,378)	(879,948)
Capital contribution	5,321	-
Share capital issuance (see note 26)	90,675	-
Net increase in shareholder's funds	925,198	2,760,289
Opening shareholder's funds	21,431,603	18,671,314
Closing shareholder's funds	22,356,801	21,431,603

29. FINANCIAL COMMITMENTS AND CONTINGENCIES

- a. The group's financial commitments and contingencies outstanding at the year end arise from letters of credit and forward foreign exchange, swaps, options, financial futures contracts, debt and equity forwards and underwriting commitments entered into in the ordinary course of business. In addition, there are registered charges on the group's assets which have arisen in the ordinary course of business.
- b. The group has undrawn loan commitments of US\$55,815,000 (31 December 2011 US\$94,865,000). 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 2012 US\$'000	31 December 2011 US\$'000
Maturity of lease		
Less than one year	100	555
Between 1 and 2 years	1,343	9,991
Between 2 and 5 years	1,290	2,963
Over 5 years	100,418	95,334
	103,151	108,843

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

29. FINANCIAL COMMITMENTS AND CONTINGENCIES (continued)

- 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 year end was US\$1,046,680,560 (31 December 2011 US\$718,391,585). The market value of the collateral held to cover the loss was US\$1,105,497,674 (31 December 2011 US\$756,681,677). There is minimal performance risk associated with these guarantees.
- e. The European Commission announced in April 2011 that it was initiating proceedings to investigate further numerous financial services companies, including The Goldman Sachs Group, Inc., in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anticompetitive practices. On July 1 2013, the European Commission issued to those financial services companies a Statement of Objections alleging that they colluded to limit competition in the trading of exchange-traded unfunded credit derivatives and exchange trading of credit default swaps more generally, and setting out its process for determining fines and other remedies. It is currently understood that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely.

The group may be impacted by this investigation through its subsidiary Goldman Sachs International. However, the group cannot reliably estimate the impact, if any, of the investigation.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30 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 GS Group 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 the group's revenue-producing units and departments that are independent of the group's 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 risk - primarily results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads,
- equity price risk - results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices,
- currency rate risk - results from exposures to changes in spot prices, forward prices and volatilities of currency rates, and
- commodity price risk - results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil and metals.

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 amongst 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**30. FINANCIAL RISK MANAGEMENT (continued)****a. Market risk (continued)**

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 longer-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.

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, product type or legal entity, and
- the ability to produce ad hoc analyses in a timely manner.

Value-at-Risk

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

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

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

When calculating VaR, historical simulations are used. VaR is calculated at a position level based on simultaneously shocking the relevant market risk factors for that position. A sample from 5 years of historical data is taken to generate the scenarios for the VaR calculation. The historical data is weighted so that the relative importance of the data reduces over time. This gives greater importance to more recent observations and reflects current asset volatilities, which improves the accuracy of our estimates of potential loss. As a result, even if financial instrument positions were unchanged, VaR would increase with increasing market volatility and vice versa.

Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions.

The VaR measure does not include

- positions that are best measured and monitored using sensitivity measures, and
- the impact of changes in counterparty and the 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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**30. FINANCIAL RISK MANAGEMENT (continued)****a Market risk (continued)**

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

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

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

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 the group's portfolios, including sensitivity analysis, scenario analysis and group stress tests. The results of the various stress tests are analysed together for risk management purposes.

Sensitivity analysis is used to quantify the impact of a market move in a single risk factor across all positions (e.g. equity prices or credit spreads) using a variety of defined market shocks, ranging from those that could be expected over a one day time horizon up to those that could take many months to occur. Sensitivity analysis is also used to quantify the impact of the default of a single corporate entity, which captures the risk of a large or concentrated exposures.

Scenario analysis is used to quantify the impact of a specified event, including how the event impacts multiple risk factors simultaneously. For example, for sovereign stress testing the group calculates potential direct exposure associated with its sovereign inventory as well as the corresponding debt, equity and currency exposures associated with its non-sovereign inventory that may be impacted by the sovereign distress. When conducting scenario analysis, the group typically considers a number of possible outcomes for each scenario, ranging from moderate to severely adverse market impacts. In addition, these stress tests are constructed using both historical events and forward-looking hypothetical scenarios.

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 the risk management process because it allows the group to quantify its exposure to tail risk, highlight potential loss concentrations, undertake risk / reward analysis and assess and mitigate its risk positions.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

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 set based on VaR and on a range of stress test relevant to the group's exposures. 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 amongst 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 GS Group and relevant entities. When a risk limit has been exceeded (e.g. due to changes in market conditions, such as increased volatilities or changes in correlations) it is reported to the appropriate Risk Committees and a discussion takes place with the relevant desk managers, after which either the risk position is reduced or the risk limit is temporarily or permanently increased.

The following table sets forth the year end and daily VaR

	31 December 2012	31 December 2011
	US\$m	US\$m
Total VaR at the end of the year	33.8	44.4
Average daily VaR for the year	33.7	48.7

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 2012	31 December 2011
	US\$m	US\$m
Sensitivity analysis – material areas not in VaR		
Trading Risk Equity (10% sensitivity measure on carrying value)	23.1	25.3
Trading Risk Debt (10% sensitivity measure on carrying value)	8.6	39.2

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**30. 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 2012, the carrying value of these liabilities was US\$55.2 billion (31 December 2011: US\$55.3 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\$207.9 million (31 December 2011: US\$183.5 million). This is 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 Goldman Sachs Group, Inc. 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,
- using credit risk mitigants, including collateral and hedging, and
- communicating and collaborating with other independent control and support functions such as Operations, Legal and Compliance.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**30. 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 stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. In the case of sovereign default, we estimate the direct impact of the default on the group's credit exposures, changes to the group's exposures arising from potential market moves in response to the default, and the impact of credit market deterioration on corporate borrowers and counterparties that may result from the sovereign default. Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring.

Stress tests are run on a regular basis as part of the group's routine risk management processes and the group 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.

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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**30 FINANCIAL RISK MANAGEMENT (continued)****b. Credit risk (continued)**

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 origination 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.

Collateralised agreements. 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 debtors through its amounts due from brokers / dealers and customers and amounts due from GS Group undertakings. These primarily comprise receivables related to cash collateral paid to counterparties in respect of derivative financial instruments. In addition, these balances also include 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. Other amounts exposed to credit risk 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.

In the disclosures below financial instruments owned and financial instruments owned, pledged as collateral include cash inventory (e.g. equities, bonds). These contribute US\$89,375 million (31 December 2011: US\$74,047 million) to the group's net credit exposure. These are captured by market risk in the group's risk management process.

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 before and after taking account of the value of collateral obtained or any other credit enhancements (e.g. master netting agreements).

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

	31 December 2012				
	Gross credit exposure US\$m	Master netting agreements US\$m	Cash collateral US\$m	Security collateral received US\$m	Net credit exposure US\$m
Exposure to credit risk by class					
Financial instruments owned	578,257	(442,739)	(46,320)	(11,166)	78,032
Financial instruments owned, pledged as collateral	28,029	-	-	-	28,029
Collateralised agreements	200,742	(12,986)	-	(184,059)	3,697
Debtors (excluding deferred tax of US\$488m)	68,990	-	(26,733)	(9,872)	32,385
Cash at bank and in hand	13,834	-	-	-	13,834
	889,852	(455,725)	(73,053)	(205,097)	155,977

	31 December 2011				
	Gross credit exposure US\$m	Master netting agreements US\$m	Cash collateral US\$m	Security collateral received US\$m	Net credit exposure US\$m
Exposure to credit risk by class					
Financial instruments owned	610,948	(467,756)	(58,070)	(10,250)	74,872
Financial instruments owned, pledged as collateral	21,508	-	-	-	21,508
Collateralised agreements	226,072	(7,542)	-	(214,840)	3,690
Debtors (excluding deferred tax of US\$397m)	62,779	-	(26,076)	(7,319)	29,384
Cash at bank and in hand	15,572	-	-	-	15,572
	936,879	(475,298)	(84,146)	(232,409)	145,026

The reduction in gross credit exposure of US\$455,725 million (31 December 2011 US\$475,298 million) reflects the offsetting of derivative assets with liabilities and collateralised agreements with collateralised financing with the same maturity, where an enforceable master netting agreement is in place. In each case, the group has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

In the disclosures below financial instruments owned and financial instruments owned, pledged as collateral include cash inventory (e.g. equities, bonds). These are captured by market risk in the group's risk management process. They are not assigned internal ratings and constitute the majority of the exposures not rated below.

The table below groups gross and net credit exposure based on internal ratings.

31 December 2012					
Credit rating	Gross credit exposure US\$m	Master netting agreements US\$m	Cash collateral US\$m	Security collateral received US\$m	Net credit exposure US\$m
AAA	12,011	(3,508)	(2,596)	(3,427)	2,480
AA	126,589	(56,949)	(14,323)	(45,252)	10,065
A	535,513	(341,868)	(33,827)	(134,432)	25,386
BBB	71,770	(45,441)	(15,328)	(5,805)	5,196
BB	18,128	(5,735)	(4,284)	(5,509)	2,600
B	14,133	(1,952)	(1,721)	(7,904)	2,556
CCC	2,274	(201)	(960)	(464)	649
Not rated	109,434	(71)	(14)	(2,304)	107,045
Total	889,852	(455,725)	(73,053)	(205,097)	155,977

31 December 2011					
Credit rating	Gross credit exposure US\$m	Master netting agreements US\$m	Cash collateral US\$m	Security collateral received US\$m	Net credit exposure US\$m
AAA	13,033	(3,391)	(1,797)	(6,862)	983
AA	191,295	(73,595)	(14,691)	(83,685)	19,324
A	534,737	(344,142)	(43,628)	(118,818)	28,149
BBB	80,097	(46,801)	(15,714)	(9,705)	7,877
BB	16,967	(4,775)	(4,894)	(5,753)	1,545
B	12,622	(2,436)	(3,260)	(3,604)	3,322
CCC	709	(50)	(139)	(93)	427
Not rated	87,419	(108)	(23)	(3,889)	83,399
Total	936,879	(475,298)	(84,146)	(232,409)	145,026

As at the current and prior year ends, financial assets past due or impaired were insignificant.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012**30. FINANCIAL RISK MANAGEMENT (continued)****b. Credit risk (continued)****Collateralised transactions**

The group receives 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, other 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 at 31 December 2012, 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\$288,714 million (31 December 2011 US\$311,542 million), of which the group and its subsidiaries delivered or repledged US\$253,201 million (31 December 2011 US\$271,341 million).

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, pledged as collateral' in the consolidated financial statements. 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\$30,869 million as at 31 December 2012 (31 December 2011 US\$21,498 million).

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.

The group has posted cash collateral in respect of financial instruments of US\$26,733 million (31 December 2011 US\$26,076 million).

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 anticipated holding periods for the group's assets and their expected 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.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. 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 for derivatives. Derivative contracts included within financial instruments sold, but not yet purchased are classified as trading and included below at their fair value. Fair values have been disclosed as this is consistent with the values used in the liquidity risk management of these instruments. Liquidity risk on derivatives is mitigated through master netting agreements and cash collateral arrangements.

31 December 2012

	Trading / 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	532,927	-	-	-	-	-	532,927
Collateralised financing	68,201	66,574	7,910	10,104	2,150	1,639	156,578
Other creditors	120,620	1,579	4,061	36,928	5	-	163,193
Creditors falling due after more than one year	-	-	-	-	4,757	12,288	17,045
	721,748	68,153	11,971	47,032	6,912	13,927	869,743

31 December 2011

	Trading / 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	568,355	-	-	-	-	-	568,355
Collateralised financing	56,754	69,822	14,429	10,216	4,438	2,122	157,781
Other creditors	131,144	1,450	4,527	37,369	1	-	174,491
Creditors falling due after more than one year	-	-	-	-	5,370	11,459	16,829
	756,253	71,272	18,956	47,585	9,809	13,581	917,456

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (continued)

d. Transferred assets

Assets continued to be recognised in full

During the year, the group transferred certain financial assets where the transfers failed to meet the derecognition criteria, as contained in FRS 26, and as a result of which the group continues to recognise these assets in full on the balance sheet

The group and its subsidiaries transfer assets owned to counterparties in the ordinary course of business to collateralise repurchase agreements and other securities lending transactions. In these transactions the transferred assets continue to be recognised by the group for accounting purposes because the transactions require the financial instruments to be repurchased at maturity of the agreement and the group remains exposed to the price, credit and interest rate risk of these instruments. When the group receives cash proceeds from the transfer of the asset, a financial liability is recognised in respect of the consideration received and recorded within 'Collateralised financing'. When the group receives non-cash collateral (in the form of securities) no liability is initially recognised. If collateral received is subsequently sold, the obligation to return the collateral is recognised as a liability within 'Financial instruments sold, but not yet purchased'.

In addition to repurchase agreements and securities lending agreements, the firm obtains funding through the use of other arrangements that fail to meet the derecognition criteria. For example, sales of securities with related derivatives, such as total return swaps, through which the group retains substantially all of the risk and reward of the transferred assets. A financial liability is recognised in such cases for the proceeds received.

Other financial assets transferred that continue to be recognised on balance sheet for accounting purposes relate to pledges of securities as collateral, primarily for derivative transactions. The obligations under such derivatives are recorded in 'Financial instruments sold, but not yet purchased'.

The following table presents financial assets which have been transferred but which remain on balance sheet for accounting purposes. The carrying amount of the associated financial liabilities approximate to the recognised carrying amount of the assets transferred.

	31 December 2012
	Carrying amount
	US\$m
Financial instruments owned	
Government & agency obligations	26,894
Equities	24,003
Corporate debt	7,774
Commercial paper	227

Derecognised assets with ongoing exposure

The group has continuing involvement in the form of derivative transactions and guarantees with certain non-consolidated structured entities to which the firm had transferred financial assets. These derivatives may be credit linked to the asset transferred and result in the firm retaining specific risks in the transferred asset or require the firm to make payments to the structured entity to compensate losses on the asset if certain contingent events occur.

In addition, the group transfers financial assets to securitisation vehicles. The group generally receives cash in exchange for the transferred assets but may have continuing involvement with the transferred assets, including ownership of beneficial interests in the securitisation. The group may also purchase senior or subordinated securities issued by securitisation vehicles in connection with secondary market-making activities.

The following disclosures provide further information about the group's exposure through this continuing involvement. In all cases these retained interests are carried at fair value.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (continued)

d. Transferred assets (continued)

	31 December 2012	
	Carrying amount US\$m	Maximum exposure to loss US\$m
Financial instruments owned		
Derivative financial assets	76	2,207
Cash instruments	365	365
Financial instruments sold, but not yet purchased		
Derivative financial liabilities	(27)	(255)
Cash instruments	-	-
Other liabilities	(1)	(1)

Where the firm's continuing involvement in transferred assets is through derivatives or guarantees, the maximum exposure to loss is the notional amounts of the derivative or guarantee. For retained or purchased interests in securitised assets, the firm's risk of loss is limited to the fair value of these interests.

For transactions with continuing involvement, the following table shows information about the gains or losses

	31 December 2012	
	Income and expense in the period US\$m	Cumulative income and expense US\$m
Financial instruments owned		
Financial instruments owned	47	76
Cash instruments	99	29
Financial instruments sold, but not yet purchased		
Derivative financial liabilities	(4)	(27)
Cash instruments	-	-
Other liabilities	-	(1)

There were no transfers with continuing involvement in the current period. The firm does not have continuing involvement that could require the firm to repurchase derecognised financial assets.

e. Fair value of financial instruments

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

	31 December 2012		31 December 2011	
	Carrying value US\$m	Approximate fair value US\$m	Carrying value US\$m	Approximate fair value US\$m
Subordinated loans (see note 24)	10,235	10,552	9,560	8,209

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (continued)

e. Fair value of financial instruments (continued)

The long-term subordinated loans are repayable on either two years and one day or five years and one 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 PRA approval.

f. Fair value hierarchy

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

- Level 1 - Inputs are unadjusted quoted prices in active markets to which the group had access at the measurement date for identical, unrestricted assets or liabilities
- Level 2 - Inputs to valuation techniques are observable, either directly or indirectly
- Level 3 - One or more inputs to valuation techniques are significant and unobservable

The fair value of certain level 2 and level 3 financial assets and financial liabilities may include valuation adjustments for counterparty and the group's credit quality, transfer restrictions, large and / or concentrated positions, illiquidity and bid / offer inputs.

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 2012	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
Financial instruments owned	62,175	528,028	16,082	606,285
Collateralised agreements	-	150,444	-	150,444
Debtors	-	221	167	388
Total financial assets at fair value	62,175	678,693	16,249	757,117

Financial liabilities at fair value as of 31 December 2012	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
Financial instruments sold, but not yet purchased	32,901	489,971	10,055	532,927
Collateralised financing	-	198,215	1,927	200,142
Customer deposits	-	1,985	-	1,985
Other creditors	-	17,075	2,993	20,068
Total financial liabilities at fair value	32,901	707,246	14,975	755,122

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (continued)

f. Fair value hierarchy (continued)

Financial assets at fair value as of 31 December 2011	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
Financial instruments owned	52,355	558,405	21,696	632,456
Collateralised agreements	-	190,728	-	190,728
Total financial assets at fair value	52,355	749,133	21,696	823,184

Financial liabilities at fair value as of 31 December 2011	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
Financial instruments sold, but not yet purchased	38,796	515,251	14,308	568,355
Collateralised financing	-	124,432	2,181	126,613
Other creditors	-	20,596	4,064	24,660
Total financial liabilities at fair value	38,796	660,279	20,553	719,628

Level 3 Rollforward

During the year ended 31 December 2012, there were no significant transfers between level 1 and 2 financial assets and financial liabilities. The following tables present the changes in fair value for all the financial assets and financial liabilities categorised as level 3 for the year ended 31 December 2012. 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 year, its entire gain or loss for the year is included in level 3. Transfers between levels are recognised at the beginning of the reporting year in which they occur. Accordingly, the tables do not include gains or losses that were reported in level 3 in prior years for the financial instruments that were transferred out of level 3 prior to the end of the year.

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 instruments. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

The level 3 transfers into financial assets of US\$3.9 billion and financial liabilities of US\$2.7 billion are principally due to reduced transparency of the correlation inputs used to value certain credit derivatives as a result of less observable trading activity and due to reduced transparency of inputs used to value certain other credit derivatives.

The level 3 transfers out of financial assets of US\$2.7 billion and financial liabilities of US\$2.2 billion are principally due to unobservable inputs becoming less significant to the valuation of certain credit and equity derivatives and due to improved transparency of inputs used to value certain other credit and equity derivatives as a result of more observable trading activity.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30 FINANCIAL RISK MANAGEMENT (continued)

f Fair value hierarchy (continued)

Reconciliation of level 3 financial assets:	Financial instruments owned US\$m	Debtors US\$m	Total financial assets US\$m
At 1 January 2012	21,696	-	21,696
Profit for the year	267	8	275
Purchases	1,576	-	1,576
Sales	(1,031)	-	(1,031)
Settlements	(7,579)	(3)	(7,582)
Transfers into level 3	3,864	162	4,026
Transfers out of level 3	(2,711)	-	(2,711)
At 31 December 2012	16,082	167	16,249

Reconciliation of level 3 financial liabilities:	Financial instruments sold, but not yet purchased US\$m	Collateralised financing US\$m	Other creditors US\$m	Total financial liabilities US\$m
At 1 January 2012	14,308	2,181	4,064	20,553
Profit for the year	236	-	73	309
Purchases	(27)	-	-	(27)
Sales	655	-	858	1,513
Settlements	(5,914)	(254)	(1,702)	(7,870)
Transfers into level 3	2,695	-	40	2,735
Transfers out of level 3	(1,898)	-	(340)	(2,238)
At 31 December 2012	10,055	1,927	2,993	14,975

g. 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 2012 of using reasonable possible alternative assumptions for the valuations including significant unobservable inputs has been quantified as approximately US\$230 million (31 December 2011 US\$510 million) for favourable changes and US\$255 million (31 December 2011 US\$485 million) for unfavourable changes. In determining reasonably possible alternative unfavourable 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.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (continued)

g. 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 2012	177
New transactions	38
Amounts recognised in the consolidated income statement during the period	(111)
At 31 December 2012	104

h. Capital management

The company is the holding company for a UK regulated group, which during the year was regulated by the Financial Services Authority (the 'FSA') and as such is subject to minimum capital adequacy standards. In implementing the Capital Requirements Directive ('CRD') the FSA required each bank and banking group to maintain an individually prescribed ratio of capital to risk weighted assets. The group monitored and demonstrated compliance with the relevant regulatory capital requirements of the FSA at all times during the year.

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

The level and composition of the 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 2012

- Tier 1 capital - US\$21.1 billion (31 December 2011: US\$20.2 billion) - comprises permanent share capital, profit and loss account and reserves, share premium account
- Tier 2 capital - US\$9.0 billion (31 December 2012: US\$8.2 billion) - solely comprises long-term subordinated debt
- Tier 3 capital - US\$341 million (31 December 2011: US\$332 million) - comprises short-term subordinated debt

Various regulatory limits and deductions are applied.

31. POST BALANCE SHEET EVENTS

On 1 March 2013, the company issued 68,692,608 ordinary shares of US\$0.01 for a total consideration of US\$686 million. The consideration received was the entire ordinary share capital of a fellow GS Group undertaking.

On 9 July 2013, Goldman Sachs Group Holdings (U.K.) re-registered, under the Companies Act 2006, from an unlimited company to a company limited by shares. Consequently, the name of the company has changed to Goldman Sachs Group Holdings (U.K.) Limited.

On 15 July 2013, the company issued 135,528,803 ordinary shares of US\$0.01 for a total consideration of US\$1,368 million. The consideration received was the entire ordinary share capital of a fellow GS Group undertaking.

GOLDMAN SACHS GROUP HOLDINGS (U.K.) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

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