Company number: 02263951

GOLDMAN SACHS INTERNATIONAL

(unlimited company)

UNAUDITED HALF-YEARLY FINANCIAL REPORT

30 JUNE 2011

MANAGEMENT REPORT

1. Principal activities

Goldman Sachs International ('the company' or 'GSI') provides a wide-range of financial services to clients located worldwide. The company is regulated by the Financial Services Authority ('the FSA').

2. Review of business and future developments

The unaudited financial statements have been drawn up for the half-year ended 30 June 2011. Comparative information has been presented for the half-year ended 30 June 2010 and the year ended 31 December 2010.

Business environment

The company's financial performance is highly dependent on the environment in which its businesses operate. During the first half of 2011, concerns surrounding European sovereign debt risk, supply-chain disruptions resulting from the earthquake and tsunami in Japan and intensifying inflation in emerging markets weighed on the early economic growth in most economies. Global equity markets were negatively impacted by these concerns and additional uncertainties regarding political unrest in the Middle East and the resolution of the U.S. Federal debt ceiling. Whilst the U.S. Federal Reserve and the Bank of England maintained their base rates during the period, the European Central Bank increased its main refinancing operations rate by 25 basis points to 1.25%, reflecting early growth and increased inflation in the Eurozone. The Bank of Japan left its overnight call rate unchanged at 0.10% and expanded its liquidity and asset purchase program significantly in order to promote economic stability following the earthquake and tsunami.

The profit and loss accounts for the periods are set out on page 6. Net revenue was US$3,049 million for the half-year ended 30 June 2011 (half-year ended 30 June 2010: US$4,420 million). The results for the company show a pre-tax profit of US$1,213 million for the period (half-year ended 30 June 2010: US$1,468 million). The company has total assets of US$789 billion (31 December 2010: US$751 billion). Details of the company's business segments are given in note 4 to these financial statements.

Investment Banking

The increase in Investment Banking results reflected significantly stronger performance in the company's Underwriting businesses as well as in Financial Advisory.

Institutional Client Services

The decrease in Institutional Client Services reflected significantly lower net revenues in Fixed Income, Currency and Commodities Client Execution ('FICC'). Although client activity levels improved during the first quarter of 2011, the environment became more challenging during the second quarter of 2011 reflecting broad market concerns and uncertainty, which led to slightly lower levels of activity. In addition, high levels of uncertainty and decreased levels of liquidity during the second quarter of 2011 contributed to difficult market-making conditions and prompted the company to operate at generally lower levels of risk. As a result of these conditions, net revenues across FICC were lower during the first half of 2011 compared with the first half of 2010.

Investment Management

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

2. Review of business and future developments (continued)

Administrative Expenses, Interest Payable and Taxation

Administrative expenses decreased to US$1,802 million for the period (half-year ended 30 June 2010: US$2,907 million) mainly due to a decrease in compensation costs including a credit of US$0.8 billion (half-year ended 30 June 2010: credit of US$0.6 billion) relating to the mark-to-market of equity-based compensation awarded in prior periods charged by the group. Compensation expenses, for the half-year ended 30 June 2010, also included an estimate of the UK Bank Payroll Tax of US$600 million.

Interest payable increased slightly to US$48 million for the period (half-year ended 30 June 2010: US$47 million) reflecting a marginal increase in interest rates with the average subordinated debt balance remaining constant over the period.

The effective tax rate for the period is 25% (half-year ended 30 June 2010: 36%). The decrease reflects the effect of the UK Bank Payroll Tax which was a non-deductible expense for tax purposes during the prior period.

Strategy

The Goldman Sachs Group, Inc. ('the 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 group, GSI seeks to be the advisor of choice for its clients and a leading participant in the global financial markets. GSI's strategy, consistent with that of the 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

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

Economic and market conditions

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

Market volatility

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

2. Review of business and future developments (continued)

Liquidity

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

Credit quality

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

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

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

2. Review of business and future developments (continued)

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

Operational infrastructure

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

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

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

Technology

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

2. Review of business and future developments (continued)

Risk management

The company seeks to monitor and control risk exposure through a risk and control framework encompassing a variety of separate, but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. The risk management process seeks to balance the company's ability to profit from market-making positions with exposure to potential losses. Whilst the company employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, the company may, in the course of its activities, incur losses. In addition, refer to the financial risk management section (note 12), below.

Future outlook

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

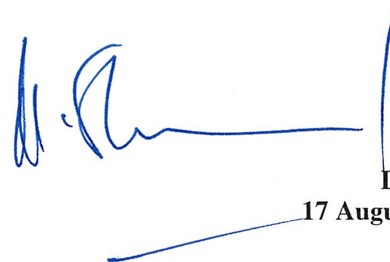
3. Post balance sheet events

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

In addition, on 9 August 2011, Standard & Poor's Ratings Services assigned its 'A+ / A-1' long- and short-term counterparty credit ratings to GSI.

4. Responsibility statement

The financial statements have been prepared in accordance with the Accounting Standards Board statement on 'half-yearly financial reports' and the interim management report herein includes a fair review of the information required by the FSA's Disclosure and Transparency Rules 4.2.7 R and 4.2.8 R.



Director
17 August 2011

PROFIT AND LOSS ACCOUNT (UNAUDITED)
for the half-year ended 30 June 2011

	Note	Half-year ended 30 June 2011 US$'000	Half-year ended 30 June 2010 US$'000	Year ended 31 December 2010 US$'000
Net revenue	4	3,048,899	4,420,213	7,373,167
Administrative expenses		(1,802,465)	(2,907,217)	(6,095,843)
OPERATING PROFIT		1,246,434	1,512,996	1,277,324
Interest payable and similar charges		(47,954)	(47,264)	(98,585)
Net finance income		14,151	2,012	8,636
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,212,631	1,467,744	1,187,375
Tax on profit on ordinary activities	5	(302,940)	(523,706)	(412,329)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL PERIOD	11	909,691	944,038	775,046

Net revenue and operating profit of the company are derived from continuing operations in the current and prior periods.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (UNAUDITED)
for the half-year ended 30 June 2011

		Half-year ended 30 June 2011 US$'000	Half-year ended 30 June 2010 US$'000	Year ended 31 December 2010 US$'000
Profit for the financial period	11	909,691	944,038	775,046
Actuarial gain / (loss) relating to the pension scheme		10,410	(67,461)	88,214
UK deferred tax attributable to the actuarial gain / (loss)		(2,706)	18,891	(23,818)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL PERIOD AND SINCE LAST FINANCIAL STATEMENTS		917,395	895,468	839,442

The notes on pages 8 to 17 form an integral part of these financial statements.

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

BALANCE SHEET (UNAUDITED)
as at 30 June 2011

	Note	30 June 2011 US$'000	31 December 2010 US$'000
FIXED ASSETS			
Tangible assets		6,334	5,193
Investments		5,159	2,721
		11,493	7,914
CURRENT ASSETS			
Financial instruments owned	6	466,923,813	473,443,028
Financial instruments owned pledged as collateral	6	23,068,811	21,805,808
Securities purchased under agreements to resell		138,468,323	134,393,470
Debtors	7	145,808,278	109,496,661
Cash at bank and in hand		14,754,720	11,588,242
		789,023,945	750,727,209
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial instruments sold, but not yet purchased	6	(417,135,406)	(426,274,193)
Securities sold under agreements to repurchase		(103,526,961)	(87,335,999)
Other creditors	8	(239,842,716)	(207,423,073)
		(760,505,083)	(721,033,265)
NET CURRENT ASSETS		28,518,862	29,693,944
TOTAL ASSETS LESS CURRENT LIABILITIES		28,530,355	29,701,858
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	9	(10,557,092)	(12,624,872)
PROVISIONS FOR LIABILITIES AND CHARGES		(69,946)	(65,000)
NET ASSETS EXCLUDING PENSION SURPLUS		17,903,317	17,011,986
Pension surplus		190,066	164,002
NET ASSETS INCLUDING PENSION SURPLUS		18,093,383	17,175,988
CAPITAL AND RESERVES			
Called up share capital	10, 11	511,123	511,123
Share premium account	11	2,885,260	2,885,260
Capital reserve (non-distributable)	11	17,286	17,286
Profit and loss account	11	14,679,714	13,762,319
TOTAL SHAREHOLDERS' FUNDS	11	18,093,383	17,175,988

The notes on pages 8 to 17 form an integral part of these financial statements.
Company number: 02263951

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2011

1. BASIS OF PREPARATION

These financial statements for the half-year ended 30 June 2011 have been prepared in accordance with the Disclosure and Transparency Rules of the FSA and Accounting Standards Board statement on 'half-yearly financial reports'. The financial statements should be read in conjunction with the financial statements for the year ended 31 December 2010 which have been prepared in accordance with applicable accounting standards.

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the financial statements for the year ended 31 December 2010, as described in those financial statements.

3. REPORTING AND DISCLOSURE EXEMPTIONS

a) FRS1 'Cash Flow Statements'

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

b) FRS8 'Related Party Disclosures'

The company is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. whose consolidated accounts include the company and are publicly available. As a result, under the terms of paragraph 3(c) of FRS 8, 'Related Party Disclosures', the company is exempt from disclosing transactions with companies also wholly owned within The Goldman Sachs Group, Inc.

c) FRS29 (IFRS7) 'Financial Instruments: Disclosures'

The company is a greater than 90% subsidiary of Goldman Sachs Group Holdings (U.K.), whose consolidated accounts include the company and are publicly available. As a result, the company is exempt from the disclosures required by FRS29 (IFRS7), 'Financial Instruments: Disclosures'.

4. *SEGMENTAL REPORTING*

The company's net revenue is categorised into the following four principal segments: Investment Banking, Institutional Client Services, Investment & Lending and Investment Management.

	Half-year ended 30 June 2011 US$'000	Half-year ended 30 June 2010 US$'000	Year ended 31 December 2010 US$'000
Investment Banking	656,729	432,174	1,020,240
Institutional Client Services	2,167,174	3,835,667	5,875,784
Investing & Lending	85,459	42,037	271,774
Investment Management	139,537	110,335	205,369
	3,048,899	**4,420,213**	**7,373,167**

Investment Banking
Investment Banking activities consist of:

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

Institutional Client Services
Institutional Client Services is comprised of:

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

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

Investment Management
Investment Management offers investment advisory services, including portfolio management and counselling services, and brokerage and other transaction services to high-net-worth individuals and families.

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

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2011

5. *TAX ON PROFIT ON ORDINARY ACTIVITIES*

Analysis of tax charge for the period:

	Half-year ended 30 June 2011 US$'000	Half-year ended 30 June 2010 US$'000	Year ended 31 December 2010 US$'000
Current tax:			
UK corporation tax	(152,613)	311,976	441,675
Adjustments in respect of previous periods	(3,755)	(30,540)	40,106
Overseas taxation	855	32,349	59,147
Total current tax	(155,513)	313,785	540,928
Deferred tax:			
Provisions and other timing differences	458,453	209,921	(128,599)
Total deferred tax	458,453	209,921	(128,599)
Tax on profit on ordinary activities	**302,940**	**523,706**	**412,329**

6. *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 company. 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:

	30 June 2011 US$'000	31 December 2010 US$'000
Cash instruments:		
Government & agency obligations	39,186,505	31,267,939
Equities	18,182,350	21,862,344
Corporate debt	14,878,958	13,094,620
Commercial paper	818,845	2,766,265
	73,066,658	68,991,168
Derivative instruments:		
Credit	148,555,456	156,613,555
Interest rate	133,723,397	135,680,471
Equity	81,818,224	79,019,306
Foreign currency	43,043,414	43,846,471
Commodities	9,785,475	11,097,865
	416,925,966	426,257,668
	489,992,624	**495,248,836**
Financial instruments owned	466,923,813	473,443,028
Financial instruments owned pledged as collateral	23,068,811	21,805,808
	489,992,624	**495,248,836**

Financial instruments sold, but not yet purchased comprises:

	30 June 2011 US$'000	31 December 2010 US$'000
Cash instruments:		
Government & agency obligations	20,786,783	23,313,148
Equities	15,463,707	12,559,308
Corporate debt	3,913,304	3,099,633
	40,163,794	38,972,089
Derivative instruments:		
Credit	129,933,736	136,677,754
Interest rate	127,008,440	130,272,327
Equity	67,946,373	66,757,981
Foreign currency	43,332,836	43,969,071
Commodities	8,750,227	9,624,971
	376,971,612	387,302,104
	417,135,406	**426,274,193**

NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2011

7. *DEBTORS*

	30 June 2011 US$'000	31 December 2010 US$'000
Deposits as collateral for stock borrowed	4,995,243	5,632,258
Amounts due from broker / dealers and customers	66,895,643	35,845,462
Amounts due from parent and group undertakings	72,825,876	66,875,745
Deferred tax	590,011	1,051,067
Corporation tax receivable	348,106	-
Other debtors	121,032	68,261
Prepayments and accrued income	32,367	23,868
	145,808,278	**109,496,661**

8. *OTHER CREDITORS*

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

	30 June 2011 US$'000	31 December 2010 US$'000
Bank loans and overdrafts	131,897	93,407
Debt securities issued	18,347,061	16,519,135
Deposits received as collateral for stock loans	21,204,550	16,621,245
Amounts due to broker / dealers and customers	101,708,145	84,831,333
Amounts due to parent and group undertakings	95,530,613	85,504,779
Amounts due to subsidiary undertakings	3,853	4,846
Accrual for management charges payable to parent and group undertakings	1,777,482	2,489,558
Corporation tax payable	-	12,579
Other taxes and social security costs	243,159	321,021
Other creditors and accruals	895,956	1,025,170
	239,842,716	**207,423,073**

9. *CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR*

	30 June 2011 US$'000	31 December 2010 US$'000
Long-term subordinated loans	5,333,000	5,333,000
Debt securities issued	3,255,380	4,261,639
Amounts due to parent and group undertakings	1,523,935	1,719,196
Accrual for management charges payable to parent and group undertakings	444,777	1,311,037
	10,557,092	**12,624,872**

10. *SHARE CAPITAL*

At 31 December 2010 and 30 June 2011 share capital comprised:

	30 June 2011		31 December 2010	
	No.	**US$'000**	**No.**	**US$'000**
Allotted, called up and fully paid				
Ordinary shares of US$1 each	499,257,654	499,258	499,257,654	499,258
Class A preference shares of US$0.01 each	958,659,363	9,586	958,659,363	9,586
Class B preference shares of US$0.01 each	227,906,997	2,279	227,906,997	2,279
		511,123		**511,123**

The class A and class B preference shares carry limited voting rights andp on a winding up the holders have a preferential right to return of capital together with any premium. Class A preference shares have a fixed non-cumulative dividend payable at a rate of 8 cents per share per annum. Class B preference shares have a fixed non-cumulative dividend at a rate of 10 cents per share per annum.

11. *RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES*

	Called up share capital US$'000	Share premium account US$'000	Capital reserve (non-distributable) US$'000	Profit and loss account US$'000	Total US$'000
At 1 January 2011	**511,123**	**2,885,260**	**17,286**	**13,762,319**	**17,175,988**
Profit for the financial period	-	-	-	909,691	909,691
Other recognised gains for the period	-	-	-	7,704	7,704
Share-based payments	-	-	-	596,279	596,279
Management recharge related to share-based payments	-	-	-	(596,279)	(596,279)
At 30 June 2011	**511,123**	**2,885,260**	**17,286**	**14,679,714**	**18,093,383**

12. *FINANCIAL RISK MANAGEMENT*

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

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

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

12. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(a) Market risk

Market risk is the risk of loss in the value of the company's inventory due to changes in market prices. Financial instruments are held primarily for market making for clients and for investing and lending activities. Therefore, the value of these financial instruments changes 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; and
- currency rate risk results from exposures to changes in spot prices, forward prices and volatilities of currency rates.

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

- accurate and timely exposure information incorporating multiple risk metrics;
- a dynamic limit setting framework; and
- constant communication among revenue-producing units, risk managers and senior management.

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

Market Risk Management produces risk measures and monitors them against market risk limits set by the GSI Risk Committee. These measures reflect an extensive range of scenarios and the results are aggregated at trading desk, business and company 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 short-term and long-term time horizons. Risk measures used for shorter-term periods include Value-at-Risk ('VaR') and sensitivity metrics. For longer-term horizons, the primary risk measures are stress tests. The risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both the revenue-producing units and independent control and support functions.

12. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(a) Market risk (continued)

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

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

Risk limits are used at various levels in the group (including company, business and product) to govern risk appetite by controlling the size of exposures to market risk. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The GSI Risk Committee sets market risk limits at company, business and product levels. The purpose of the limits is to assist senior management in controlling the company's 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, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits are also designed to distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. The business-level limits are subject to the same scrutiny and limit escalation policy as the company and group limits. 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 GSI Risk Committee 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.

(b) Credit risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty, e.g. an OTC derivatives counterparty or a borrower, or an issuer of securities or other instruments the company holds. Exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments. Credit risk also comes from cash placed with banks, securities financing transactions, i.e. resale and repurchase agreements and securities borrowing and lending activities, and receivables from brokers / dealers, clearing organisations, customers and counterparties.

The Credit Risk Management department, which is independent of the revenue-producing units and reports to the chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk. The Credit Policy Committee and the GSI Risk Committee establish and review credit policies and parameters. In addition, the company holds other positions that give rise to credit risk, e.g. bonds held in inventory. These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions.

12. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(b) Credit risk (continued)

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

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

- approving transactions and setting and communicating credit exposure limits;
- monitoring compliance with established credit exposure limits;
- assessing the likelihood that a counterparty will default on its payment obligations;
- measuring the company's current and potential credit exposure and losses resulting from counterparty default;
- reporting of credit exposures to senior management, the Board and regulators;
- use of credit risk mitigants, including collateral and hedging; and
- communication and collaboration with other independent control and support functions such as Operations, Legal and Compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of the company's counterparties. A credit review is an independent judgement about the capacity and willingness of a counterparty to meet its financial obligations. For substantially all of the company's credit exposures, the core of the process is an annual counterparty review. A counterparty review is a written analysis of a counterparty's business profile and financial strength resulting in an internal credit rating which represents the probability of default on financial obligations to the company. The determination of internal credit ratings incorporates assumptions with respect to the counterparty's future business performance, the nature and outlook for the counterparty's industry and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

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

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

12. *FINANCIAL RISK MANAGEMENT (CONTINUED)*

(c) Liquidity risk

Liquidity is of critical importance to financial institutions. Accordingly, the company has in place a comprehensive and conservative set of liquidity and funding policies to address both company-specific and broader industry or market liquidity events. The principal objective is to be able to fund the company and to enable the core businesses to continue to generate revenues even under adverse circumstances.

The company manages liquidity risk according to the following principles:

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

- asset-liability management – assess the overall anticipated holding periods for the company's assets and their potential illiquidity in a stressed environment. Manage the maturities and diversity of secured and unsecured funding liabilities 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.

13. *ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS*

The immediate parent undertaking is Goldman Sachs Holdings (U.K.), and the parent company of the smallest group for which consolidated financial statements are prepared is Goldman Sachs Group Holdings (U.K.), a company incorporated in Great Britain and registered in England and Wales. The ultimate parent undertaking and the parent company of the largest group for which consolidated financial statements are prepared is The Goldman Sachs Group, Inc., a company incorporated in the United States of America. Copies of its accounts can be obtained from 200 West Street, New York, NY 10282, United States of America, the group's principal place of business.