

Company number: 3769030

GOLDMAN SACHS GROUP HOLDINGS (U.K.)

(unlimited company)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2009

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GOLDMAN SACHS GROUP HOLDINGS (U.K.)

(unlimited company)

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Goldman Sachs Group Holdings (U K) ('the company') and its subsidiaries (together 'the group'), for the 57 week period ended 31 December 2009

1. Principal activities

The company is a holding company to a group that provides a wide range of financial services to clients located worldwide. The company primarily operates in a US Dollar environment as part of The Goldman Sachs Group, Inc. Accordingly, the company's functional currency is US Dollars and these financial statements have been prepared in that currency.

2. Review of business and future developments

During the period, the company changed its accounting reference date to 31 December to be consistent with the year end of The Goldman Sachs Group, Inc. which was changed to 31 December 2009. Accordingly, the accounting reference period has been extended to 57 weeks ending 31 December 2009 and the financial statements have been drawn up for the 57 week period ended 31 December 2009. Comparative information has been presented for the 52 week period ended 28 November 2008.

The profit and loss account for the period is set out on page 8. Profit on ordinary activities before taxation for the group was US\$5,368 million (52 week period ended 28 November 2008 US\$7,271 million). The group has reported net assets of US\$17,657 million (28 November 2008 US\$13,767 million) and the company has reported net assets of US\$3,856 million (28 November 2008 US\$3,864 million). Details of the group's business segments are given in note 4 to the financial statements. During the period, the group donated US\$93 million to charity.

Investment Banking results primarily reflect the improved performance in the underwriting business, particularly equity underwriting.

Trading and Principal Investments reflect particularly strong results in Fixed Income, Currency and Commodities ('FICC') as well as Equities. The increase in FICC reflects particularly strong performances in credit products and interest rate products, reflecting strength in the client franchise. The increase in Equities reflects higher net revenue in derivatives and improved results from the client franchise. During the period, Equities operated in an environment characterised by an increase in global equity prices, favourable market opportunities and a significant decline in volatility levels.

Asset Management and Securities Services results reflected the impact of lower assets under management primarily due to market depreciation during the start of the period and lower customer balances mainly from lower hedge fund industry assets and reduced leverage.

Administrative expenses increased to US\$6,334 million for the period (52 week period ended 28 November 2008 US\$1,125 million) mainly due to an increase in compensation costs including a charge of US\$1.8 billion (52 week period ended 28 November 2008 credit of US\$2.9 billion) relating to the mark-to-market of equity-based compensation awarded in prior periods charged by The Goldman Sachs Group, Inc.

Interest payable decreased to US\$344 million for the period (52 week period ended 28 November 2008 US\$992 million), mainly due to a decrease in subordinated debt from US\$9,297 million to US\$5,496 million and decrease in average interest rates.

The group has a pension deficit of US\$157 million as at 31 December 2009 (28 November 2008 surplus of US\$129 million). During the period, the effect of tightening credit spreads on the discount factor as well as higher expected future levels of inflation gave rise to the deficit at the period end. Of the expected contributions for the period to 31 December 2010, a one off contribution of £142million (US\$222.1million) has been made to the Plan following the period end (see note 10).

GOLDMAN SACHS GROUP HOLDINGS (U.K.)

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REPORT OF THE DIRECTORS (CONTINUED)

2. Review of business and future developments (continued)

Business environment

The group's financial performance is highly dependent on the environment in which its businesses operate. During 2009, a number of major economies experienced a recession. Business activity across a wide range of industries and regions was greatly reduced, reflecting a reduction in consumer spending and low levels of liquidity across credit markets. In addition, unemployment continued to rise in 2009. However, economic conditions became generally more favourable during the second half of the period as real gross domestic product growth turned positive in most major economies and growth in emerging markets improved. In addition, global equity and credit markets were characterised by increasing asset prices, lower volatility and improved liquidity during the last nine months of the period.

Following the period end, the UK Government introduced, through the Finance Bill 2010, a one-off tax in respect of certain bonuses payable by banks and banking groups. At the balance sheet date, there were uncertainties as to the implementation and scope of the initial proposals and it was not possible to conclude that the tax was virtually certain to be enacted as initially drafted. The bank payroll tax will be recognised in the profit and loss account in the year ended 31 December 2010. In addition, refer to the post balance sheet events section (note 32 (i)).

Following the period end, Goldman Sachs International, a subsidiary undertaking, agreed to pay a financial penalty of £17.5 million (US\$26.9 million) to the Financial Services Authority (FSA) in resolving an investigation carried out by the FSA which commenced on 20 April 2010. The penalty will be recognised in the profit and loss account of the group in the year ended 31 December 2010. In addition, refer to the post balance sheet events section (note 32 (ii)).

Strategy

The Goldman Sachs Group, Inc. is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). It is also a leading global investment banking, securities and investment management firm that provides a wide-range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

As part of this group, the company and its subsidiary undertakings seek to be the advisor of choice for their clients and a leading participant in the global financial markets. The group's strategy, consistent with that of The Goldman Sachs Group, Inc., is to grow its three core businesses, Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services, 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 economic and market conditions, liquidity, credit quality, operational infrastructure and technology risks. Consequently, the group does not produce predictable earnings. The key business risks affecting the group are set out below.

Economic and market conditions

The group's businesses are materially affected by conditions in the global financial markets and economic conditions generally and these conditions may change suddenly and dramatically. Unfavourable or uncertain economic and market conditions have adversely affected, and may in the future adversely affect, our business and profitability.

GOLDMAN SACHS GROUP HOLDINGS (U.K.)

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REPORT OF THE DIRECTORS (CONTINUED)

2 Review of business and future developments (continued)

Liquidity

Liquidity is essential to the group's businesses. Liquidity could be impaired by an inability to access secured and / or unsecured debt markets, an inability to sell assets or redeem our investments or unforeseen outflows of cash or collateral. This situation may arise due to circumstances that the group may be unable to control, such as a general market disruption or an operational problem that affects third parties or the group or even by the perception amongst market participants that the group is experiencing greater liquidity risk. Furthermore, the 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 the access to liquidity.

Credit quality

The group is exposed to the risk that third parties that owe it money, securities or other assets, will not perform their obligations. These parties may default on their obligations 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.

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 could result in losses and / or adversely affect the ability to use those securities or obligations for liquidity purposes. Although the group regularly reviews credit exposures to specific clients and counterparties and to specific industries, countries and regions that it believes may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee.

Operational infrastructure

The group's businesses are highly dependent on the ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as information technology services provided to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. As the group's client base and geographical reach expands, developing and maintaining operational systems and infrastructure becomes increasingly challenging. Financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the group's control such as a spike in transaction volume, adversely affecting its ability to process these transactions. The inability of systems to accommodate an increasing volume of transactions could also constrain the group's ability to expand businesses.

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

Despite the resiliency plans and facilities that the group has in place, its ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports its businesses and the communities in which it is located. This may include a disruption involving electrical, communications, transportation or other services used by the group or third parties with which it conducts business. These disruptions may occur, for example, as a result of events that affect only the buildings of the group or such third parties, or as a result of events with a broader impact on the cities where those buildings are located.

GOLDMAN SACHS GROUP HOLDINGS (U.K.)
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REPORT OF THE DIRECTORS (CONTINUED)

2. Review of business and future developments (continued)

Technology

Technology is fundamental to the group's business and industry. The growth of electronic trading and the introduction of new technologies is changing businesses and presenting new challenges. Securities, futures and options transactions are increasingly occurring electronically, both on the group's own systems and through other alternative trading systems and it appears that the trend toward alternative trading systems will continue and probably accelerate. Some of these alternative trading systems compete with the group's trading businesses and it may experience continued 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 the group's clients increasingly use its systems to trade directly in the markets, it may incur liabilities as a result of their use of its order routing and execution infrastructure.

Risk management

The group seeks to monitor and control its 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 process and other mechanisms. The group's trading risk management process seeks to balance its ability to profit from trading positions with its exposure to potential losses. Whilst the group employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, the group may, in the course of its activities, incur losses. In addition, refer to the financial risk management section (note 30).

Future outlook

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

3. Dividends

The directors of Goldman Sachs (UK) L.L.C., the immediate parent undertaking, agreed to waive the receipt of a preference dividend from the company in respect of the period (52 week period ended 28 November 2008 US\$Nil). The directors do not recommend the payment of a final ordinary dividend in respect of the period (52 week period ended 28 November 2008 US\$Nil).

4. Exchange rate

The US Dollar / Sterling exchange rate at the balance sheet date was £ / US\$ 1.6154 (28 November 2008 £ / US\$ 1.5374). The average rate for the period was £ / US\$ 1.5616 (52 week period ended 28 November 2008 £ / US\$ 1.8926).

5. Employment of disabled persons

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within The Goldman Sachs Group, Inc. Training, career development and promotion of disabled persons are, to the extent possible, identical to that of other employees who are not disabled.

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

REPORT OF THE DIRECTORS (CONTINUED)

6. Employee involvement

It is group policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be consulted on and involved in decisions that affect their current jobs or future prospects. Employees share in performance-based incentive schemes.

7. Directors

The directors of the company during the period, and as at the date of this report, together with dates of appointment or resignation where applicable, were -

Name	Appointed	Resigned
A S Naik		
M A Allen		
D W McDonogh	13 February 2009	
S Davies		15 January 2009

No director has, or had during the period, any interest requiring note herein.

8. Financial risk management

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

9. Disclosure of information to auditors

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

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

10. Auditors

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

11. Charitable contributions

During the period, an amount of US\$92,583,387 (52 week period ended 28 November 2008: US\$3,259,674) was donated to charity.

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

REPORT OF THE DIRECTORS (CONTINUED)

12. Directors' responsibilities

United Kingdom company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss of the company and the group for that period. In preparing those accounts, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements, and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business

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

13. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 29 September 2010

BY ORDER OF THE BOARD



D. J. GROUNSELL
Secretary

GOLDMAN SACHS GROUP HOLDINGS (U.K.)

(unlimited company)

We have audited the group and the company financial statements of Goldman Sachs Group Holdings (U K) for the **Error! Unknown document property name.** week period ended **Error! Unknown document property name.** which comprise the group profit and loss account, the reconciliation of movements in total shareholder's funds, the statement of total recognised gains and losses, the group and the company balance sheets and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group and the company's affairs as at **Error! Unknown document property name.** and of the group's profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

30 September 2010

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

PROFIT AND LOSS ACCOUNT
for the 57 week period ended 31 December 2009

	Note	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Trading profit	5	11,988,661	9,171,270
Administrative expenses		(6,334,230)	(1,125,027)
OPERATING PROFIT	6	5,654,431	8,046,243
Gain on sale of subsidiary undertaking	16(a)(ii)	45,756	-
Share of loss of associate undertaking	16(b)	(1,149)	(1,690)
Other interest receivable and similar income	7	8,464	215,090
Interest payable and similar charges	8	(344,217)	(991,639)
Net finance income	10	4,841	3,217
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,368,126	7,271,221
Tax on profit on ordinary activities	12	(1,269,576)	(1,895,528)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE PERIOD	28	4,098,550	5,375,693

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

The notes on pages 11 to 52 form part of these financial statements
Independent Auditors' report - page 7

GOLDMAN SACHS GROUP HOLDINGS (U.K.)
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RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDER'S FUNDS
for the 57 week period ended 31 December 2009

	The Group	
	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Profit on ordinary activities after taxation for the period	4,098,550	5,375,693
Exchange gain/(loss) on consolidation	8,008	(144,361)
Actuarial (loss)/gain relating to the pension scheme	(300,452)	153,868
UK deferred tax attributable to the actuarial (loss)/gain	84,127	(43,083)
Share-based payments (see note 11)	742,564	509,151
Management recharge related to share-based payments	(742,564)	(509,151)
Share capital issued	-	58
Capital contribution	-	60,286
Share premium issued	-	27,622
Net increase in shareholder's funds	3,890,233	5,430,083
Opening shareholder's funds	13,766,678	8,336,595
Closing shareholder's funds	<u>17,656,911</u>	<u>13,766,678</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 57 week period ended 31 December 2009

	The Group	
	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Profit on ordinary activities after taxation for the period	4,098,550	5,375,693
Actuarial (loss)/gain relating to the pension scheme	(300,452)	153,868
UK deferred tax attributable to the actuarial (loss)/gain	84,127	(43,083)
Exchange gain/(loss) on consolidation	8,008	(144,361)
Total recognised gains for the financial period	<u>3,890,233</u>	<u>5,342,117</u>


The notes on pages 11 to 52 form part of these financial statements
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GOLDMAN SACHS GROUP HOLDINGS (U.K.)
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BALANCE SHEETS
as at 31 December 2009

	Note	The Group		The Company	
		31 December 2009	28 November 2008	31 December 2009	28 November 2008
		US\$'000	US\$'000	US\$'000	US\$'000
FIXED ASSETS					
Intangible assets	14	3,079	258	-	-
Tangible fixed assets	15	7,649	13,752	-	-
Investments					
Shares in subsidiary undertakings	16(a)	-	-	6,509,861	6,264,716
Shares in associate investments	16(b)	-	5,380	-	14,607
Other investments other than loans	16(c)	5,932	8,154	11,656	6,771
		16,660	27,544	6,521,517	6,286,094
CURRENT ASSETS					
Trading inventory		500,575,670	1,084,283,438	-	-
Trading inventory pledged as collateral		18,547,582	7,512,483	-	-
Securities purchased under agreements to resell	18	113,687,284	94,079,981	-	-
Debtors	19	113,871,917	176,310,853	16,405,731	12,864,529
Cash at bank and in hand	20	13,857,358	18,436,474	-	-
		760,539,811	1,380,623,229	16,405,731	12,864,529
CREDITORS. AMOUNTS FALLING DUE WITHIN ONE YEAR					
Trading inventory sold but not yet purchased		(446,077,907)	(1,044,937,288)	-	-
Securities sold under agreements to repurchase	21	(65,670,960)	(65,104,551)	-	-
Other creditors	22	(219,426,354)	(243,934,063)	(13,993,651)	(6,859,097)
		(731,175,221)	(1,353,975,902)	(13,993,651)	(6,859,097)
NET CURRENT ASSETS		29,364,590	26,647,327	2,412,080	6,005,432
TOTAL ASSETS LESS CURRENT LIABILITIES		29,381,250	26,674,871	8,933,597	12,291,526
CREDITORS. AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	23	(11,527,161)	(12,997,335)	(5,078,000)	(8,428,000)
PROVISIONS FOR LIABILITIES AND CHARGES	25	(40,000)	(40,000)	-	-
NET ASSETS EXCLUDING PENSION (DEFICIT) / SURPLUS		17,814,089	13,637,536	3,855,597	3,863,526
Pension (deficit) / surplus	10	(157,178)	129,142	-	-
NET ASSETS INCLUDING PENSION (DEFICIT) / SURPLUS		17,656,911	13,766,678	3,855,597	3,863,526
CAPITAL AND RESERVES					
Called up share capital	27	22,473	22,473	22,473	22,473
Capital contribution	28	67,187	67,187	67,187	67,187
Share premium account	28	1,547,032	1,547,032	1,547,032	1,547,032
Merger reserve	28	1,021,395	1,021,395	1,021,395	1,021,395
Capital redemption reserve	28	305,012	305,012	-	-
Profit and loss account	28	14,693,812	10,803,579	1,197,510	1,205,439
TOTAL SHAREHOLDER'S FUNDS		17,656,911	13,766,678	3,855,597	3,863,526

These financial statements were approved by the Board of Directors on 29 September 2010 and were signed on its behalf by

 Director
MARK A. ALLEN

The notes on pages 11 to 52 form part of these financial statements Independent Auditors' report – page 7
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GOLDMAN SACHS GROUP HOLDINGS (U.K.)
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

1. ACCOUNTING POLICIES

- (a) **Accounting convention:** The financial statements have been prepared under the historical cost convention, (modified as explained in notes 1(f(iii)), 1(g) and 1(h)), the accounting policies set out below, and in accordance with applicable United Kingdom Law, applicable United Kingdom accounting standards and pronouncements of the Urgent Issues Task Force (UITF)
- (b) **Consolidation:** The consolidated financial statements include the company and all of its subsidiaries since their date of acquisition. In accounting for subsidiaries the group consolidates fully their assets, liabilities and results for the period and shows separately the interest of minority shareholders therein. All inter-company balances and transactions are eliminated from the consolidated accounts. Acquisition accounting is used to consolidate new subsidiaries.
- (c) **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. Gains and losses on exchange are recognised in operating profit. The results of subsidiaries with non US Dollar functional currencies are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net assets and results are reported in the statement of total recognised gains and losses.
- (d) **Goodwill:** 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. 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 through the profit and loss account on a straight line basis. Negative goodwill is capitalised and recognised in the profit and loss account in the periods in which the non monetary assets are recovered.
- (e) **Tangible fixed assets:** Tangible fixed assets are stated at cost less accumulated depreciation and provision for any impairment. Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

	<u>%</u>
Fixtures, fittings and equipment	14-33
Motor vehicles	<u>20</u>

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.

- (f) **Fixed asset investments:**
- (i) Shares in subsidiary undertakings, which are intended to be held on a continuing basis in the company's activities, are stated at cost less provision for any impairment.
- (ii) Shares in associate investments are accounted for by the equity method for the group, and are held at historical cost for the company.
- (iii) Other investments other than loans are stated at amortised cost less provision for any impairment except for equity investments in the group accounts which are stated at fair value.

GOLDMAN SACHS GROUP HOLDINGS (U.K.)
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

I. ACCOUNTING POLICIES (CONTINUED)

- (g) **Financial instruments held for trading:** Trading inventory and trading inventory sold, but not yet purchased consists of financial instruments carried at fair value or amounts that approximate fair value. Financial assets and liabilities within the trading portfolio have been classified as held for trading and are carried at fair value with realised and unrealised gains and losses as well as associated interest and dividend income and expense included in trading profit. Trading inventory pledged as collateral represents financial instruments owned and pledged to counterparties that have the right to deliver or repledge.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. In determining fair value, the group separates financial instruments into two categories: cash (i.e. non-derivative) trading instruments and derivative contracts. The fair values of cash trading instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations or alternative pricing sources with a reasonable level of price transparency. The types of instruments valued in this manner include sovereign government obligations, investment-grade and high-yield corporate bonds, listed equities and money market securities.

However, certain cash trading instruments trade infrequently and, therefore, have little or no price transparency. Where the group is unable to substantiate the significant valuation inputs and assumptions to corroborate market data, the transaction price is used as management's best estimate for fair value at inception. Accordingly, when a pricing model is used to value such an investment, the model is adjusted so that the model value at inception equals the transaction price. Subsequent to inception, management only changes model inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment of comparable entities, subsequent rounds of financing, recapitalisations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

Cash trading instruments owned by the group (long positions) are marked to bid prices and instruments sold, but not yet purchased (short positions) are marked to offer prices. The group does not adjust an active market quoted price for such instruments, even in situations where the group holds a large position and a sale could reasonably impact the quoted price. For instruments not quoted in an active market, if liquidating a position is reasonably expected to affect its prevailing market price, the valuation is adjusted generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine this adjustment.

The group's derivative contracts consist of exchange-traded and over-the-counter ('OTC') derivatives. The fair values of the group's exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. The group uses a variety of valuation models including the present value of known or estimated cash flows and option pricing models. The valuation models used to derive the fair values of the group's OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. The selection of a model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The group generally uses similar models to value similar instruments. Where possible, the group verifies the values produced by its pricing models to market transactions.

For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgement. For OTC derivatives that trade in less liquid markets with limited pricing information, the determination of fair value is inherently more difficult. Further, complex structures often involve multiple product types, requiring additional complex inputs such as correlations and volatilities. At the inception of an OTC derivative contract, the group values the contract at the model value if the group can verify all of the significant model inputs to observable market data and verify the model to market transactions. When appropriate, valuations are adjusted to reflect various factors such as liquidity, bid / offer spreads and credit considerations.

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1. ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments held for trading (continued):

These adjustments are generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine these adjustments. Where the group does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, management believes that transaction price is the best estimate of fair value at inception. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price.

'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 instruments.

The gains or losses resulting from the application of this policy are taken to the profit and loss account. As the trading inventory represents the trading portfolio of the group, the directors are of the opinion that it would not be appropriate to classify it as current asset investments or to provide an analysis of such securities between those listed and unlisted.

(h) Repurchase and resale agreements and stock borrowing and lending Securities purchased under agreements to resell and securities sold under agreements to repurchase are recognised on a trade date basis, treated as collateralised financing transactions and are carried at fair value. Where the collateral is in the form of cash the transaction is recorded on trade date within securities sold under agreements to repurchase or within securities purchased under agreements to resell. If the collateral is in the form of securities the transaction is recorded within securities sold under agreements to repurchase or within securities purchased under agreements to resell when the collateral is subsequently sold.

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

(i) For finance leases the group acts as the lessor of an asset. Assets leased to counterparties under finance leases are derecognised at the inception of the lease. Debtors under finance leases are included within 'other debtors' and represent outstanding amounts due under the agreements less finance charges allocated to future periods. Finance lease 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.

(ii) For operating leases 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 consolidated income statement.

(j) Money broker deposits: Deposits with money brokers and deposits received from money brokers are carried at the amounts of cash collateral advanced and received in connection with the transactions. The group measures the market value of the securities borrowed and loaned against the collateral on a daily basis and obtains or provides additional collateral as appropriate.

(k) Non-trading financial instruments: Non-trading financial instruments primarily comprise of long term subordinated debt and loan notes and are initially recorded at fair value. Finance costs, including discounts allowed on issue, are recognised on an accruals basis. All finance costs are charged to the profit and loss account.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

1. ACCOUNTING POLICIES (CONTINUED)

- (l) **Offsetting financial instruments:** Financial assets and liabilities are offset and the net amount presented in the balance sheet where the group

- (i) currently has a legally enforceable right to set off the recognised amounts, and
- (ii) intends to settle on a net basis or to realise the asset and settle the liability simultaneously

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

- (m) **Trading profits:** The operating results for the period include all profits and losses arising from the trading operations of the group. Trading operations include a number of activities including the purchase and sale of securities, derivatives and commodities, which are accounted for on a trade date basis. Trading operations also include fees earned in relation to managing investments, which are recognised in the profit and loss on an accruals basis to match continuing services. Revenues arising on loan origination and secondary dealing in senior bank loans are accounted for on a trade date basis. Corporate finance and advisory fee income is recognised 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 occurs. Management fees are recognised over the period that the related service is provided based upon average net asset values. In certain circumstances, the group is also entitled to receive asset management incentive fees based on a percentage of a fund's return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are generally based on investment performance over a 12-month period and are subject to adjustment prior to the end of the measurement period.
- (n) **Income recognition:** Interest income and interest expense on non-trading financial instruments are recognised on an accruals basis. Dividend income from fixed asset investments is included in the profit and loss account when received.
- (o) **Deferred taxation:** Full provision is made for deferred taxation in respect of all differences in timing between the accounting and tax treatments of income and expenses. The timing differences are recognised as deferred tax liabilities or assets, measured at the average tax rates that are expected to apply in periods in which the timing differences are expected to reverse, based on rates and laws that have been enacted or substantially enacted by the balance sheet date. An asset is not recognised if the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities are not discounted.
- (p) **Share-based payments:** The Goldman Sachs Group, Inc. issues awards in the form of restricted stock units ('RSUs') and stock options to the group's employees for services rendered to the group. The cost of equity based transactions with employees is measured based on the fair value of the equity instruments at the grant date. Non-market based vesting conditions are not taken into account in measuring the fair value of awards, but are reflected by adjusting over time the number of equity awards that are expected to vest. Share-based awards that do not contain vesting conditions are expensed immediately. Share-based employee awards that require future service are amortised over the relevant service period.

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

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

I. ACCOUNTING POLICIES (CONTINUED)

(q) **Pension cost:** The group participates in both a hybrid pension plan and defined contribution plans for the benefit of certain employees. The defined benefit and defined contributions sections of the plans are accounted for as follows:

- (i) For the defined benefit section, the amounts charged to operating profit are the current service costs, any past service costs and any gains or losses on settlements and curtailments. They are included as part of staff costs. The interest cost and expected return on assets are shown as a net amount within net finance income. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit section is funded, with the assets of the scheme held separately from those of the group, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained at least triennially and updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after net assets on the face of the balance sheet.

- (ii) For the defined contribution section and plans, the amount charged to the profit and loss account in respect of pension costs are the contributions payable for the period. Differences between contributions payable for the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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

(s) **Provisions and contingent liabilities:** Provisions are recognised in the financial statements only when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Legal obligations that may arise as a result of proposed new laws are recognised as obligations only when the legislation is virtually certain to be enacted as drafted.

Contingent liabilities are:

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

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the probability of settlement is remote.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

2. CASH FLOW STATEMENT

The company is a wholly owned subsidiary of The Goldman Sachs Group, Inc., and is therefore exempt from preparing a cash flow statement as required by FRS1 'Cash flow statements' as the ultimate parent undertaking's consolidated accounts are publicly available

3. CHANGES IN ACCOUNTING POLICIES

The group has amended its accounting policy so that repurchase and resale agreements are accounted for and measured at fair value under FRS26 (IAS39), 'Financial Instruments Measurement', rather than on an accruals basis as the directors believe this more appropriately reflects the impact of these transactions and is consistent with how this activity is managed. There was no material impact on the current period or comparative results following the revision of this accounting policy.

4. SEGMENTAL REPORTING

The group's trading profit is categorised into the following three principal segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services.

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Investment Banking	1,236,706	988,454
Trading and Principal Investments	9,738,687	6,456,315
Asset Management and Securities Services	1,013,268	1,726,501
	11,988,661	9,171,270

Investment Banking

The group's investment banking activities are divided into two categories:

- *Financial Advisory* – Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defence activities, restructuring and spin offs, and
- *Underwriting* – Underwriting includes public offerings and private placements of a wide range of securities and other financial instruments

Trading and Principal Investments

Trading and Principal Investments is divided into three categories:

- *Fixed Income, Currencies and Commodities* – The group makes markets in and trades interest rate and credit products, mortgage-related securities and loans, including asset-backed securities, currencies and commodities, structures and enters into a wide variety of derivative transactions and engages in proprietary trading and investing,
- *Equities* – The group makes markets in and trades equities and equity-related products, structures and enters into equity derivative transactions, and engages in proprietary trading. The group also executes and clears customer transactions on major stock, options and futures exchanges worldwide, and
- *Principal Investments* – Principal Investments primarily represents fees from group companies for sourcing and associated work with regard to the group's merchant banking investments

Trading and Principal Investments also includes variable costs such as brokerage, clearance and underwriting expenses that are offset against trading profit.

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7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group 57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Interest on overnight deposits	28	380
Interest on loans to parent and group undertakings	1,614	1,229
Interest on loans to banks and customers	3,033	12,272
Other interest receivable	3,789	201,209
	8,464	215,090

8. INTEREST PAYABLE AND SIMILAR CHARGES

	The Group 57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Interest on loans from parent and group undertakings	338,917	785,984
Interest on deposits from banks and customers	1,977	2,254
Other interest payable	3,323	203,401
	344,217	991,639

9. DIRECTORS' EMOLUMENTS

	The Group 57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Aggregate emoluments	52	17
Company pension contributions to money purchase schemes	-	1
	52	18

In accordance with the Companies Act 2006, directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only. Directors also receive emoluments for non-qualifying services which are not required to be disclosed. All directors are members of the defined contribution pension scheme and defined benefit pension scheme.

All directors have been granted shares in respect of a long term incentive scheme.

No directors have exercised options.

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10. STAFF COSTS

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

	57 week period ended 31 December 2009 Number	52 week period ended 28 November 2008 Number
Investment Banking	568	782
Trading and Principal Investments	1,417	1,645
Asset Management and Securities Services	502	581
Support Functions	2,525	2,907
	5,012	5,915

The group's average number of employees is categorised into the three principal segments, per note 4, and Support Functions. Accordingly, the comparatives have been revised to be consistent with the current period presentation.

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

In addition to the above, an average number of 526 (52 week period ended 28 November 2008: 606) consultants and temporary staff are included in the group's headcount, the costs of whom are included in the staff costs, below.

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

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Aggregate gross wages and salaries *	4,862,140	94,908
Employer's National Insurance Contributions *	510,506	66,548
Pension costs, employer contributions to the		
Defined contribution scheme	39,873	50,921
Defined benefit scheme	54,337	76,242
Total direct costs of employment *	5,466,856	288,619

* Staff costs include a charge of US\$1.8 billion (52 week period ended 28 November 2008: credit of US\$2.9 billion) relating to the mark-to-market of equity-based compensation.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

10. STAFF COSTS (CONTINUED)

Pension schemes

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

A full actuarial valuation of the Plan was carried out by a qualified independent actuary as at 1 December 2006 (which is currently being updated to 1 December 2009) using the projected unit funding method and updated to 31 December 2009. The asset and liability figures shown below have been calculated as a proportion of the total Plan assets and liabilities, based on the group's proportion of the active membership as advised at the start and end of the period.

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.

	57 week period ended 31 December 2009 % per annum	52 week period ended 28 November 2008 % per annum
Discount rate	5.65	7.20
Rate of increase in salaries	4.00	4.00
Rate of increase in pensions (post-30 November 1996 accrual)	3.90	3.45
Rate of price inflation	3.90	3.45

The mortality assumptions were set based on the '00' series base table projected to 2006 with an allowance known as 'medium cohort' made for future improvements in longevity. The future improvement from 2006 is subject to a minimum level of 1% per annum.

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

	31 December 2009		28 November 2008	
	Expected rate of return % p.a.	Market value US\$m	Expected rate of return % p.a.	Market value US\$m
Equities	8.4	493.2	8.4	147.9
Bonds	4.9	126.2	4.8	27.5
Hedge funds	-	-	7.0	25.7
Cash and reinvested cash	4.6	125.5	4.8	323.0
Total market value of assets		744.9		524.1

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10. STAFF COSTS (CONTINUED)

Development of the balance sheet

	31 December 2009 US\$m	28 November 2008 US\$m	30 November 2007 US\$m	24 November 2006 US\$m	25 November 2005 US\$m
Market value of Plan assets	744.9	524.1	590.3	430.1	315.6
Actuarial value of Plan liabilities	902.1	395.0	698.5	547.6	373.3
(Deficit) / surplus in the Plan and pension (liability) / asset recognised in the balance sheet before deferred taxation	(157.2)	129.1	(108.2)	(117.5)	(57.7)

The defined benefit cost was formed of the following components:

	57 week period ended 31 December 2009 US\$m	52 week period ended 28 November 2008 US\$m
Analysis of amounts charged to operating profit:		
Current service cost	42.5	82.5
Total charged to operating profit	42.5	82.5
Analysis of the amount credited to net finance income:		
Interest on Plan liabilities	31.1	38.2
Expected return on assets in the Plan	(35.9)	(41.4)
Total credited to net finance income	(4.8)	(3.2)
Total charged to profit and loss before tax	37.7	79.3
Analysis of amounts recognised in the statement of total recognised gains and losses:		
(Gain) / loss on assets	(107.0)	115.8
Experience gain on liabilities	(17.2)	(15.9)
Loss / (gain) in assumptions (financial and demographic)	424.7	(253.8)
Total loss / (gain) recognised in the statement of total recognised gains and losses before tax	300.5	(153.9)

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

10. STAFF COSTS (CONTINUED)

History of experience gains and losses are as follows:

	31 December 2009	28 November 2008	30 November 2007	24 November 2006	25 November 2005
(Gain) / loss on Plan assets:					
Amount (US\$m)	(107.0)	115.8	(66.8)	(47.5)	(22.9)
% of Plan assets at end of the period	14.4%	22.1%	11.3%	11.0%	7.3%
Experience (gain) / loss on Plan liabilities:					
Amount (US\$m)	(17.2)	(15.9)	38.7	30.4	(9.9)
% of Plan liabilities at end of the period	1.9%	4.0%	5.5%	5.6%	2.7%
Total actuarial loss / (gain) recognised in statement of total recognised gains and losses:					
Amount (US\$m)	300.5	(153.9)	(46.5)	12.3	15.2
% of Plan liabilities at end of the period	33.3%	39.0%	6.7%	2.3%	4.1%

Analysis of the movement in Plan assets during the period

	57 week period ended 31 December 2009 US\$m	52 week period ended 28 November 2008 US\$m
Plan assets at the start of the period	524.1	590.3
Expected return on Plan assets	35.9	41.4
Gain / (loss) on assets	107.0	(115.8)
Contributions paid – Employer	55.0	164.9
Benefits paid	(10.2)	(7.6)
Foreign exchange gains / (losses) on translation of Plan assets	33.1	(149.1)
Plan assets at the end of the period	744.9	524.1

Analysis of the movement in Plan liabilities during the period

	57 week period ended 31 December 2009 US\$m	52 week period ended 28 November 2008 US\$m
Plan liabilities at the start of the period	395.0	698.5
Current service cost	42.5	82.5
Interest on Plan liabilities	31.1	38.2
Loss / (gain) on change in assumptions	424.7	(253.8)
Experience gain	(17.2)	(15.9)
Benefits paid	(10.2)	(7.6)
Foreign exchange losses / (gains) on translation of Plan liabilities	36.2	(146.9)
Plan liabilities at the end of the period	902.1	395.0

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

10. STAFF COSTS (CONTINUED)

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

	57 week period ended 31 December 2009 US\$m	52 week period ended 28 November 2008 US\$m
Surplus / (deficit) in the Plan at the start of the period	129.1	(108.2)
Contributions paid – Employer	55.0	164.9
Current service cost	(42.5)	(82.5)
Net finance income	4.8	3.2
Actuarial (loss) / gain	(300.5)	153.9
Foreign exchange losses on translation of surplus / (deficit)	(3.1)	(2.2)
(Deficit) / surplus in the Plan at the end of the period	(157.2)	129.1

Additional disclosures:

	57 week period ended 31 December 2009 US\$m	52 week period ended 28 November 2008 US\$m
Expected future benefit payments for the period to 31 December 2010 / 31 December 2009	10.3	6.3
Expected contributions for the period to 31 December 2010 / 31 December 2009* – Employer	277.4	58.6
Actual return on Plan assets during the period ended 31 December 2009 / 28 November 2008		
Expected return on Plan assets	35.9	41.4
Asset gain / (loss) during the period	107.0	(115.8)
Actual return on Plan assets	142.9	(74.4)

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

	31 December 2009 US\$m	28 November 2008 US\$m
Actuarial (loss) / gain relating to the pension scheme	(127.6)	172.9
UK deferred tax attributable to the actuarial (loss) / gain	36.2	(47.9)
Net cumulative amount recognised in the statement of total recognised gains and losses	(91.4)	125.0

*The expected contributions for the period to 31 December 2010, included a one off contribution of £142million (US\$222.1million) made to the Plan following the period end

In addition to above, the group also operates a number of defined contribution plans. The total contribution cost for the period is £187,159 (US\$292,265) (52 week period ended 28 November 2008 £302,283 (US\$572,100)). There is no amount in respect of this cost that remains payable at the balance sheet date (2008 US\$Nil).

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11. 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 Amended SIP'), which provides for grants of incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units, awards with performance conditions and other share-based awards

Other compensation arrangements

The Goldman Sachs Group, Inc. has a discount stock program through which participating managing directors may be permitted to acquire restricted stock units at an effective 25% discount (for 2009 and 2008 period ends compensation, the program was suspended and no individual was permitted to acquire discounted restricted stock units thereunder). In prior periods, the 25% discount was effected by an additional grant of restricted stock units equal to one-third of the number of restricted stock units purchased by qualifying participants. The purchased restricted stock units were 100% vested when granted, but the shares underlying them generally were subject to certain transfer restrictions (which were waived in December 2008 except for certain senior executives). The shares underlying the restricted stock units that were granted in order to effect the 25% discount generally vest in equal instalments on the second and third anniversaries following the grant date upon vesting and were subject to certain transfer restrictions (transfer restrictions on vested awards were waived in December 2008 except for certain senior executives). Compensation expense related to these restricted stock units is recognised over the vesting period.

Restricted stock units

The Goldman Sachs Group, Inc. issued restricted stock units to the group's employees under the Amended SIP, primarily in connection with period-end compensation and acquisitions. Restricted stock units are valued based on the closing price of the underlying shares at the date of grant. Period end restricted stock units generally vest as outlined in the applicable restricted stock unit agreements. All employee-restricted stock unit agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. In all cases, delivery of the underlying shares of common stock is conditional on the grantees satisfying certain vesting and other requirements outlined in the award agreements. The activity related to these restricted stock units is set forth below.

	31 December 2009		28 November 2008	
	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 period	9,924,544	3,822,556	11,628,421	6,292,241
Granted during the period	51,560	7,068,872	13,809	550,836
Forfeited during the period	(47,366)	(725,666)	(65,263)	(311,148)
Delivered during the period	(7,528,978)	-	(4,388,441)	-
Transferred in / (out) during the period	18,257	(124,512)	30,124	(3,479)
Vested during the period	4,312,418	(4,312,418)	2,705,894	(2,705,894)
Outstanding at the end of the period	6,730,435	5,728,832	9,924,544	3,822,556

The weighted average fair value of the equity instruments granted during the 57 week period ended 31 December 2009 was US\$75.47 (52 week period ended 28 November 2008 US\$150.16)

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

11. SHARE-BASED PAYMENTS (CONTINUED)

Stock options

Stock options granted to employees generally vest as outlined in the applicable stock option agreement. Options granted for the 57 week period ended 31 December 2009 will become exercisable in one-third annual instalments from January 2010 and expire on 31 December 2018. Period end stock options for the 52 week period ended 28 November 2008 become exercisable in January 2011 and expire on 24 November 2017. All employee stock option agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. In general, all stock options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the Amended SIP and the applicable stock option agreement.

The activity related to these stock options is set forth below

	31 December 2009		28 November 2008	
	No. of share options	Weighted average exercise price	No. of share options	Weighted average exercise price
Outstanding at the beginning of the period	5,580,549	104.57	6,354,323	100.32
Granted during the period	9,606,716	78.78	-	-
Forfeited during the period	(90,422)	78.82	258	96.08
Transferred in / (out) during the period	(57,794)	78.78	16,898	85.82
Exercised during the period	(1,250,801)	78.57	(790,769)	69.98
Expired during the period	(1,068)	95.85	(161)	83.20
Outstanding at the end of the period	13,787,180	89.24	5,580,549	104.57
Exercisable at the end of the period	3,481,757	90.10	4,444,519	84.16

For those options exercised during the period, the weighted average share price at the date of exercise was US\$150.48 (28 November 2008: US\$167.08). The weighted average fair value of options granted during the 57 week period ended 31 December 2009 was US\$14.08 per option (52 week period ended 28 November 2008: US\$nil). The weighted average share price at the date of grant was US\$78.78 (52 week period ended 28 November 2008: US\$nil).

The options outstanding as at 31 December 2009 and 28 November 2008 are set forth below

	31 December 2009		28 November 2008	
	No. of share options outstanding	Weighted average remaining contractual life (years)	No. of share options outstanding	Weighted average remaining contractual life (years)
Exercise price (US\$)				
\$45.00 – \$59.99	-	-	342,490	0.50
\$75.00 – \$89.99	11,098,980	7.94	1,963,584	2.88
\$90.00 – \$104.99	1,552,170	2.01	2,138,445	3.08
\$120.00 – \$134.99	288,720	5.92	288,720	7.00
\$195.00 – \$209.99	847,310	7.51	847,310	8.59
Outstanding at the end of the period	13,787,180		5,580,549	

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11. SHARE-BASED PAYMENTS (CONTINUED)

Stock options (continued)

The fair value of options granted during the 57 week period ended 31 December 2009 (no options were granted during the 52 week period ended 28 November 2008) was estimated as of the grant date based on a Black-Scholes option-pricing model principally using the following weighted average assumptions

	31 December 2009
Risk-free interest rate	1.1%
Expected volatility	50.1%
Dividend yield	US\$1.40
Expected life	4.0 years

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

The common stock underlying the options granted during the 57 week period ended 31 December 2009 is subject to transfer restrictions until January 2014. The value of the common stock underlying the options granted during the 57 week period ended 31 December 2009 has been discounted by 26.7% to reflect these transfer restrictions.

The group recorded total share-based compensation expenses net of forfeitures of US\$743 million for the 57 week period ended 31 December 2009 (52 week period ended 28 November 2008: US\$509 million) related to the amortisation of equity awards. The corresponding credit to equity has been transferred to liabilities as a result of the terms of the intercompany agreements with The Goldman Sachs Group, Inc.

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12. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the period:

	The Group	
	57 week period ended 31 December 2009	52 week period ended 28 November 2008
	US\$'000	US\$'000
Current tax		
UK corporation tax at 28% - current period	1,667,547	880,790
UK corporation tax - prior period	(43,907)	(2,034)
Overseas taxation	67,095	85,343
Total current tax (see note 12(b))	1,690,735	964,099
Deferred Tax		
Provisions and other timing differences (see note 26)	(421,159)	931,429
	(421,159)	931,429
Tax on profit on ordinary activities	1,269,576	1,895,528

(b) Factors affecting tax charge for the period:

The current tax assessed for the period differs from the standard rate of corporation tax in the UK of 28% (28 November 2008 28.67%). The differences are explained below

	The Group	
	57 week period ended 31 December 2009	52 week period ended 28 November 2008
	US\$'000	US\$'000
Profit on ordinary activities before tax	5,368,126	7,271,221
Profit on ordinary activities multiplied by standard rate in the UK 28% (28 November 2008 28.67%)	1,503,075	2,084,659
Expenses disallowed for the purposes of tax provision	2,518	7,708
Accelerated capital allowances and other timing differences	(70,729)	(39,355)
Timing differences in respect of restricted stock units	531,089	(915,065)
Exchange differences	4,765	22,868
Pension contribution relief in excess of net pension cost charge	(2,727)	889
Group relief surrendered for nil consideration	(72,777)	(266,703)
Adjustment to tax in respect of prior periods	(43,907)	(2,040)
Non taxable net (income) / loss	(160,572)	71,138
Current tax charge for the period	1,690,735	964,099

The timing difference arising from the restricted stock units comprises the net tax effect of the amounts charged to the profit and loss account during the period and those amounts paid to employees during the period

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13. COMPANY LOSS FOR THE PERIOD

Of the group's profit for the period, a loss of US\$7.9 million (2008 profit of US\$173.2 million) has been dealt with in the financial statements of the company. As permitted by section 408 of the Companies Act 2006 the company's profit and loss account has not been included in these financial statements.

14. INTANGIBLE ASSETS

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

	Positive Goodwill US\$'000	The Group Negative Goodwill US\$'000	Total US\$'000
Cost			
At 28 November 2008	2,360	(1,524)	836
Additions (see note (i))	25,087	(22,422)	2,665
At 31 December 2009	27,447	(23,946)	3,501
Amortisation			
At 28 November 2008	(1,112)	534	(578)
Charge for period (see note (i))	(3,656)	3,812	156
At 31 December 2009	(4,768)	4,346	(422)
Net book value			
At 28 November 2008	1,248	(990)	258
At 31 December 2009	22,679	(19,600)	3,079

- (i) During the period, positive goodwill of US\$25,087,000 arose on the acquisition of 100% of the ordinary shares in Beheer – En Beleggingsmaatschappij Befraco B.V. This positive goodwill was capitalised and is being amortised over five years (see note 16(d)(ii)).

During the period, negative goodwill of US\$22,421,871 arose on the acquisition of Nucor International Limited. This negative goodwill is expected to be recognised in the profit and loss account over a period of three years (see note 16(d)(i)).

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15. TANGIBLE FIXED ASSETS

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

	Leasehold improvements US\$'000	The Group Fixtures fittings & equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Cost				
At 28 November 2008	19,770	10,216	16	30,002
Additions	187	348	-	535
Disposals	(364)	(1,949)	-	(2,313)
Currency translation	(149)	(19)	-	(168)
At 31 December 2009	19,444	8,596	16	28,056
Depreciation				
At 28 November 2008	12,425	3,809	16	16,250
Charge for period	3,214	2,077	-	5,291
Disposals	(366)	(810)	-	(1,176)
Currency translation	(15)	57	-	42
At 31 December 2009	15,258	5,133	16	20,407
Net book value				
At 28 November 2008	7,345	6,407	-	13,752
At 31 December 2009	4,186	3,463	-	7,649

16. 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 28 November 2008	6,264,716
Additions (note (i))	383,089
Disposals (note (ii))	(50,100)
Impairments (note (iii))	(87,844)
At 31 December 2009	6,509,861

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

- (i) On 31 March 2009, the company was allotted 57,648 ordinary shares of US\$1 each issued by Goldman Sachs International, for a total consideration of US\$1,500,000

On 24 April 2009, GS Leasing Holdings Limited converted 1 ordinary share of £1 issued to the company to 1 ordinary share of US\$1. In addition, the company was allotted 26,999,999 ordinary shares of US\$1 each issued by GS Leasing Holdings Limited, for a total consideration of US\$26,999,999

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16. FIXED ASSET INVESTMENTS (CONTINUED)

On 15 October 2009, the company exercised its rights under the terms of a rights issue agreement entered into with GS Capital Funding (Cayman) II Limited during the period, to subscribe for 100,100 ordinary shares of US\$1 each issued by GS Capital Funding (Cayman) II Limited, for a total consideration of US\$100,100

On 20 November 2009, the company purchased 20 ordinary shares of US\$1 each issued by GS Euro Management, from GS Financial Services II, LLC, a fellow group undertaking, for a total cash purchase price of US\$19,997,984 (see note 16(d)(ii))

On 20 November 2009, the company purchased 20 ordinary shares of US\$1 each issued by GS Euro Investments, from GS Financial Services II, LLC, a fellow group undertaking, for a total cash purchase price of US\$19,997,984 (see note 16(d)(ii))

On 23 November 2009, the company was allotted 136,133,552 ordinary shares of US\$0.00001 each issued by KPL Finance Limited, for a total consideration of US\$136,133,552

On 1 December 2009, the company was allotted 124,391,000 ordinary shares of US\$1 each issued by GS Liquid Trading Platform I PCC, for a total consideration of US\$124,391,000

During the period, the company was allotted a total of 3,308,000 redeemable shares of £1 each by Money Partners Holding Limited, for a total consideration of £3,308,000 (US\$4,843,837)

On 30 June 2009, the company acquired all of the issued share capital of Nufcor International Limited from a third party undertaking, for a total purchase price of US\$49,124,336. The purchase price included an initial cash consideration of US\$46,968,768 and deferred consideration of US\$2,155,568 (see note 16(d)(i))

- (ii) On 15 October 2009, the company sold 101,101 ordinary shares of US\$1 each issued by GS Capital Funding (Cayman) II Limited to a third party undertaking, for a total consideration of US\$100,139,650 resulting in a gain on disposal to the company of US\$50,039,550 and of US\$45,756,000 to the group
- (iii) A write down of US\$87,844,333 has been made against the cost of shares in subsidiary undertakings as the value of the investments were less than their book value. The directors consider that this represents a permanent diminution in value

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16. FIXED ASSET INVESTMENTS (CONTINUED)

(a) Shares in subsidiary undertakings (at cost) (continued)

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

Name of company and activity	Group interest in shares issued	Of which, owned directly by the Company
Goldman Sachs Asset Management International* (fund manager)	100% Ordinary shares 100% Preference shares	1% Ordinary shares 99% Preference shares
Goldman Sachs International Bank * (bank loan and related activities)	100% Ordinary shares 100% Preference shares	100% Ordinary shares 100% Preference shares
Montague Place Custody Services (formerly Goldman Sachs Europe)* (custodian services)	100% Ordinary shares	1% Ordinary shares
Goldman Sachs International *	100% Ordinary shares 100% Preference shares	1% Ordinary shares 46% Preference shares
Goldman Sachs International Finance * (non-trading)	100% Ordinary Shares	0% Ordinary shares
Goldman Sachs Europe Limited * (service company)	100% Ordinary shares	0% Ordinary shares
Fleet Trade & Transport Limited * (oil and shipping operations)	100% Ordinary shares	100% Ordinary shares
Goldman Sachs Holdings (U K)*	100% Ordinary shares 100% Preference shares	100% Ordinary shares 100% Preference shares
Goldman Sachs Securities (Nominees) Limited * (nominee shareholder)	100% Ordinary shares	0% Ordinary shares
Restamove Limited * (non-trading)	100% Ordinary shares	0% Ordinary shares
Dunvegan Investments Limited * (investment company)	100% Ordinary shares	0% Ordinary shares
Goldman Sachs (Jersey) Limited * (issuer of covered warrants)	100% Ordinary shares	0% Ordinary shares

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16. FIXED ASSET INVESTMENTS (CONTINUED)

(a) Shares in subsidiary undertakings (at cost) (continued)

Name of company and activity	Group interest in shares issued	Of which, owned directly by the Company
Shire UK Limited * (investment company)	100% Ordinary shares	100% Ordinary shares
Shire Funding Limited * (investment company)	100% Ordinary shares	0% Ordinary shares
Shire Assets * (investment company)	100% Ordinary shares	0% Ordinary shares
Shire II Assets Limited * (investment company)	100% Ordinary shares	0% Ordinary shares
Goldman Sachs (Monaco) S A M * (fund manager)	100% Ordinary shares	100% Ordinary shares
Scadbury UK Limited * (investment company)	100% Ordinary shares	100% Ordinary shares
Scadbury Funding Limited * (investment company)	100% Ordinary shares	0% Ordinary shares
Scadbury Assets * (investment company)	100% Ordinary shares	0% Ordinary shares
Scadbury II Assets Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
Amagansett Financing Limited * (investment company)	100% Ordinary shares 100% Preference shares	100% Ordinary shares 0% Preference shares
Killingholme Power Group Limited* (investment company)	100% Ordinary shares	100% Ordinary shares
Killingholme Generation Limited* (investment company)	100% Ordinary shares 100% Redeemable ordinary shares	0% Ordinary shares 0% Redeemable ordinary shares
Killingholme Holdings Limited* (investment company)	100% Ordinary shares	0% Ordinary shares
GS Killingholme Cayman Investments Ltd * (investment company)	100% Ordinary shares	0% Ordinary shares
GS Killingholme Cayman Investments II Ltd * (investment company)	100% Ordinary shares	0% Ordinary shares
KPL Holdings Limited** (investment company)	100% Ordinary shares	0% Ordinary shares

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16. FIXED ASSET INVESTMENTS (CONTINUED)

(a) Shares in subsidiary undertakings (at cost) (continued)

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

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16. FIXED ASSET INVESTMENTS (CONTINUED)

(a) Shares in subsidiary undertakings (at cost) (continued)

<u>Name of company and activity</u>	<u>Group interest in shares issued</u>	<u>Of which, owned directly by the Company</u>
Money Partners Limited* (mortgage origination company)	100% Ordinary shares	0% Ordinary shares
Money Partners Finance Limited* (mortgage financing company)	100% Ordinary shares	0% Ordinary shares
Money Partners Loans Limited* (in liquidation)	100% Ordinary shares	0% Ordinary 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
GS Killingholme Cayman Investments III* (investment partnership)	100% Partnership interest	0% Partnership interest
GS Euro Investments*** (investment company)	100% Ordinary shares	100% Ordinary shares
GS Euro Management*** (investment company)	100% Ordinary shares	100% Ordinary shares
Beheer – En Beleggingsmaatschappij Bfraco B V *** (lease holding company)	100% Ordinary shares	0% Ordinary shares
Nufcor International Limited*** (trading company)	100% Ordinary shares	100% Ordinary shares
Nufcor Capital Limited*** (investment advisory services)	100% Ordinary shares	0% Ordinary shares
Nufcor Mining and Trading Limited*** (dormant)	100% Ordinary shares	0% Ordinary shares

*Subsidiary undertakings of the group as at 28 November 2008

**Entity incorporated during the period by subscribing for 100% of the entity's share capital

*** Entity purchased during the period

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16. FIXED ASSET INVESTMENTS (CONTINUED)

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

- Goldman Sachs Europe Limited, Goldman Sachs (Jersey) Limited, GS Liquid Trading Platform I PCC and GS Liquid Trading Platform II Limited are incorporated in Jersey
- Dunvegan Investments Limited, Shire Funding Limited, Shire II Assets Limited, Scadbury Funding Limited, Scadbury II Assets Limited, Amagansett Financing Limited, GS Killingholme Cayman Investments Ltd, GS Killingholme Cayman Investments II Ltd, GS Leasing No 1 Limited, GS Leasing No 3 Limited, GS Leasing, GS Equipment Finance II Limited, GS Equipment Finance I Limited, GS Leasing Management Limited, Forres Investments Limited, GS Funding Management Limited, GS Funding Investments Limited, KPL Finance Limited, KPL Acquisitions Limited, GS Killingholme Cayman Investments III, KPL Holdings Limited, GS Euro Management and GS Euro Investments are incorporated in the Cayman Islands
- GS (Monaco) S A M is incorporated in Monaco
- Forres LLC is incorporated in Delaware
- Beheer – En Beleggingsmaatschappij Befracco B V is incorporated in the Netherlands

(b) Shares in associate investments

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

Name of company (activity)	Group interest in shares issued	Of which, owned directly by the Company
Barrie & Hibbert Limited Registered in Scotland (Financial risk consultancy)	30 94% Ordinary shares	30 94% Ordinary shares
	The Group US\$'000	The Company US\$'000
Share of net assets / cost		
At 28 November 2008	1,149	14,607
Share of retained loss for the period	(1,179)	-
Translation adjustment	30	-
Impairment	-	(14,607)
At 31 December 2009	-	-
Goodwill		
At 28 November 2008	4,231	-
Amortisation charge for the period	(4,231)	-
At 31 December 2009	-	-
Net book value at 28 November 2008	5,380	14,607
Net book value at 31 December 2009	-	-

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16. FIXED ASSET INVESTMENTS (CONTINUED)

(c) Other investments other than loans

The balance at 31 December 2009 and 28 November 2008 comprises

	The Group		The Company	
	31 December 2009	28 November 2008	31 December 2009	28 November 2008
	US\$'000	US\$'000	US\$'000	US\$'000
Shares in group undertakings (see note (i))	66	67	-	-
Other equity investments	5,848	8,062	11,656	6,771
Debentures (see note (ii))	18	25	-	-
	5,932	8,154	11,656	6,771

(i) Shares in 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

As at 28 November 2008, the company held a 1% investment in Goldman Sachs Fund Management S.A. at a cost of €1,000. On 31 December 2009 Goldman Sachs Fund Management S.A. was liquidated, as a result, the company received liquidation proceeds of €1,020.

(ii) The group holds debentures that are stated at cost and amortised over their useful economic life

	US\$'000
Cost	
At 28 November 2008 and 31 December 2009	78
Amortisation	
At 28 November 2008	53
Charge for period	7
At 31 December 2009	60
Net book value at 28 November 2008	25
Net book value at 31 December 2009	18

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

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16. FIXED ASSET INVESTMENTS (CONTINUED)

(d) Acquisitions

(i) On 30 June 2009, the company acquired all of the issued share capital of Nufcor International Limited

The following table sets out the book values of the consolidated identifiable assets and liabilities acquired and their fair values to the group

	Book value to group US\$'000	Revaluation US\$'000	Accounting policy alignment US\$'000	Fair value to group US\$'000
Current assets	75,091	25,598	-	100,689
Total assets	75,091	25,598	-	100,689
Current liabilities	(3,450)	111	(25,804)	(29,143)
Net assets	71,641	25,709	(25,804)	71,546
Consideration				49,124
Negative Goodwill				22,422

(ii) Other Acquisitions

- On 24 April 2009, the group acquired 100% of the ordinary shares in Beheer – En Beleggingsmaatschappij Befraco B V
- On 20 November 2009, the company purchased 20 ordinary shares of US\$1 each issued by GS Euro Investments
- On 20 November 2009, the company purchased 20 ordinary shares of US\$1 each issued by GS Euro Management

The following table sets out the fair values to the group of the identifiable assets and liabilities acquired which are the same as their book values

	Beheer – En Beleggingsmaats chappij Befraco B.V. US\$'000	Fair value to group GS Euro Management US\$'000	GS Euro Investments US\$'000
Current assets	40,132	19,998	19,998
Total assets	40,132	19,998	19,998
Current liabilities	(39,571)	-	-
Net assets	561	19,998	19,998
Consideration	25,648	19,998	19,998
Positive Goodwill	25,087	-	-

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17. 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 recognises quasi subsidiaries based on the inherent risks. The group utilises certain vehicles to provide investors with asset-repackaged notes designed to meet their objectives. These vehicles purchase assets by issuing debt instruments and by entering into derivative contracts. The group has entered into interest rate, foreign currency and equity derivatives with these vehicles. The vehicles produce no material net cash flows. Cash flows received from assets and derivatives held by the vehicles are paid either directly or indirectly, via debt securities issued, to the debt holders. In addition, given that all derivatives held by the vehicles offset risks inherent in its assets and liabilities, the vehicles do not produce any material net profit or loss.

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

	31 December 2009 US\$'000	28 November 2008 US\$'000
Assets		
Debt securities purchased	2,851,676	6,673,197
Liabilities		
Debt securities issued	(2,851,676)	(6,673,197)

18. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Included within the resale agreements are amounts of US\$12,542 million (28 November 2008: US\$11,487 million) which relate to group undertakings.

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19. DEBTORS

	The Group		The Company	
	31 December 2009	28 November 2008	31 December 2009	28 November 2008
	US\$'000	US\$'000	US\$'000	US\$'000
Deposits as collateral for stock borrowed	4,197,253	4,631,167	-	-
Amounts due from brokers/dealers and customers	38 305,998	75,421,217	-	-
Amounts due from parent and group undertakings	70,054,366	95,400,094	16,190,111	12,810,526
Group relief receivable from group undertakings	-	-	215,585	50,964
Corporation tax recoverable	1,041	3,328	-	2,940
Deferred tax (see note 26)	842,851	334,532	-	-
Other debtors	377,641	417,614	35	99
Prepayments and accrued income	92,767	102,901	-	-
	113,871,917	176,310,853	16,405,731	12,864,529

Of the amount due from parent and group undertakings, US\$41 million (28 November 2008 US\$33million) in relation to the group and US\$5,078 million (28 November 2008 US\$8,428 million) in relation to the company is due in more than one year. With regard to the group this relates to equity based employee compensation. With regard to the company this relates to long term subordinated loans to a subsidiary undertaking. The loan is unsecured, accrues interest at a margin over LIBOR and is repayable upon giving or receiving at least two years' notice to or from the subsidiary undertaking.

The net investment in finance leases included within other debtors is US\$149.7million (28 November 2008 US\$133.4million) of which US\$103.5million is due in more than one year. The cost of assets acquired in the period for the purpose of letting under finance leases was US\$Nil (28 November 2008 US\$Nil).

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

20. CASH AT BANK AND IN HAND

Included within cash at bank and in hand is US\$12,676 million (28 November 2008 US\$16,435 million) that is held on behalf of clients in segregated accounts.

21. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Included within the repurchase agreements are amounts of US\$22,060 million (28 November 2008 US\$16,595 million) which relate to group undertakings.

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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 2009	28 November 2008	31 December 2009	28 November 2008
	US\$'000	US\$'000	US\$'000	US\$'000
Bank loans and overdrafts	56,612	124,803	-	-
Debt securities issued	14,396,444	16,289,962	-	-
Deposits received as collateral for stock loans	18,697,973	26,636,000	-	-
Amounts due to brokers/dealers and customers	93,006,040	131,982,845	-	-
Amounts due to parent and group undertakings	89,027,546	66,739,361	13,986,350	6,855,971
Corporation tax payable	523,896	229,480	-	-
Other taxes and social security costs	291,319	107,828	-	-
Accrual for management charges payable to parent and group undertakings (see note 23(b))	1,854,093	450,268	-	-
Other creditors and accruals	1,572,431	1,373,516	7,301	3,126
	219,426,354	243,934,063	13,993,651	6,859,097

Of the other creditors falling due within one year US\$56,546 million (28 November 2008 US\$59,067 million) is secured by marketable securities, of which US\$35,729 million (28 November 2008 US\$32,431 million) relates to amounts due to parent and group undertakings

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

	The Group		The Company	
	31 December 2009	28 November 2008	31 December 2009	28 November 2008
	US\$'000	US\$'000	US\$'000	US\$'000
Long-term subordinated loans (see note 24)	5,495,847	9,296,910	5,078,000	8,428,000
Debt securities issued (see note (a))	5,222,129	1,253,623	-	-
Accrual for management charges payable to parent and group undertakings (see note (b))	809,186	630,035	-	-
Loan notes issued (see note (c))	-	1,816,767	-	-
	11,527,161	12,997,335	5,078,000	8,428,000

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

	31 December 2009	28 November 2008
	US\$'000	US\$'000
In more than one year but not more than two years	-	9,384
In more than two years but not more than five years	2,408,678	280,636
In more than five years	2,813,451	963,603
	5,222,129	1,253,623

(b) The accrual for management charges in notes 22 and 23 is in respect of restricted stock awards and long term incentive schemes

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

- (c) Loan notes issued in the prior period, comprised notes issued to a third party. Interest on the notes accrued at the relevant underlying interest rate plus 0.90% and was calculated on a monthly basis. The notes were derecognised upon deconsolidation of certain subsidiary undertakings during the period (see note 5).

24. SUBORDINATED LOANS

	The Group		The Company	
	31 December 2009	28 November 2008	31 December 2009	28 November 2008
	US\$'000	US\$'000	US\$'000	US\$'000
Repayable as follows				
Less than one year	32,000	-	-	-
Between two and five years	42,000	8,000,000	-	8,000,000
Over five years	5,421,847	1,296,910	5,078,000	428,000
	5,495,847	9,296,910	5,078,000	8,428,000

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

25. PROVISIONS FOR LIABILITIES AND CHARGES

	The Group US\$'000
As at 31 December 2009 and 28 November 2008	40,000

The provision of US\$40 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 FRS 12, 'Provisions and Contingent Liabilities', on the grounds that it would be seriously prejudicial to do so.

26. DEFERRED TAX

	31 December 2009	28 November 2008
	US\$'000	US\$'000
Deferred tax balance comprises		
Depreciation in excess of capital allowances	6,328	8,501
Post-retirement benefits	59,527	(14,488)
Other timing differences	776,996	340,519
	842,851	334,532
The movements in the deferred tax balance were as follows		
At 28 November 2008	334,532	
Deferred tax assets acquired from acquisition during the period	2,673	
Transfer to the profit and loss account for the period	421,159	
Translation adjustment	360	
Transfer to the statement of total recognised gains and losses for the period	84,127	
At 31 December 2009	842,851	

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

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

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27. SHARE CAPITAL

At 31 December 2009 and 28 November 2008, share capital comprised

	The Company			
	31 December 2009		28 November 2008	
	No.	US\$'000	No.	US\$'000
<u>Authorised</u>				
Ordinary shares of US\$ 0.01 each	2,200,000,000	22,000	2,200,000,000	22,000
Preference shares of US\$ 0.01 each	800,000,000	8,000	800,000,000	8,000
		30,000		30,000
<u>Allotted, called up and fully paid</u>				
Ordinary shares of US\$ 0.01 each	1,785,861,370	17,858	1,785,861,370	17,858
Preference shares of US\$ 0.01 each	461,500,000	4,615	461,500,000	4,615
		22,473		22,473

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

28. 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 28 November 2008	1,547,032	305,012	67,187	10,803,579	1,021,395
Profit for the period	-	-	-	4,098,550	-
Other recognised losses	-	-	-	(216,325)	-
Exchange gain on consolidation	-	-	-	8,008	-
At 31 December 2009	1,547,032	305,012	67,187	14,693,812	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 28 November 2008	1,547,032	67,187	1,205,439	1,021,395
Loss for the period	-	-	(7,929)	-
At 31 December 2009	1,547,032	67,187	1,197,510	1,021,395

As part of a group reorganisation in a prior period, the company 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.

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29. FINANCIAL COMMITMENTS AND CONTINGENCIES

- (a) The group's financial commitments and contingencies outstanding at the period end primarily arise from letters of credit and forward foreign exchange, swaps, options, financial futures contracts, debt and equity forwards, underwriting commitments entered into in the ordinary course of business and registered charges on certain of the group's assets which have arisen in the ordinary course of business
- (b) In addition, the group has undrawn loan commitments of US\$271,518,000 (28 November 2008 US\$83,155,000) 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 2009 US\$'000	30 November 2008 US\$'000
Maturity of lease		
Less than one year	-	-
Between 1 and 2 years	2,969	111
Between 2 and 5 years	12,639	13,906
Over 5 years	97,558	92,847
	113,166	106,864

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

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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 Goldman Sachs Group, Inc., manages market, credit and liquidity risk on a consistent basis, firmwide. Consequently, the company and its subsidiaries, as part of a global group, adhere to global risk management policies and procedures.

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

(a) Market risk

The potential for changes in the market value of the group's trading and investing positions is referred to as market risk. Such positions result from market making, proprietary trading, underwriting and investing activities. Substantially all of the group's inventory positions are marked-to-market on a daily basis and changes are recorded in trading profit.

Categories of market risk include exposures to interest rates, equity prices and currency rates. A description of each market risk category is set forth below.

- Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds, funding spreads and credit spreads.
- Equity price risk results from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.
- Currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currencies.

The group seeks to manage these firmwide risks through diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. For example, the group may hedge a portfolio of common stocks by taking an offsetting position in a related equity-index futures contract. The ability to manage an exposure may, however, be limited by adverse changes in the liquidity of the security or the related hedge instrument and in the correlation of price movements between the security and related hedge instrument.

Firmwide market risk limits are monitored on a daily basis by the Market risk department in the Finance Division and are reviewed regularly by the appropriate risk committee.

In addition to applying business judgement, senior management uses a number of quantitative tools to manage our exposure to market risk for 'Trading inventory', 'Trading inventory pledged as collateral' and 'Trading inventory sold, but not yet purchased' in the consolidated financial statements. These tools include:

- risk limits based on a summary measure of market risk exposure referred to as Value-at-Risk ('VaR') that are updated and monitored on a daily basis,
- scenario analyses, stress tests and other analytical tools that measure the potential effects on our trading profit of various market events, including, but not limited to, a large widening of credit spreads, a substantial decline in equity markets and significant moves in selected emerging markets, and
- inventory position limits for selected business units (determined at a firmwide level)

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30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

VaR

VaR is the potential loss in value of the group's trading positions due to adverse market movements over a defined time horizon with respect to a specified confidence level

For the VaR numbers reported below, a one-day time horizon and a 95% confidence level were used. This means that there is a 1 in 20 chance that daily trading profit will fall below the expected daily trading profit by an amount at least as large as the reported VaR. Thus, shortfalls from expected trading profit on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once a month. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also occur more frequently or accumulate over a longer time horizon such as a number of consecutive trading days.

The modelling of the risk characteristics of the group's trading positions involves a number of assumptions and approximations while the group believes that these assumptions and approximations are reasonable, there is no standard methodology for estimating VaR, and different assumptions and/or approximations could produce materially different VaR estimates.

The group uses historical data to estimate VaR and, to better reflect current asset volatilities, it generally weights historical data to give greater importance to more recent observations. 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. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.

The following table sets forth the year end and daily VaR

	2009 US\$m	2008 US\$m
Total VaR at 31 December 2009 and 28 November 2008	56.9	119.2
Average daily VaR for the 57 week period ended 31 December 2009 and 52 week period ended 28 November 2008	97.6	104.7

Other Market Risk Measures

Certain portfolios and individual positions are not included in VaR, where VaR is not the most appropriate measure of risk (e.g., due to transfer restrictions and/or illiquidity). Market risk related to these positions is measured by estimating the potential reduction in trading profit associated with a 10% decline in asset values.

The sensitivity analyses for equity and debt positions in the group's trading portfolio are measured by the impact of a decline in the asset values of such positions. The fair value of the underlying positions may be impacted by recent third party investments or pending transactions, third party independent appraisals, transactions in similar instruments, valuation multiples and public comparables, and changes in financial ratios or cash flows.

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

Sensitivity Analysis – Material Areas not in VaR	2009 US\$m	2008 US\$m
Trading Risk: Equity (10% sensitivity measure on carrying value) as at 31 December 2009 and 28 November 2008	29.2	53.6

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30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

In addition, the group's VaR excludes certain funding liabilities. As at 31 December 2009, the carrying value of these liabilities was approximately US\$5.5 billion (28 November 2008: US\$9.21 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 increase / decrease the group's net profit by US\$45.6 million (28 November 2008: US\$48.5 million) mainly attributable to exposure to interest rates on the group's variable rate borrowings.

(b) Credit Risk

Credit risk represents the loss that the group would incur if a counterparty or an issuer of securities or other instruments that it holds, fails to perform under its contractual obligations, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including OTC derivatives, the group holds. The group's exposure to credit risk principally arises through its trading, investing and financing activities. To reduce its credit exposures, the group seeks to enter into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties. In addition, the group attempts to further reduce credit risk with certain counterparties by (i) entering into agreements that enable it to obtain collateral from a counterparty on an upfront or contingent basis, (ii) seeking third-party guarantees of the counterparty's obligations, and/or (iii) transferring its credit risk to third parties using credit derivatives and/or other structures and techniques.

To measure and manage the group's credit exposures, it uses a variety of tools, including credit limits referenced to both current exposure and potential exposure. Potential exposure is an estimate of exposure, within a specified confidence level, that could be outstanding over the life of a transaction based on market movements.

In addition, as part of the group's market risk management process, for positions measured by changes in credit spreads, it uses VaR and other sensitivity measures. To supplement the group's primary credit exposure measures, it also uses scenario analyses, such as credit spread widening scenarios, stress tests and other quantitative tools.

The group's global credit management systems monitor credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. These systems also provide management, including the Firmwide Risk and Credit Policy Committees, with information regarding overall credit risk by product, industry sector, country and region.

While the group's activities expose it to many different industries and counterparties, it routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, clearing houses, exchanges and investment funds. This has resulted in significant credit concentration with respect to this industry. In the ordinary course of business, the group may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers or to a particular clearing house or exchange.

Derivatives

Derivative contracts are instruments, such as futures, forwards, swaps or option contracts that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivative instruments may be privately negotiated contracts, which are often referred to as OTC derivatives, or they may be listed and traded on an exchange.

Substantially all of the group's derivative transactions are entered into to facilitate client transactions, to take proprietary positions or as a means of risk management. In addition to derivative transactions entered into for trading purposes, the group enters into derivative contracts to manage the interest rate and currency exposure on its long-term borrowings and certain short-term borrowings.

Derivatives are used in many of the group's businesses, and it believes that the associated market risk can only be understood relative to all of the underlying assets or risks being hedged, or as part of a broader trading strategy. Accordingly, the market risk of derivative positions is managed together with its non-derivative positions.

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30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit Risk (continued)

The fair value of the group's derivative contracts are reported on a gross-by-counterparty basis in the group's consolidated financial statements unless it has a current legal right of set off and also intends to settle on a net basis. For an OTC derivative, the group's credit exposure is directly with its counterparty and continues until the maturity or termination of such contract.

Derivative transactions may also involve legal risks including 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. The group attempts to minimise these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction. In addition, certain derivative transactions (e.g., credit derivative contracts) involve the risk that the group may have difficulty obtaining, or be unable to obtain, the underlying security or obligation in order to satisfy any physical settlement requirement.

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

Exposure to credit risk by class	Gross credit exposure 31 December 2009 US\$m	Gross credit exposure 28 November 2008 US\$m
Trading Inventory	500,576	1,084,283
Trading Inventory pledged as collateral	18,548	7,513
Securities Purchased under agreements to resell	113,687	94,080
Debtors (excluding deferred tax of US\$843m (28 November 2008 US\$335m))	113,029	175,976
Cash at bank and in hand	13,857	18,437
	759,697	1,380,289

Credit Rating	Carrying value 31 December 2009 US\$m	Carrying value 28 November 2008 US\$m
AAA	15,050	21,579
AA	120,725	825,103
A	478,762	260,014
BBB	38,102	83,074
BB	11,485	66,591
B	15,183	49,512
CCC	7,577	6,231
Unrated	72,813	68,185
Total	759,697	1,380,289

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30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit Risk (continued)

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

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

Collateralised Transactions

The group and its subsidiaries receive financial instruments as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. Such financial instruments may include obligations of the U.S. Government, federal agencies, sovereigns and corporations as well as equities and convertibles.

In many cases, the group and its subsidiaries are permitted to deliver or repledge these financial instruments in connection with entering into repurchase financings, collateralising derivative transactions and meeting firm or customer settlement requirements. As of 31 December 2009, 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\$255.8 billion (28 November 2008: US\$255.2 billion), of which the group and its subsidiaries delivered or repledged US\$210.8 billion (28 November 2008: US\$221.0 billion).

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 'Trading inventory pledged as collateral' in the consolidated financial statements and were US\$18.3 billion as of 31 December 2009 (28 November 2008: US\$7.5 billion). Financial instruments owned and pledged in connection with repurchase agreements, securities lending agreements and other secured financings to counterparties that did not have the right to sell or repledge are included in 'Trading inventory' in the consolidated financial statements and were US\$22.5 billion as of 31 December 2009 (28 November 2008: US\$15.3 billion).

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

(c) Liquidity Risk

Liquidity is of critical importance to companies in the financial services sector. Most failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the group has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both firmwide-specific and broader industry or market liquidity events. The group's principal objective is to be able to fund itself and to enable its core businesses to continue to generate revenues, even under adverse circumstances.

The group has implemented a number of policies according to the following liquidity risk management framework:

- **Excess Liquidity** – the group maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations. The amount of excess liquidity is based on an internal liquidity model together with a qualitative assessment of the condition of the financial markets and the group.

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30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (continued)

- **Asset-Liability Management** – the group's strategy includes an assessment of the overall characteristics of its assets with respect to their anticipated holding periods and potential illiquidity in a stressed environment. In addition, the group manages the maturities and diversity of its secured and unsecured funding liabilities across markets, products and counterparties, and it seeks to maintain liabilities of appropriate term relative to its asset base.
- **Contingency Funding Plan ('CFP')** – a firmwide CFP is maintained to help identify, measure, monitor and mitigate liquidity and funding risk. The CFP considers various risk factors that could occur during a crisis and provides a framework for analysing and responding to a liquidity crisis.

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

	31 December 2009						Total
	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	
Liabilities:	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Trading inventory sold but not yet purchased	446,078	-	-	-	-	-	446,078
Securities sold under agreements to repurchase	257	48,842	8,301	7,705	566	-	65,671
Other creditors	188,983	22,793	6,096	1,557	1	-	219,430
Creditors falling due after more than one year	-	-	12	20	3,269	8,235	11,536
	635,318	71,635	14,409	9,282	3,836	8,235	742,715

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30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (continued)

	28 November 2008						Total
	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	
Liabilities:	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Trading Inventory sold but not yet purchased	1,044,937	-	-	-	-	-	1,044,937
Securities sold under agreements to repurchase	-	40,473	10,783	13,774	75	-	65,105
Other Creditors	242,579	795	347	319	-	-	244,040
Creditors falling due after more than one year	-	-	-	-	8,895	5,152	14,047
	1,287,516	41,268	11,130	14,093	8,970	5,152	1,368,129

(d) Financial instruments valued using techniques that incorporate unobservable inputs

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

Changes in fair value of financial instruments, resulting in realised and unrealised gains or losses, are recognised in net trading profit. The total amount of the change in fair value of financial instruments held by the group and estimated using a valuation technique that includes significant unobservable market inputs, is a net gain of US\$289 million for the period ended 31 December 2009 (28 November 2008 US\$1,407 million). This gain principally resulted from changes in observable inputs, as opposed to unobservable inputs. Financial instruments that are valued using techniques that incorporate unobservable inputs ('unobservable financial instruments') are frequently hedged with financial instruments whose valuation incorporates only observable inputs ('observable financial instruments'), and accordingly gains or losses that have been reported on unobservable financial instruments may be offset by gains or losses attributed to observable financial instruments.

As the fair value of unobservable financial instruments may involve in whole or part valuation techniques which are based upon assumptions, changing these assumptions will change the resultant estimate of fair value. The potential impact as at 31 December 2009 of using reasonably possible alternative assumptions for the valuation techniques including significant unobservable inputs has been quantified as approximately US\$900 million which could be either positive or negative (28 November 2008 US\$950 million). In determining reasonably possible alternative assumptions, a bid offer spread methodology has been applied. The bid offer spread is viewed as being a proxy of uncertainty when pricing a financial instrument. Management estimation has been used to determine an appropriate bid offer spread. In arriving at the total impact above, the range is based on all inputs moving to either their best or worst reasonably possible case at the same time, and therefore no correlation assumptions between or within risk types are made. This is viewed as a conservative assumption when assuming the uncertainty of the entity.

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30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) 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 are as follows

	US\$m
At 29 November 2008	238
New transactions	42
Amounts recognised in the consolidated income statement during the period	(131)
At 31 December 2009	<u>149</u>

(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 2009		28 November 2008	
	Carrying value	Approximate fair value	Carrying value	Approximate fair value
	US\$m	US\$m	US\$m	US\$m
Subordinated loans (see note 24)	5,496	5,226	9,297	8,436
Loan notes issued (see note 23)	-	-	1,817	1,612

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

(f) Regulatory capital requirements

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

The level and composition of the group's capital is principally determined by its regulatory capital requirements, but may also be influenced by the business environment, conditions in the financial markets and assessments of potential future losses due to extreme and adverse changes in the group's business and market environment.

The group's capital is divided into three tiers

As at 31 December 2009

- Tier 1 capital - US\$17.7 billion (28 November 2008 US\$13.8 billion) - comprises permanent share capital, profit and loss account and reserves, share premium account, perpetual non-cumulative preference shares
- Tier 2 capital - US\$5.5 billion (28 November 2008 US\$1.3 billion) - solely comprises long term subordinated debt
- Tier 3 capital - US\$74 million (28 November 2008 US\$8.0 billion) - comprises short term subordinated debt

In addition various regulatory limits and deductions are applied

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31. RELATED PARTY DISCLOSURES

Under the terms of paragraph 3(c) of FRS 8, 'Related Party Disclosures', the group is exempt from disclosing transactions with companies wholly owned within the same group, as the consolidated financial statements in which the group is included are publicly available. There were no other material related party transactions requiring disclosure.

32. POST BALANCE SHEET EVENTS

- (i) Following the period end, the UK Government introduced, through the Finance Bill 2010, a one-off tax in respect of certain bonuses payable by banks and banking groups. At the balance sheet date, there were uncertainties as to the implementation and scope of the initial proposals and it was not possible to conclude that the tax was virtually certain to be enacted as initially drafted. The bank payroll tax will be recognised in the profit and loss account in the year ended 31 December 2010 and the group's current provision is US\$600 million.
- (ii) Following the period end, Goldman Sachs International, a subsidiary undertaking, agreed to pay a financial penalty of £17.5 million (US\$26.9 million) to the Financial Services Authority (FSA) in resolving an investigation carried out by the FSA which commenced on 20 April 2010. The penalty will be recognised in the profit and loss account of the group in the year ended 31 December 2010.

33. 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 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.