

**GOLDMAN SACHS INTERNATIONAL**

(unlimited company)

**UNAUDITED HALF-YEARLY FINANCIAL REPORT**

**30 JUNE 2010**

# GOLDMAN SACHS INTERNATIONAL

(unlimited company)

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## **MANAGEMENT REPORT**

### **1. Principal activities**

Goldman Sachs International ('the company' or 'GSI') provides a wide-range of financial services to clients located worldwide and undertakes trading and principal investing. The company is regulated by the Financial Services Authority ('the FSA'). The company primarily operates in a US Dollar environment as part of The Goldman Sachs Group, Inc. ('the group'). Accordingly, the company's functional currency is US Dollars and the financial statements have been prepared in that currency.

### **2. Review of business and future developments**

The profit and loss account for the period is set out on page 5. Trading profit was US\$4,420 million for the 6 month period ended 30 June 2010 (30 week period ended 26 June 2009: US\$7,338 million). The results for the company show a pre-tax profit of US\$1,468 million for the period (30 week period ended 26 June 2009: US\$2,725 million). The company has total assets of US\$806 billion (31 December 2009: US\$755 billion). Details of the company's business segments are given in note 5 to the financial statements.

Investment Banking results primarily reflected the continued decline in industry-wide equity and equity-related offerings, completed mergers and acquisitions and other client activity resulting from ongoing difficult market conditions.

Trading and Principal Investments results declined reflecting lower net revenues in Equities and Fixed Income, Currency and Commodities ('FICC'). The decrease in Equities reflected lower net revenues mainly in derivatives. Although global equity prices largely increased during the first quarter of 2010, the operating environment for Equities became challenging during the second quarter, as global equity prices decreased significantly, volatility levels increased sharply and activity levels declined. FICC results reflected lower net revenues mainly from interest rate and credit products. Although activity levels in FICC were strong in the first quarter of 2010, the environment became challenging during the second quarter, as activity levels declined and corporate credit spreads widened.

Asset Management and Securities Services results reflected the impact of tighter securities lending spreads as well as lower customer balances.

Administrative expenses decreased to US\$2,907 million for the period (30 week period ended 26 June 2009: US\$4,460 million) mainly due to a decrease in compensation costs including a credit of US\$0.6 billion (30 week period ended 26 June 2009: charge of US\$1.0 billion) relating to the mark-to-market of equity-based compensation awarded in prior periods charged by the group. The company incurred a one-off charge of US\$600 million relating to the Bank Payroll Tax.

Interest payable decreased to US\$47 million for the period (30 week period ended 26 June 2009: US\$156 million), mainly due to a decrease in subordinated debt from US\$8.3 billion as at 26 June 2009 to US\$5.3 billion at the period end as well as lower interest rates.

### **Business environment**

The company's financial performance is highly dependent on the environment in which its businesses operate. During the first half of 2010, several Eurozone economies remained under stress, reflecting fiscal challenges and banking sector concerns. In addition, concerns about sovereign debt risk in certain Eurozone economies intensified during the period, contributing to higher market volatility and funding pressures. The European Central Bank and certain governments in the Eurozone took a range of policy measures to address these issues. Global equity markets declined significantly during the second quarter and equity volatility levels increased sharply. In addition, corporate credit spreads widened during the second quarter and activity levels declined.

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**MANAGEMENT REPORT (CONTINUED)**

**2. Review of business and future developments (continued)**

**Strategy**

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

As part of the group, GSI seeks to be the advisor of choice for its clients and a leading participant in the global financial markets. GSI's strategy, consistent with that of the group, is to grow its three core businesses, Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services, in markets throughout the world.

**Principal risks and uncertainties**

GSI 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 company does not produce predictable earnings. The key business risks affecting the company are set out below.

***Economic and market conditions***

Our 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 businesses and profitability.

***Liquidity***

Liquidity is essential to our businesses. Our 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 we may be unable to control, such as a general market disruption or an operational problem that affects third parties or us or even by the perception amongst market participants that we are experiencing greater liquidity risk. Furthermore, our 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 we interact may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair our access to liquidity.

***Credit quality***

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us 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.

We are also subject to the risk that our 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 we hold could result in losses and / or adversely affect our ability to use those securities or obligations for liquidity purposes. Although we regularly review credit exposures to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee.

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**MANAGEMENT REPORT (CONTINUED)**

**2. Review of business and future developments (continued)**

***Operational infrastructure***

Our businesses are highly dependent on our 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 we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. As our client base and our geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. Our 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 our control such as a spike in transaction volume, adversely affecting our ability to process these transactions. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses.

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

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

***Technology***

Technology is fundamental to our business and our industry. The growth of electronic trading and the introduction of new technologies is changing our businesses and presenting us with new challenges. Securities, futures and options transactions are increasingly occurring electronically, both on our 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 our trading businesses and we may experience continued competitive pressures in these and other areas. In addition, the increased use by our clients of low-cost electronic trading systems and direct electronic access to trading markets could cause a reduction in commissions and spreads. As our clients increasingly use our systems to trade directly in the markets, we may incur liabilities as a result of their use of our order routing and execution infrastructure.

***Risk management***

We seek to monitor and control our 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. Our trading risk management process seeks to balance our ability to profit from trading positions with our exposure to potential losses. Whilst we employ 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, we may, in the course of our activities, incur losses. In addition, refer to the financial risk management section (note 13), below.

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**MANAGEMENT REPORT (CONTINUED)**


**2. Review of business and future developments (continued)**

**Future outlook**

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

**3. Responsibility statement**

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



**Director**  
**9 August 2010**

**GOLDMAN SACHS INTERNATIONAL**  
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**PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
for the 6 month period ended 30 June 2010

	Note	6 month period ended 30 June 2010 US\$'000	30 week period ended 26 June 2009 US\$'000	57 week period ended 31 December 2009 US\$'000
Trading profit	4, 5	4,420,213	7,338,397	11,218,542
Administrative expenses excluding exceptional item		(2,307,217)	(4,460,211)	(6,191,237)
Exceptional item – Bank Payroll Tax		(600,000)	-	-
Administrative expenses		(2,907,217)	(4,460,211)	(6,191,237)
<b>OPERATING PROFIT</b>		<b>1,512,996</b>	<b>2,878,186</b>	<b>5,027,305</b>
Interest payable and similar charges		(47,264)	(155,761)	(216,304)
Net finance income		2,012	2,149	4,841
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>1,467,744</b>	<b>2,724,574</b>	<b>4,815,842</b>
Tax charge on profit on ordinary activities	6	(523,706)	(712,498)	(1,288,592)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL PERIOD</b>	12	<b>944,038</b>	<b>2,012,076</b>	<b>3,527,250</b>

The trading and operating profit of the company is derived from continuing operations in the current and prior periods.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (UNAUDITED)**  
for the 6 month period ended 30 June 2010

		6 month period ended 30 June 2010 US\$'000	30 week period ended 26 June 2009 US\$'000	57 week period ended 31 December 2009 US\$'000
Profit for the financial period	12	944,038	2,012,076	3,527,250
Actuarial loss relating to the pension scheme		(67,461)	(258,353)	(300,452)
UK deferred tax attributable to the actuarial loss		18,891	72,338	84,127
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL PERIOD AND SINCE LAST FINANCIAL STATEMENTS</b>		<b>895,468</b>	<b>1,826,061</b>	<b>3,310,925</b>

The notes on pages 7 to 13 form an integral part of these financial statements.

**GOLDMAN SACHS INTERNATIONAL**  
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**BALANCE SHEET (UNAUDITED)**  
as at 30 June 2010

	Note	30 June 2010 US\$'000	31 December 2009 US\$'000
<b>FIXED ASSETS</b>			
Tangible assets		4,738	5,979
Shares in subsidiary undertakings		50	50
Other investments other than loans		1,271	1,275
		<u>6,059</u>	<u>7,304</u>
<b>CURRENT ASSETS</b>			
Trading inventory	7	520,373,956	494,868,325
Trading inventory pledged as collateral	7	22,908,054	18,547,582
Securities purchased under agreements to resell		122,836,258	113,687,284
Debtors	8	128,662,525	114,082,164
Cash at bank and in hand		10,853,254	13,506,686
		<u>805,634,047</u>	<u>754,692,041</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Trading inventory sold, but not yet purchased	7	(488,889,045)	(444,041,617)
Securities sold under agreements to repurchase		(75,334,893)	(67,172,244)
Other creditors	9	(214,460,927)	(216,660,515)
		<u>(778,684,865)</u>	<u>(727,874,376)</u>
<b>NET CURRENT ASSETS</b>		<u>26,949,182</u>	<u>26,817,665</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		26,955,241	26,824,969
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
	10	(9,342,771)	(10,191,762)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		<u>(65,000)</u>	<u>(40,000)</u>
<b>NET ASSETS EXCLUDING PENSION DEFICIT</b>		17,547,470	16,593,207
Pension deficit		<u>(215,973)</u>	<u>(157,178)</u>
<b>NET ASSETS INCLUDING PENSION DEFICIT</b>		<u>17,331,497</u>	<u>16,436,029</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11, 12	511,123	511,123
Share premium account	12	2,885,260	2,885,260
Capital reserve (non-distributable)	12	17,286	17,286
Profit and loss account	12	13,917,828	13,022,360
		<u>17,331,497</u>	<u>16,436,029</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>	12	<u>17,331,497</u>	<u>16,436,029</u>

The notes on pages 7 to 13 form an integral part of these financial statements.  
Company number: 02263951

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2010**

**1. BASIS OF PREPARATION**

These financial statements for the 6 month period ended 30 June 2010 have been prepared in accordance with the Disclosure and Transparency Rules of the FSA and Accounting Standards Board guidance on 'half-yearly financial reports'. The financial statements should be read in conjunction with the financial statements for the 57 week period ended 31 December 2009 which have been prepared in accordance with applicable accounting standards.

**2. ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the financial statements for the 57 week period ended 31 December 2009, as described in those financial statements.

**3. REPORTING AND DISCLOSURE EXEMPTIONS**

**a) FRS1 Cash Flow Statements**

The company is a greater than 90% subsidiary of The Goldman Sachs Group, Inc., and is, therefore, exempt from preparing a cash flow statement as required by FRS1, 'Cash flow statements', as the ultimate parent company accounts are publicly available.

**b) FRS8 Related Party Disclosures**

Under the terms of FRS8 paragraph 3(c), the company is exempt from disclosing transactions with fellow group companies. There were no other related party transactions requiring disclosure.

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

The company is exempt from the disclosures required by FRS29 as it is a greater than 90% subsidiary of Goldman Sachs Group Holdings (U.K.) which discloses this information.

**4. TRADING PROFIT**

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



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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2010**

**5. SEGMENTAL REPORTING**

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

	6 month period ended 30 June 2010 US\$'000	30 week period ended 26 June 2009 US\$'000	57 week period ended 31 December 2009 US\$'000
Investment Banking	432,174	568,336	1,236,706
Trading and Principal Investments	3,757,993	6,413,921	9,342,125
Asset Management and Securities Services	230,046	356,140	639,711
	<b>4,420,213</b>	<b>7,338,397</b>	<b>11,218,542</b>

**Investment Banking**

The company'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, Currency and Commodities* – The company 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 company makes markets in and trades equities and equity-related products, structures and enters into equity derivative transactions, and engages in proprietary trading. The company 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.

**Asset Management and Securities Services**

The Asset Management and Securities Services segment includes services related to the following:

- *Asset Management* – Asset Management provides investment advisory and financial planning services to a diverse group of institutions and individuals worldwide and primarily generates revenues in the form of management and incentive fees; and
- *Securities Services* – Securities Services provides prime brokerage, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds, and foundations and to high-net-worth individuals worldwide, and generates revenues primarily in the form of interest rate spreads or fees.

**Geographic Analysis**

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

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2010**

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

Analysis of tax charge for the period:

	6 month period ended 30 June 2010 US\$'000	30 week period ended 26 June 2009 US\$'000	57 week period ended 31 December 2009 US\$'000
<b>Current tax:</b>			
UK corporation tax	311,976	926,248	1,748,462
Adjustments in respect of previous periods	(30,540)	(41,837)	(19,056)
Overseas taxation	32,349	40,619	68,126
<b>Total current tax</b>	<b>313,785</b>	<b>925,030</b>	<b>1,797,532</b>
<b>Deferred tax:</b>			
Provisions and other timing differences	209,921	(212,532)	(508,940)
<b>Total deferred tax</b>	<b>209,921</b>	<b>(212,532)</b>	<b>(508,940)</b>
<b>Tax charge on profit on ordinary activities</b>	<b>523,706</b>	<b>712,498</b>	<b>1,288,592</b>

**7. TRADING INVENTORY**

Trading inventory comprises financial instruments and investments within the trading activities of the company.

Trading inventory pledged as collateral represents financial instruments owned and pledged to counterparties that have the right to deliver or repledge.

**8. DEBTORS**

	30 June 2010 US\$'000	31 December 2009 US\$'000
Deposits as collateral for stock borrowed	5,351,840	4,197,253
Amounts due from broker / dealers and customers	53,584,550	38,233,568
Amounts due from parent and group undertakings	68,865,369	70,547,125
Deferred tax	754,692	945,920
Other debtors	80,340	119,753
Prepayments and accrued income	25,734	38,545
	<b>128,662,525</b>	<b>114,082,164</b>

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2010**

**9. OTHER CREDITORS**

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

	<b>30 June 2010</b>	<b>31 December 2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Bank loans and overdrafts	175,451	53,612
Debt securities issued	12,394,850	12,717,321
Deposits received as collateral for stock loans	13,459,106	18,697,973
Amounts due to broker / dealers and customers	99,108,283	92,789,702
Amounts due to parent and group undertakings	85,288,428	88,367,160
Amounts due to subsidiary undertakings	4,150	2,772
Accrual for management charges payable to parent and group undertakings	1,733,217	1,850,732
Corporation tax payable	100,995	486,495
Other taxes and social security costs	800,348	291,241
Other creditors and accruals	1,396,099	1,403,507
	<b>214,460,927</b>	<b>216,660,515</b>

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

	<b>30 June 2010</b>	<b>31 December 2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Long-term subordinated loans	5,333,000	5,333,000
Debt securities issued	3,606,219	4,049,576
Accrual for management charges payable to parent and group undertakings	403,552	809,186
	<b>9,342,771</b>	<b>10,191,762</b>

**11. SHARE CAPITAL**

At 31 December 2009 and 30 June 2010 share capital comprised:

	<b>30 June 2010</b>		<b>31 December 2009</b>	
	<b>No.</b>	<b>US\$'000</b>	<b>No.</b>	<b>US\$'000</b>
<b><u>Authorised</u></b>				
Ordinary shares of US\$1 each	950,000,000	950,000	950,000,000	950,000
Class A preference shares of US\$0.01 each	1,500,000,000	15,000	1,500,000,000	15,000
Class B preference shares of US\$0.01 each	500,000,000	5,000	500,000,000	5,000
		<b>970,000</b>		<b>970,000</b>
<b><u>Allotted, called up and fully paid</u></b>				
Ordinary shares of US\$1 each	499,257,654	499,258	499,257,654	499,258
Class A preference shares of US\$0.01 each	958,659,363	9,586	958,659,363	9,586
Class B preference shares of US\$0.01 each	227,906,997	2,279	227,906,997	2,279
		<b>511,123</b>		<b>511,123</b>

The class A and class B 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. Class A preference shares have a fixed non-cumulative dividend payable at a rate of 8 cents per share per annum. Class B preference shares have a fixed non-cumulative dividend at a rate of 10 cents per share per annum.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2010**

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

	Called up share capital US\$'000	Share premium account US\$'000	Capital reserve (non- distributable) US\$'000	Profit and loss account US\$'000	Total US\$'000
<b>At 31 December 2009</b>	511,123	2,885,260	17,286	13,022,360	16,436,029
Profit for the financial period	-	-	-	944,038	944,038
Other recognised gains and losses for the period	-	-	-	(48,570)	(48,570)
Share-based payments	-	-	-	362,482	362,482
Management recharge related to share-based payments	-	-	-	(362,482)	(362,482)
<b>At 30 June 2010</b>	<b>511,123</b>	<b>2,885,260</b>	<b>17,286</b>	<b>13,917,828</b>	<b>17,331,497</b>

**13. FINANCIAL RISK MANAGEMENT**

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

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

We seek to monitor and control our 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 our trading and investing positions is referred to as market risk. Such positions result from market making and proprietary trading, investing and underwriting activities. 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 exposure to changes in prices and volatilities of individual equities, equity baskets and equity indices; and
- currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currencies.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2010**

**13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Market risk (continued)**

We seek to manage these firmwide risks through diversifying exposures, controlling position sizes and establishing hedges in related securities or derivatives. 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 the 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. These tools include:

- risk limits based on a summary measure of market risk exposure referred to as Value-at-Risk ('VaR') which are updated and monitored on a daily basis. VaR represents the potential loss in value of the company's trading positions due to adverse market movements over a defined time horizon with respect to a specified confidence level;
- scenario analyses, stress tests and other analytical tools that measure the potential effects on our trading net revenues 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 certain business units (determined at a firmwide level).

**(b) Credit risk**

Credit risk represents the loss that we would incur if a counterparty or an issuer of securities or other instruments we hold fails to perform under its contractual obligations to us or upon a deterioration in the credit quality of third parties whose securities or obligations we hold.

Our exposure to credit risk principally arises through our trading, investing and financing activities. To reduce our credit exposures, we seek to enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. In addition, we attempt to further reduce credit risk with certain counterparties by:

- entering into agreements that enable us to obtain collateral from a counterparty on an upfront or contingent basis;
- seeking third-party guarantees of the counterparty's obligations; and
- transferring credit risk to third parties using credit derivatives and other structures and techniques.

Counterparty credit risk is managed by the Credit Department, which is independent of the revenue-producing departments, based on guidelines set by the Firmwide Risk Committee and the Credit Policy Committee. To measure and manage our credit exposure we use a variety of tools including credit limits which reference both current and potential exposure. We typically measure potential exposure based on projected worst case market movements over the life of the transactions. For collateralised transactions, we also evaluate potential exposure over a shorter collection period and give effect to the value of the collateral received. We further seek to measure credit exposure through the use of scenario analyses, stress tests and other quantitative tools. Our global credit management systems monitor current and potential 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2010**

**13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk**

Liquidity is of critical importance to companies in the financial services sector. Accordingly, the company has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address company and firmwide-specific as well as broader industry or market liquidity events. Our principal objective is to be able to fund the company and to enable our core business to continue to generate revenue under adverse circumstances.

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

- excess liquidity – maintain substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations;
- asset-liability management:
  - assess the overall characteristics, including anticipated holding periods and potential liquidity in a stressed environment, of the assets held;
  - manage the maturities and diversity of secured and unsecured funding liabilities across markets, products and counterparties, and seek to maintain liabilities of appropriate terms relative to the asset base; and
- contingency fund planning ('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.

**14. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS**

The immediate parent undertaking is Goldman Sachs Holdings (U.K.), and the parent company of the smallest group for which consolidated financial statements are prepared is Goldman Sachs Group Holdings (U.K.), a company incorporated in Great Britain and registered in England and Wales.

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