

GOLDMAN SACHS BANK (EUROPE) PLC

**REPORT OF THE DIRECTORS AND AUDITED FINANCIAL
STATEMENTS**

31 December 2011

GOLDMAN SACHS BANK (EUROPE) PLC

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GOLDMAN SACHS BANK (EUROPE) PLC

DIRECTORS AND OTHER INFORMATION

Directors

Peter Sutherland (Chairman)
Stephen Davies
Ralf Hafner (Appointed 7 April 2011)
Robert Keogh
Dermot McDonogh
Patrick Mulvihill*
Amol Naik (Resigned 28 November 2011)
James O'Dwyer*
Cornelius O'Sullivan*
Richard O'Toole*
Bryan Strahan*
David Went*

** Independent Directors*

Independent Auditors

PricewaterhouseCoopers
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

Secretary

William Elliott

Solicitors

Matheson Ormsby Prentice
70 Sir John Rogerson's Quay
Dublin 1
Ireland

Registered Office

Hardwicke House
Upper Hatch Street
Dublin 2
Ireland

Registered No

440142

GOLDMAN SACHS BANK (EUROPE) PLC

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements for the year ended 31 December 2011.

1. Principal activities

Goldman Sachs Bank (Europe) plc ('the Bank') is involved in banking activities, which include deposit taking, secured funding, loan origination, hedge fund administration services, investment banking and private wealth management advisory services and related activities. The Bank is regulated by the Central Bank of Ireland.

2. Review of business and future developments

The financial statements have been drawn up for the year ended 31 December 2011.

Business environment

The Bank's financial performance is reflective on the environment in which its main businesses operate. A favourable business environment is generally characterised by, amongst other factors, global gross domestic product growth, transparent, liquid and efficient capital markets, low inflation, high business and investor confidence, stable geopolitical conditions and strong business earnings. Unfavourable or uncertain economic and market conditions can be caused by: declines in economic growth, investor or business confidence; limitations on the availability or increases in the cost of credit and capital and/or increases in interest rates exchange rate volatility.

During 2011, concerns about European sovereign debt risk and its impact on the European banking system intensified, while concerns about U.S. growth and the uncertainty regarding the U.S. Federal debt ceiling continued, contributing to higher volatility levels, significantly lower global equity prices and significantly wider corporate credit spreads. This prompted the U.S. Federal Reserve and the European Central Bank to announce easing measures in order to stimulate economic growth in the U.S. and to alleviate concerns about Europe. Long term government bond yields generally declined during the year, although long-term government bond yields in certain eurozone economies increased significantly. In addition, spreads between German bond yields and those of most economies within the eurozone widened.

The profit and loss account for the year is set out on page 9. Profit after tax was US\$43 million for the year (year ended 31 December 2010: US\$51 million). The Bank has total assets of US\$11,692 million (31 December 2010: US\$9,828 million). The reduction in profit is reflective of the business environment in which the Bank operates. Total operating income decreased year on year primarily due to a reduction in net interest spread, reduced gain on financial instruments at fair value offset by increased fees and commission income. The growth in total assets is primarily driven by increased banking activity.

Strategy

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

As part of the Goldman Sachs Group, Inc., the Bank seeks to be a participant in the global financial markets in which the Board has chosen to participate. The medium term strategy is to develop the existing businesses in the Bank.

Principal risks and uncertainties

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

Economic and market conditions

The business is 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.

REPORT OF THE DIRECTORS (CONTINUED)

Liquidity

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

Credit risk

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

Operational risk

The Bank is exposed to the risk that shortcomings or failures in internal processes, people or systems or external events could lead to impairment of our liquidity, financial loss, disruption of business, liability to clients, regulatory intervention or reputational damage.

Risk management

The Bank seeks to monitor and control risk exposure through a risk and control framework encompassing a variety of separate, but complementary, financial, credit, operational, compliance and legal reporting systems, internal controls, management review process and other mechanisms. The Bank employs a broad and diversified set of risk monitoring and risk mitigation techniques, as explained in note 27 of the financial statements.

Future outlook

The directors consider that the year end financial position of the Bank was satisfactory. The Goldman Sachs Group, Inc. as a one hundred percent shareholder of the Bank continually reviews all business within the Bank.

3. Dividends

The directors do not recommend the payment of an ordinary dividend in respect of the year ended 31 December 2011 (year ended 31 December 2010: US\$nil).

GOLDMAN SACHS BANK (EUROPE) PLC

REPORT OF THE DIRECTORS (CONTINUED)

4. Directors

The Directors of the Bank during the period and as at the date of this report, together with dates of appointment and resignation where applicable, are:

Name	Nationality	Appointed	Resigned
P. Sutherland (Chairman)	Irish		
S. Davies	British		
R. Hafner	Austrian	07 April 2011	
R. Keogh	Irish		
D. McDonogh	Irish		
P. Mulvihill	Irish		
A. Naik	American		28 November 2011
J. O'Dwyer	Irish		
C. O'Sullivan	Irish		
R. O'Toole	Irish		
B. Strathan	Irish		
D. Went	Irish		

5. Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with standards generally accepted in Ireland and Irish Statute comprising the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

Irish company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the financial statements comply with standards generally accepted in Ireland;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Act, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The measures taken by the Directors to secure compliance with the Bank's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Goldman Sachs Bank (Europe) plc, Hardwicke House, Upper Hatch Street, Dublin 2, Ireland.

6. Directors' and Secretary's interests

Directors' emoluments are detailed in note 9. Apart from those share interests described in note 25, at no time during the period was the Bank or any subsidiary companies a party to any arrangements to enable the directors or the secretary of the Bank to acquire benefits by means of acquisition of shares in the Bank or any other affiliates. No contracts of significance in relation to the Bank's business to which the Bank or any of its subsidiary companies was a party and in which a director or the secretary of the Bank had a material interest, whether directly or indirectly, existed at the end of the period or at any time during the year.

GOLDMAN SACHS BANK (EUROPE) PLC

REPORT OF THE DIRECTORS (CONTINUED)

7. Independent Auditors

The auditors, PricewaterhouseCoopers, will continue in office in accordance with Section 160(2) of the Companies Act, 1963.

8. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 16 March 2012.

BY ORDER OF THE BOARD

Robert Keogh
Director

Ralf Hafner
Director

Stephen Davies
Director

William Elliott
Secretary



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOLDMAN SACHS BANK (EUROPE) PLC

We have audited the financial statements on pages 9 to 29. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 11 to 13.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable Irish law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to convene an extraordinary general meeting; such a financial situation may exist if the net assets of the company, as stated in the balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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Chartered Accountants



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOLDMAN SACHS BANK (EUROPE) PLC continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the company's affairs as 31 December 2011 and of its profit for the period then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) 1992.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report on pages 3 to 6 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 10 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2011 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 requires the convening of an extraordinary general meeting of the company.


Ronan Doyle

for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin, Ireland

16 March 2012

GOLDMAN SACHS BANK (EUROPE) PLC

PROFIT AND LOSS ACCOUNT For the year ended 31 December

	Note	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Interest receivable and similar income	4	75,817	93,101
Interest payable and similar charges	5	(48,343)	(56,997)
Net interest income		27,474	36,104
Fees and commission income	6	46,245	41,930
Net gain on financial instruments at fair value	7	1,726	9,130
TOTAL OPERATING INCOME	3	75,445	87,164
Operating expenses		(26,289)	(29,146)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	8	49,156	58,018
Tax on profit on ordinary activities	12	(6,273)	(7,257)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	23	42,883	50,761

The results of the Bank are derived from continuing operations in both the current and prior year.

The Bank has no recognised gains and losses during the current or prior year other than those disclosed above, and therefore, no separate statement of total recognised gains and losses has been presented.

Approved by the Board of Directors on 16 March 2012.

Robert Keogh
Director

Ralf Hafner
Director

Stephen Davies
Director

William Elliott
Secretary

The notes on pages 11 to 29 form an integral part of these financial statements.

GOLDMAN SACHS BANK (EUROPE) PLC

BALANCE SHEET As at 31 December

	Note	31 December 2011 US\$'000	31 December 2010 US\$'000
FIXED ASSETS			
Tangible fixed assets	13	4,018	4,506
CURRENT ASSETS			
Cash and balances at central bank	14	230,673	209,937
Loans and advances to banks		81,830	163,385
Securities purchased under agreements to resell	16	11,351,063	9,426,047
Other financial assets at fair value	18	9,457	-
Other assets	15	14,616	23,846
		11,687,639	9,823,215
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Customer accounts	19	(6,825,475)	(6,752,008)
Other financial liabilities at fair value	18	(2,353,633)	(1,109,665)
Other liabilities	20	(1,906,498)	(1,402,728)
		(11,085,606)	(9,264,401)
NET CURRENT ASSETS		602,033	558,814
TOTAL ASSETS LESS CURRENT LIABILITIES		606,051	563,320
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
	21	(135,020)	(135,172)
		(135,020)	(135,172)
NET ASSETS		471,031	428,148
CAPITAL AND RESERVES			
Called up share capital	22,23	205,210	205,210
Capital reserve	23	65,000	65,000
Retained profit	23	200,821	157,938
TOTAL SHAREHOLDERS' FUNDS	23	471,031	428,148

Approved by the Board of Directors on 16 March 2012.

Robert Keogh
Director

Ralf Hafner
Director

Stephen Davies
Director

William Elliott
Secretary

The notes on pages 11 to 29 form an integral part of these financial statements.

GOLDMAN SACHS BANK (EUROPE) PLC

1. ACCOUNTING POLICIES

The significant accounting policies adopted by the Bank are as follows:

- (a) **Basis of preparation:** The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish Statute comprising the Companies Acts, 1963 to 2009 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.
- (b) **Historical cost convention:** The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. See note 1(e) for further information. Due to the nature of the Bank's business and the type of transactions the Bank is engaged in, the Directors adapted the profit and loss account format to suit the circumstances of the business in accordance with Section 4(13) Companies (Amendment) Act, 1986. The format and certain wording of the financial statements have been adapted to those contained in the Companies (Amendment) Act 1986 so that, in the opinion of the Directors, they more appropriately reflect the nature of the Bank's business. In the opinion of the Directors, the Financial Statements with the changes provide the information required by the Companies Acts, 1963 to 2009.

- (c) **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 based on the following:

Fixtures, fittings and equipment	3-7 years
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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.

- (d) **Presentation currency:** The financial statements are presented in US Dollars, denoted by the symbol US\$, which is the Bank's presentation and functional currency.
- (e) **Financial instruments at fair value:** Financial assets and liabilities at fair value comprise derivative assets and liabilities classified as held for trading and non-derivative assets and liabilities designated at fair value.
- (i) **Repurchase and resale agreements:** 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. The collateral can be in the form of cash or securities. Where the collateral is in the form of cash, the transaction is recorded on trade date within securities sold under agreements to repurchase. If the collateral is in the form of securities the transaction is recorded within securities purchased under agreements to resell.
- (ii) **Other financial assets and liabilities at fair value:** The Bank has designated certain term deposits, secured and unsecured debt, loans and loan commitments at fair value through profit and loss in order to mitigate the accounting mismatch that would otherwise arise between the cost based measurement of such instruments and their derivative hedges.

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 Bank separates financial instruments into two categories: cash (i.e. non-derivative) trading instruments and derivative contracts.

The Bank's derivative contracts consist of over-the-counter ('OTC') derivatives that are valued using valuation models. The Bank 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 Bank's OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, prepayment rates and credit correlations. 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 Bank generally uses similar models to value similar instruments. Where possible, the Bank verifies the values produced by its pricing models to market transactions.

GOLDMAN SACHS BANK (EUROPE) PLC

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments at fair value (continued): 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 Bank values the contract at the model value if the Bank can verify all of the significant model inputs to observable market data and verify the model to market transactions.

Where the Bank 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 de-recognition of the financial instruments.

When appropriate, valuations are adjusted to reflect various factors such as liquidity, bid / offer spreads and credit considerations. 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.

The Bank believes that of its significant accounting policies and estimates, the above may involve a higher degree of judgement and complexity.

- (f) **Operating leases:** Costs in respect of operating leases are charged on a straight-line basis over the lease term.
- (g) **Offsetting financial instruments:** Financial assets and liabilities are offset and the net amount presented in the balance sheet where the Bank:
 - (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.

- (h) **Foreign currencies:** Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the Balance Sheet date. Transactions in currencies other than US dollars are converted at the rates of exchange prevailing at the dates the transactions occurred. Gains and losses arising from foreign currency transactions and on settlement of amounts receivable and payable in foreign currency are recognised in the Profit and Loss Account.
- (i) **Fee and commission income and operating expenditure:** Fee and commission income and operating expenditure are included in the Profit and Loss Account on an accruals basis.
- (j) **Net result on financial instruments at fair value:** The operating results for the period include all profits/(losses) arising from the fair value instruments of the Bank, including profits and losses arising both on the purchase and sale of funded and unfunded commitments. Purchases and sales of commitments are accounted for on a trade date basis.
- (k) **Taxation:** The charge for taxation is based on the profit for the period and takes into account current and deferred taxation.

GOLDMAN SACHS BANK (EUROPE) PLC

1. ACCOUNTING POLICIES (CONTINUED)

- (l) **Deferred taxation:** Deferred tax is provided on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are temporary differences between profits as computed for tax purposes and profits as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different years for tax purposes. Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.
- (m) **Dividends:** Final equity dividends are recognised in the period that they are approved by the shareholders. Interim equity dividends are recognised in the period that they are paid. Equity dividends are distributed directly from equity.
- (n) **Pension cost:** The Bank participates in a defined contribution plan. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.
- (o) **Share-based payments:** The Goldman Sachs Group, Inc. issues awards in the form of restricted stock units ('RSUs') to the Bank's employees for services rendered to the Bank. 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 Bank 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.

2. CASH FLOW STATEMENT

The Bank 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. SEGMENTAL REPORTING

The Bank's operating income is categorised into the following segments, in line with that of The Goldman Sachs Group, Inc., Investment Banking, Institutional Client Services, Investing and Lending and Investment Management.

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Investment Banking	4,956	5,950
Institutional Client Services	37,675	31,297
Investing and Lending	32,364	49,797
Investment Management	450	120
	<u>75,445</u>	<u>87,164</u>

GOLDMAN SACHS BANK (EUROPE) PLC

3. *SEGMENTAL REPORTING (CONTINUED)*

- Investment Banking represents financial advisory services provided to clients.
- Institutional Client Services represents hedge fund administration services provided to collective investment schemes.
- Investing and Lending represents secured funding activities, loans activity, transactions with the European Central Bank and derivative transactions.
- Investment Management represents investment advisory services provided to high-net worth individuals.

The Bank's net assets, attributable to these segments, are shown below:

	31 December 2011	31 December 2010
	US\$'000	US\$'000
Institutional Client Services	8,212	6,377
Investing and Lending	445,006	379,288
Unallocated assets	17,813	42,483
	471,031	428,148

Geographic Analysis

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

4. *INTEREST RECEIVABLE AND SIMILAR INCOME*

	Year ended	Year ended
	31 December 2011	31 December 2010
	US\$'000	US\$'000
Interest on loans to banks and customers	3,183	3,266
Interest on loans to group undertakings	200	110
Interest on securities purchased under agreements to resell	72,434	89,725
	75,817	93,101

Of the above US\$3,224,878 (2010: US\$2,954,652) relates to interest income on assets that are not at fair value through profit or loss.

5. *INTEREST PAYABLE AND SIMILAR CHARGES*

	Year ended	Year ended
	31 December 2011	31 December 2010
	US\$'000	US\$'000
Interest on loans from banks and customers	31,434	29,487
Interest on loans from group undertakings	15,217	12,577
Interest on securities sold under agreements to repurchase	-	13,193
Interest on subordinated debt to parent undertaking	1,692	1,740
	48,343	56,997

Interest expense in the above table is due entirely on balances due within five years, with the exception of subordinated debt which is due within fifteen years. Of the above US\$35,785,357 (2010: US\$30,185,502) relates to interest expense on liabilities that are not at fair value through profit or loss.

6. *FEES AND COMMISSION INCOME*

Income represents fees earned for the provision of hedge fund administration services to collective investment schemes, fees earned on advisory services provided to investment banking clients and high-net worth individuals and fees earned on lending related transactions.

GOLDMAN SACHS BANK (EUROPE) PLC

7. NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE

Gains and losses on financial instruments at fair value represent net loss on derivatives held for trading of US\$7,951,017 (2010: US\$4,548,448 gain) and net gain on financial instruments designated at fair value of US\$9,676,611 (2010: US\$4,581,898 gain).

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration – see below	329	388
Depreciation on tangible fixed assets (see note 13)	678	671
Foreign exchange loss on revaluation	(168)	197
Management fees charged by group undertakings	7,902	11,706
Staff related costs (see note 10)	11,030	10,910
Operating Lease rentals:- land and buildings	1,005	1,082
Auditors' remuneration		
- the audit of individual accounts	111	108
- other assurance services	218	280
- tax advisory services	-	-
- other non-audit services	-	-
Total auditors' remuneration	329	388

9. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Aggregate emoluments		
- for services as director	591	569
- for other services	675	774
Company pension contributions to money purchase schemes	40	17
Compensation for loss of office	-	-
	1,306	1,360

10. STAFF COSTS

The average number of persons employed was:

	Year ended 31 December 2011 Number	Year ended 31 December 2010 Number
Trading and sales	2	2
Support, finance, operations and technology	53	52
	55	54
	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Aggregate gross wages and salaries	9,455	9,376
Employer's pay related social insurance contributions	889	892
Employer's contributions to the defined contribution plan	686	642
Total direct costs of employment	11,030	10,910

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10. STAFF COSTS (CONTINUED)

Pension schemes

The bank operates a defined contribution plan under Irish regulations. The Bank contributes 10% of the higher of base salary or gross salary capped at Euro 126,974. The total contribution cost for the financial period is US\$685,989 (2010: US\$642,489) and there is US\$60,718 (2010: US\$65,732) in respect of this cost that remains payable as at the balance sheet date.

11. SHARE-BASED PAYMENTS

Stock incentive plan

The Bank'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.

Restricted stock units

The Goldman Sachs Group, Inc. issues restricted stock units to the Bank's employees under the Amended SIP, primarily in connection with year-end compensation and acquisitions. Restricted stock units ("RSUs") are valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting transfer restrictions. Year-end restricted stock units generally vest and deliver as outlined in the applicable RSU agreements. All employee-restricted stock unit agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements.

Of the total restricted stock units outstanding as at 31 December 2011 and 31 December 2010, (i) 1,896 units and 2,763 units, respectively, required future service as a condition to the delivery of the underlying shares of common stock and (ii) 4,010 and 5,515 units, respectively, did not require future service. 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 2011		31 December 2010	
	No. of RSUs		No. of RSUs	
	No future service requirement	Future service requirement	No future service requirement	Future service requirement
Outstanding at the beginning of the year	5,515	2,763	14,211	2,088
Granted during the year	801	1,051	3,041	1,880
Forfeited during the year	-	-	-	(10)
Delivered during the year	(4,132)	-	(12,924)	-
Transferred in / (out) during the year	28	(120)	(8)	-
Vested during the year	1,798	(1,798)	1,195	(1,195)
Outstanding at the end of the year	4,010	1,896	5,515	2,763

The weighted average grant-date fair value of restricted stock units granted during the year ended 31 December 2011 was US\$148.87 (period ended 31 December 2010: US\$132.49). The fair value of RSUs granted during the year ended 31 December 2011 includes a liquidity discount of 8.9% to reflect post-vesting transfer restrictions of up to 4 years.

The aggregate fair value of awards vested during the year ending 31 December 2011 was US\$251,980.

The Bank recorded a loss of US\$0.2m for the year ended 31 December 2011 (period ended 31 December 2010: US\$0.3m loss) related to the amortisation of equity awards. The corresponding credit to equity has been included in other liabilities as a result of the terms of the intercompany agreements with The Goldman Sachs Group, Inc..

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12. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge for the year:

The charge for the taxation comprises:	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Current Tax:		
Corporation tax at 12.5% - Republic of Ireland:	6,137	7,005
Total current tax (see note 12(b))	6,137	7,005
Deferred tax:		
Other timing differences	136	252
Total deferred tax (see note 17)	136	252
Tax charge on profit on ordinary activities	6,273	7,257

(b) Factors affecting the tax charge for the current year:

The breakdown is explained below:

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Profit on ordinary activities before tax	49,156	58,018
Profit on ordinary activities multiplied by standard rate in Ireland (12.5%)	6,144	7,252
Expenses disallowed for the purposes of tax	60	35
Timing differences in respect of equity-based compensation	(103)	(211)
Accelerated capital allowances and other timing differences	37	34
Under/over accrual of tax in respect of prior years	(12)	216
Exchange differences	11	(321)
Current tax charge for the period	6,137	7,005

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

(c) Factors that may affect future tax charges:

The standard rate of Irish corporation tax is 12.5% of profit before tax payable to the Irish Revenue Commissioners. The tax will be adjusted for disallowable expenses and deferred tax.

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13. TANGIBLE FIXED ASSETS

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

	Leasehold improvements US\$'000	Fixtures fittings & equipment US\$'000	Total US\$'000
COST			
At 31 December 2010	6,382	1,235	7,617
Additions	190	-	190
Disposals	-	(53)	(53)
At 31 December 2011	6,572	1,182	7,754
ACCUMULATED DEPRECIATION			
At 31 December 2010	2,256	855	3,111
Charge for the period (see note 8)	569	109	678
Disposals	-	(53)	(53)
At 31 December 2011	2,825	911	3,736
NET BOOK VALUE			
At 31 December 2010	4,126	380	4,506
At 31 December 2011	3,747	271	4,018

14. CASH AND BALANCES AT CENTRAL BANK

Included within cash and balances at central bank is US\$215,378,269 representing the minimum reserve requirement for client deposits with the Central Bank (31 December 2010: US\$193,695,300) and US\$15,294,416 protection deposits placed under the European Communities Regulations (31 December 2010: US\$16,242,045).

15. OTHER ASSETS

	31 December 2011 US\$'000	31 December 2010 US\$'000
Amounts due from customers	6,019	5,034
Amounts due from group undertakings	7,878	17,034
Corporation tax	-	1,033
Deferred tax (see note 17)	47	181
Other assets	672	564
	14,616	23,846

All assets included in the above table are considered due within one year. Amounts due from group undertakings include US\$2,020,000 (2010: US\$14,150,000) of cash collateral posted.

16. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

All resale agreements relate to group undertakings and are designated at fair value.

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17. DEFERRED TAX-ORIGINATION & REVERSAL OF TIMING DIFFERENCES

	31 December 2011 US\$'000	31 December 2010 US\$'000
Deferred tax balance comprises		
Other timing differences	47	181
	47	181
The movements in the deferred tax balance were as follows:		
31 December 2010	181	478
Transfer to/from the profit and loss account for the period	(136)	(252)
Translation adjustments	2	(45)
31 December 2011	47	181

Other timing differences represent deferred tax in respect of equity based compensation, accelerated capital allowances and other timing differences. The directors consider that future profits will be available against which the deferred tax asset can be recovered.

18. OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

Other financial assets at fair value through profit and loss comprise derivatives held for trading of US\$1,698,028 (2010: US\$nil) and assets designated at fair value of US\$7,758,760 (2010: US\$nil). Other financial liabilities at fair value through profit and loss comprise derivatives held for trading of US\$4,493,176 (2010: US\$17,863,862) and loan commitments designated at fair value of US\$2,335,828 (2010: US\$6,777,101). Also included are term deposits US\$2,346,803,719 (2010: US\$983,658,245) and secured and unsecured debt of US\$nil (2010: US\$101,366,206).

The notional value of derivatives held for trading was US\$218,707,468 (2010: US\$721,310,932).

19. CUSTOMER ACCOUNTS

	31 December 2011 US\$'000	31 December 2010 US\$'000
Customer accounts comprise the following repayable on demand and term deposits:		
Amounts due to group undertakings	1,658,561	1,632,691
Demand deposits	5,166,914	5,119,317
	6,825,475	6,752,008

20. OTHER LIABILITIES

	31 December 2011 US\$'000	31 December 2010 US\$'000
Accrual for service charges payable to parent / group undertakings	450	1,008
Amounts due to customers	336	9,956
Amounts due to group undertakings	1,901,468	1,388,949
Corporation tax payable	530	-
Other liabilities	3,714	2,815
	1,906,498	1,402,728

Amounts due to group undertakings include US\$1,900,829,014 (31 December 2010: US\$1,384,832,624) deposited with the Bank to collateralise certain undrawn sub-participated loan commitments in full.

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

	31 December 2011 US\$'000	31 December 2010 US\$'000
Accrual for service charges payable to parent / group undertakings (see note (a))	20	172
Subordinated debt (see note (b))	135,000	135,000
	135,020	135,172

- (a) The accrual for service charges (see note 20) is in respect of RSUs and Long-Term Incentive Plans.
- (b) Subordinated debt comprises loan capital from the Goldman Sachs Ireland Holdings Ltd of US\$135,000,000 (31 December 2010: US\$135,000,000). This advance was drawn down on 19 November 2008 and is repayable fifteen years and one day from the draw down date. Interest is payable on the loan at a margin over LIBOR. The rights of the lender are subordinated to the claims of the senior creditors.

22. SHARE CAPITAL

	31 December 2011		31 December 2010	
	No.	Issue Currency '000	No.	Issue Currency '000
<u>Authorised</u>				
Ordinary shares of US\$ 1 each	5,000,000,000	\$5,000,000	5,000,000,000	\$5,000,000
Ordinary shares of € 1 each	5,000,000,000	€5,000,000	5,000,000,000	€5,000,000
	No.	US\$'000	No.	US\$'000
<u>Allotted, called up and fully paid</u>				
Ordinary shares of US\$ 1 each	205,154,412	205,154	205,154,412	205,154
Ordinary shares of € 1 each	38,100	56	38,100	56
		205,210		205,210

Under the terms of the Bank's Articles of Association the Bank shall be at liberty at any time to give notice in writing to any holder of any shares of its desire to redeem the same or any of them for a consideration equivalent in value to the par value of the shares or such greater value as may be agreed between the Bank and such holders.

23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Called up share capital US\$'000	Capital reserve US\$'000	Profit and loss account US\$'000	Total US\$'000
At 1 January 2010	205,210	65,000	107,177	377,387
Retained profit for the period	-	-	50,761	50,761
At 31 December 2010	205,210	65,000	157,938	428,148
Retained profit for the year	-	-	42,883	42,883
At 31 December 2011	205,210	65,000	200,821	471,031

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24. FINANCIAL COMMITMENTS AND CONTINGENCIES

- (a) The Bank's financial commitments and contingencies outstanding at the year end arise from loan commitments entered into in the ordinary course of business.

	31 December 2011	31 December 2010
	US\$'000	US\$'000
Undrawn loan commitments	233,272	687,155
Sub-participated commitments	2,439,909	1,677,407
	2,673,181	2,364,562

Undrawn loan commitments are not cash collateralised. Included within sub-participated commitments are loans sub-participated to group undertakings of US\$2,393,685,357 (2010: US\$1,585,781,494) of which the undrawn amounts are fully cash collateralised.

- (b) The Bank leases certain buildings on long-term leases. Under these leases, which are subject to renegotiation at various intervals specified in the leases, the company pays all insurance, maintenance and repairs of these properties. The rentals that the Bank is committed to pay in the next financial period are as follows:

	31 December 2011	31 December 2010
	US\$'000	US\$'000
Maturity of lease:		
Over five years	881	1,043

25. DIRECTORS' SHARE INTERESTS

The number of shares held beneficially by directors and secretary of Goldman Sachs Bank (Europe) plc, in office at 31 December 2011, in the share capital of the Bank and The Goldman Sachs Group, Inc. companies at the start and at the end of the year was as follows:

	At 31 December 2011	At 31 December 2010
Peter Sutherland (Chairman) Voting Common Stock	24,667	21,597
Stephen Davies Voting Common Stock	13,594	8,915
Ralf Hafner Voting Common Stock	860	730*
Robert Keogh Voting Common Stock	445	140
Dermot McDonogh Voting Common Stock	2,597	607
Patrick Mulvihill Voting Common Stock	-	-
James O'Dwyer Voting Common Stock	-	-
Cornelius O'Sullivan Voting Common Stock	-	-
Richard O'Toole Voting Common Stock	4,301	3,436
Brian Strahan Voting Common Stock	-	-
David Went Voting Common Stock	-	-
William Elliott (Secretary) Voting Common Stock	1,070	351

* Or at date of appointment if later.

Shares of Goldman Sachs Group, Inc. closed at US\$90.43 on 31 December 2011 (31 December 2010: US\$168.16).

26. **RELATED PARTIES**

The Bank's ultimate parent is The Goldman Sachs Group, Inc., of 200 West Street, New York, NY 10282-2198, United States of America, a Delaware corporation. Group financial statements are available at the registered office of the parent company.

The Bank's immediate parent is Goldman Sachs Ireland Holdings Limited, which is owned by Goldman Sachs Ireland Group Limited, for which the smallest group's consolidated financial statements are prepared. Both companies are incorporated in Ireland.

Goldman Sachs Ireland Group Limited is owned by Goldman Sachs Ireland LLC, a Delaware corporation. Goldman Sachs Ireland LLC is owned by Goldman Sachs Global Holdings LLC and Goldman Sachs Ireland Group Holdings LLC, both companies are Delaware corporations.

Transactions with other companies within the group are not disclosed as the Bank has taken advantage of the exemption available under FRS 8 "Related Party Disclosures" on the basis that the consolidated financial statements of The Goldman Sachs Group, Inc. are publicly available. All related party transactions are conducted with wholly owned subsidiaries of The Goldman Sachs Group, Inc..

There were no loans made to directors or employees during, or subsequent to, the reporting period by the Bank.

There were no other related party transactions requiring disclosure.

27. **FINANCIAL RISK MANAGEMENT**

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

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

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

(a) **Market risk**

Market risk is the risk of loss due to changes in market prices. The Bank's policy is that no material market risk resides in the Bank. The Bank is however exposed to the following categories of market risk:

Interest Rate Risk

Interest rate risk primarily results from exposures to changes in the level, slope and curvature of the yield curve, funding spreads and credit spreads. Interest rate risk is monitored by the Market Risk Management and Analysis ('MRMA') department in the Finance Division and reported to the Bank's Risk Committee. Positions sensitive to interest rate changes are captured in Value at Risk ('VaR') and Interest Rate Scenarios which are reviewed weekly and reported to the Risk Committee monthly.

Currency Risk

Currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates. Foreign exchange exposure is managed so as to keep the Bank's exposure to foreign exchange risk within limits set by management. The table below shows the Bank's transactional currency exposures:

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

	31 December 2011 US\$'000	31 December 2010 US\$'000
EUR	(1,860)	(826)
GBP	143	(516)
Other	(843)	(563)
	<u>(2,560)</u>	<u>(1,905)</u>

The Bank manages market risk by matching assets and liabilities with same tenor and currency, controlling position sizes and establishing hedges in 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.

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

A variety of risk measures are used to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Risk measures used for shorter-term periods include Value-at-Risk (VaR) and sensitivity metrics. For longer-term horizons, the primary risk measures are stress tests.

Market Risk Limits are used to govern the risk appetite by controlling the size of exposures and assist the Bank's management in controlling the firm's overall risk profile. Risk Limits are monitored on a weekly basis by MRMA, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. In the event that a limit is exceeded, it is reported to the Bank's Risk Committee and the Committee will assess whether the risk position is to be reduced or a temporary limit increase granted.

The Bank's Value at Risk (VaR) at the end of the year was US\$245,000 (31 December 2010: US\$159,000) with an average VaR over the year of US\$228,000 (year ended 31 December 2010: US\$400,000).

(b) Credit risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty. The Bank's exposure to credit risk arises primarily from cash placed with banks, secured financing transactions, loans origination portfolio and receivables from customers and counterparties.

The Credit Risk Management department, which is independent of the revenue-producing units and reports to the Bank's Risk Committee, has primary responsibility for assessing, monitoring and managing credit risk.

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

- approving transactions and setting and communicating credit exposure limits;
- monitoring compliance with established credit exposure limits;
- assessing the likelihood that a counterparty will default on its payment obligations;

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

- measuring the Bank's current and potential credit exposure and losses resulting from counterparty default;
- reporting of credit exposures to senior management, the Board and regulators;
- use of credit risk mitigants, including collateral and hedging; and
- communication and collaboration with other independent control and support functions such as Operations, Legal and Compliance.

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

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

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

The table below summarises the Bank's year end assets into credit risk bands by reference to external credit risk ratings for the relevant counterparties:

	As at 31 December 2011 Carrying Value per Balance Sheet US\$'000	As at 31 December 2010 Carrying Value per Balance Sheet US\$'000
AAA	-	-
AA+/AA-	2,013	16,460
A+/A-	11,402,224	9,545,986
BBB+/BBB-	230,758	210,028
B+/B-	-	-
Not Rated	52,644	50,741
	11,687,639	9,823,215

As of year end, there were no financial assets past due or impaired. Where Goldman Sachs affiliates are not independently rated these entities have been grouped with the single A category, in line with the rating for The Goldman Sachs Group, Inc.. Of the above balances, US\$11,360,639,376 (2010: US\$9,443,080,236) are amounts due from group undertakings.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

The maximum exposure to credit risk was US\$11,895,127,029 which is mitigated with credit derivatives and collateral totalling US\$12,679,130,953.

Collateralised Transactions

The Bank receives financial instruments as collateral, primarily in connection with resale agreements, securities borrowed and derivative transactions. Such financial instruments may include obligations of the U.S. government, federal agencies, sovereigns and corporations as well as equities and convertibles. Appropriate haircuts are applied to the collateral depending on the volatility and liquidity of the securities to ensure that the collateral provides adequate cover in a close out scenario if the counterparty were to default.

As of December 2011, the fair value of financial instruments received as collateral by the Bank that they were permitted to deliver or repledge was US\$12,460,423,485 (2010: US\$10,673,726,797), of which the Bank delivered or repledged US\$nil (2010: US\$nil). There were no recognised financial assets that have been delivered or pledged as collateral.

(c) Liquidity risk

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

The Bank manages liquidity risk according to the following principles:

- excess liquidity – maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment;
- asset liability management – assess the overall anticipated holding periods for the Bank's assets and their potential illiquidity in a stressed environment. Manage the maturities and diversity of secured and unsecured funding liabilities across markets, products and counterparties, and seek to maintain liabilities of appropriate terms relative to the asset base; and
- contingency funding plan ('CFP') – a group CFP is maintained to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. This framework sets forth the plan of action to fund normal business activity in emergency and stress situations.

The following table details the Bank's undiscounted cash flows of its financial liabilities by contractual maturity including interest that will accrue except where the Bank is entitled to repay the liability before its maturity. Derivative contracts included within other liabilities at fair value are presented at their fair value and disclosed as 'on demand'. The Bank considers this more accurately represents the liquidity risk arising from derivatives and is consistent with how those risks are managed.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

	As at 31 December 2011 (US\$'000)					Total
	Less than one month / On demand	More than one month but not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	
Liabilities:						
Customer accounts	6,322,387	140,978	362,956	-	-	6,826,321
Other liabilities	1,255,262	652,078	97	20	-	1,907,457
Other liabilities at fair value	436,186	965,712	956,760	-	-	2,358,658
Subordinated debt	-	429	1,286	6,859	152,148	160,722
	<u>8,013,835</u>	<u>1,759,197</u>	<u>1,321,099</u>	<u>6,879</u>	<u>152,148</u>	<u>11,253,158</u>
Off-Balance Sheet transactions	233,272	-	-	-	-	233,272
Total liabilities	<u>8,247,107</u>	<u>1,759,197</u>	<u>1,321,099</u>	<u>6,879</u>	<u>152,148</u>	<u>11,486,430</u>

	As at 31 December 2010 (US\$'000)					Total
	Less than one month / On demand	More than one month but not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	
Liabilities:						
Customer accounts	5,119,317	1,632,937	505	-	-	6,752,759
Other liabilities	16,887	1,385,620	-	584	-	1,403,091
Other liabilities at fair value	17,864	264,795	823,590	-	-	1,106,249
Subordinated debt	-	424	1,273	6,791	151,976	160,464
	<u>5,154,068</u>	<u>3,283,776</u>	<u>825,368</u>	<u>7,375</u>	<u>151,976</u>	<u>9,422,563</u>
Off-Balance Sheet transactions	687,155	-	-	-	-	687,155
Total liabilities	<u>5,841,223</u>	<u>3,283,776</u>	<u>825,368</u>	<u>7,375</u>	<u>151,976</u>	<u>10,109,718</u>

(d) Operational risk

The Bank's exposure to operational risk primarily arises from routine processing errors. Potential types of loss events related to internal and external operational risk include:

- clients, products and business practices;
- execution, delivery and process management;
- business disruption and system failures;
- employment practices and workplace safety;
- damage to physical assets;
- internal fraud; and
- external fraud.

Operational risk is managed and mitigated by a robust operational risk framework, sound governance structure and integrated support functions.

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Loans and receivables designated at fair value

The maximum exposure to loss under loans designated at fair value through profit and loss at the year end was US\$11,360,520,264 (2010: US\$9,426,046,647) comprising securities purchased under agreement to resell of US\$11,351,063,476 (2010: US\$9,426,046,647), drawn loans of US\$7,758,760 and derivatives held for trading of US\$1,698,028 (2010: US\$nil). The fair value of collateral held in respect of repurchase agreements is included in note 27 (b).

The change in the fair value of drawn loans during the year and cumulatively not caused by market risk was a loss of US\$1,169,329 (2010: US\$nil). The related credit derivatives change in fair value during the year and cumulatively was a gain of US\$1,052,396 (2010: US\$nil).

(f) Financial liabilities designated at fair value

Included in financial liabilities designated at fair value through profit and loss at the year end was US\$2,353,632,723 (2010: US\$1,109,665,414) comprising term deposits US\$2,346,803,719 (2010: US\$983,658,245), secured debt US\$nil (2010: US\$1,336,200), unsecured debt of US\$nil (2010: US\$100,030,006), undrawn loan commitments of US\$2,335,828 (2010: US\$6,777,101) and derivatives held for trading US\$4,493,176 (2010: US\$17,863,862).

The change in the fair value of the undrawn loan commitments during the year and cumulatively not caused by market risk was a gain of US\$4,372,752 (2010: US\$3,349,926 gain). The related credit derivatives change in fair value during the year and cumulatively was a loss of US\$4,380,236 (2010: US\$4,542,345 gain).

(g) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Financial Assets at Fair Value as of 31 December 2011 (US\$000)

	Level 1	Level 2	Level 3	Total
Securities purchased under agreements to resell, at fair value	-	11,351,063	-	11,351,063
Other financial assets at fair value				
- financial assets designated at fair value	-	7,759	-	7,759
- financial assets held for trading	-	-	1,698	1,698
Total financial assets at fair value	-	11,358,822	1,698	11,360,520

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy (continued)

Financial Liabilities at Fair Value as of 31 December 2011 (US\$000)				
	Level 1	Level 2	Level 3	Total
Securities sold under agreements to repurchase, at fair value	-	-	-	-
Other financial liabilities at fair value				
- financial liabilities designated at fair value	-	2,349,201	-	2,349,201
- financial liabilities held for trading	-	-	4,432	4,432
Total financial liabilities at fair value	-	2,349,201	4,432	2,353,633

Financial Assets at Fair Value as of 31 December 2010 (US\$000)				
	Level 1	Level 2	Level 3	Total
Securities purchased under agreements to resell, at fair value	-	9,426,047	-	9,426,047
Other financial assets at fair value				
- financial assets designated at fair value	-	-	-	-
- financial assets held for trading	-	-	-	-
Total financial assets at fair value	-	9,426,047	-	9,426,047

Financial Liabilities at Fair Value as of 31 December 2010 (US\$000)				
	Level 1	Level 2	Level 3	Total
Securities sold under agreements to repurchase, at fair value	-	-	-	-
Other financial liabilities at fair value				
- financial liabilities designated at fair value	-	1,090,644	1,101	1,091,745
- financial liabilities held for trading	-	39	17,882	17,921
Total financial liabilities at fair value	-	1,090,683	18,983	1,109,666

Reconciliation of Level 3 Items

	Financial assets designated at fair value US\$'000	Financial assets held for trading US\$'000	Total assets designated at fair value US\$'000	Financial liabilities designated at fair value US\$'000	Financial liabilities held for trading US\$'000	Total liabilities designated at fair value US\$'000
At 1 January 2011	-	-	-	(1,101)	(17,882)	(18,983)
- Profit or loss	-	1,954	1,954	1,101	7,900	9,001
- Other comprehensive income						
Purchases						
Issues						
Settlements	-	(256)	(256)	-	5,550	5,550
Transfers to loans and receivables						
Transfers into or out of Level 3						
At 31 December 2011	-	1,698	1,698	-	(4,432)	(4,432)

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy (continued)

In relation to sensitivity of level 3 disclosures a 5% change in the cds spreads would impact the profit and loss by US\$136,700 which could be either positive or negative. There were no changes to level 3 assets and liabilities other than changes in credit spreads and maturing transactions. All transactions that were level 3 in the prior year are level 3 in the current year.

(h) 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:

	Carrying value	Approximate fair value
	US\$'000	US\$'000
Long-term subordinated debt (see note 21)	135,000	84,314

The fair value of the subordinated debt has been estimated using observable credit spread prices for The Goldman Sachs Group, Inc..

The long term subordinated debt is due to be repaid in full within fifteen years from draw down date.

28. SUBSEQUENT EVENTS

No significant events have occurred in the period subsequent to the year end date and the date of approving the financial statements.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 16 March 2012.