

AS AT 31 DECEMBER 2011

GOLDMAN SACHS GROUP HOLDINGS (U.K.) ("GSGHUK")

PILLAR 3 DISCLOSURES

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1. OVERVIEW

Goldman Sachs Group Holdings (U.K.) and its subsidiaries (“GSGHUK”) are an integrated part of The Goldman Sachs Group, Inc. (“GS Group”, or “the Group”). GS Group is a financial holding company and 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.

GSGHUK is regulated by the UK Financial Services Authority (FSA) and as such it is subject to minimum capital adequacy standards on a consolidated basis. Certain subsidiaries of GSGHUK, as detailed below, are also subject to minimum capital adequacy standards on a standalone basis.

2. BASEL II AND PILLAR 3

Basel II has been implemented in the European Union via the Capital Requirements Directive (CRD). In the UK, the FSA’s General Prudential Sourcebook (“GENPRU”), and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) together contain the rules implementing the CRD. The Basel II framework consists of three pillars: Pillar 1 “minimum capital requirements”, Pillar 2 “supervisory review process” and Pillar 3 “market discipline”.

This document sets out the Pillar 3 qualitative and quantitative disclosures required by the FSA’s BIPRU rules in relation to GSGHUK. Additional information required under Pillar 3 may also be found in the annual financial statements for GSGHUK, and in the Annual Report for GS Group (“the Annual Report”). Information in the Annual Report under the headings of Significant Accounting Policies, Equity Capital and Overview and Structure of Risk Management is fully applicable to GSGHUK as an integrated subsidiary of GS Group. The Annual Report can be accessed via the link below:

<http://www2.goldmansachs.com/our-firm/investors/financials/index.html>

3. SCOPE OF PILLAR 3

GSGHUK is the holding company for a group that provides a wide range of financial services to clients located worldwide. The company primarily operates in a US Dollar environment as part of the GS Group. Accordingly, the company’s functional currency is US Dollars and these disclosures are prepared in that currency.

As at 31 December 2011 the following subsidiaries of GSGHUK were subject to the FSA’s BIPRU rules:

- Goldman Sachs International (GSI)
- Goldman Sachs International Bank (GSIB)
- Goldman Sachs Asset Management International (GSAMI)
- Montague Place Custody Services (MPCS)

FSA requires significant subsidiaries to make certain capital disclosures on a standalone basis. The most significant subsidiary of GSGHUK is Goldman Sachs International (GSI). GSI’s risk profile is materially the same as GSGHUK, and its results are material to the GSGHUK group. Risk management policies and procedures are applied consistently to GSI and to the GSGHUK group as a whole. The capital disclosures relating to GSI are set out in section 4 below.

The basis of consolidation used for GSGHUK for accounting purposes is materially consistent with that used for regulatory purposes, except for the inclusion of quasi subsidiaries for accounting purposes. These are not included in the regulatory consolidation, and their non-inclusion has no material impact on the regulatory capital position of GSGHUK.

4. CAPITAL RESOURCES AND CAPITAL REQUIREMENTS

The level and composition of GSGHUK’s capital is determined by multiple factors including our consolidated regulatory capital requirements and Internal Capital Adequacy Assessment Process (ICAAP). Our ICAAP incorporates an internal risk-based capital assessment designed to identify and measure material risks associated with our business activities, including market risk, credit risk and operational risk, in a manner that is closely aligned with our risk management practices. Our internal risk-based capital assessment is supplemented with the results of stress tests.

The level and composition of GSGHUK’s capital may also be influenced by other factors such as rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in GSGHUK’s business and market environments.

The table below shows GSGHUK’s financial resources as at 31 December 2011 based upon the audited financial statements. The FSA’s GENPRU rules define the items that are included or deducted in the calculation of financial resources.

GSGHUK Capital resources

(\$ in millions)

Ordinary share capital	18
Non Cumulative preference shares	5
Share premium account including reserves	2,946
Audited retained earnings	18,462
Tier One capital before deductions	21,431
Securitisation deductions (50% of deductions)	(757)
Other ¹	(450)
Total Deductions from Tier One capital	(1,206)
Tier one capital	20,224
Tier two capital (before deductions)	9,219
Securitisation deductions (50 % of deductions)	(757)
Other ¹	(238)
Total Deductions from Tier Two capital	(995)
Tier two capital	8,224
Tier three capital	341
Deductions from Total Capital	(8)
Total Capital resources (net of deductions)	28,781

GSI Capital Resources

The table below shows GSI's financial resources as at 31 December 2011 based upon the audited financial statements.

Capital resources

(\$ in millions)

Ordinary share capital	499
Non Cumulative preference shares	12
Share premium account including reserves	2,903
Audited retained earnings	16,049
Tier One capital before deductions	19,463
Securitisation deductions (50% of deductions)	(757)
Other ¹	(439)
Total Deductions from Tier One capital	(1,196)
Tier One capital	18,267
Tier two capital (before deductions)	8,438
Securitisation deductions (50% of deductions)	(757)
Other ¹	(204)
Total Deductions from Tier Two capital	(961)
Tier two capital	7,477
Tier three capital	395
Total Capital resources (net of deductions)	26,139

As at 31 December 2011, GSGHUK's and GSI's capital requirements were as follows:

Capital requirement

(\$ in millions)	GSGHUK	GSI
Market Risk Capital requirement	9,242	8,656
Credit Risk Capital requirement	7,367	7,261
Concentration Risk Capital requirement	979	1,051
Operational Risk Capital requirement	1,265	1,194
Total Capital Requirement	\$18,853	\$18,162

¹ Other deductions - include expected credit losses in excess of eligible credit reserves, Pension asset deduction and intangible assets

5. CREDIT RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES**Overview**

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

Credit Risk Management, which is independent of the revenue-producing units and reports to the firm's chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk at the firm. The Credit Policy Committee and the Firmwide Risk Committee establish and review credit policies and parameters. In addition, we hold other positions that give rise to credit risk (e.g., bonds held in our inventory and secondary bank loans). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions.

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

Credit Risk Management Process

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

- approving transactions and setting and communicating credit exposure limits;
- monitoring compliance with established credit exposure limits;
- assessing the likelihood that a counterparty will default on its payment obligations;
- measuring the firm's current and potential credit exposure and losses resulting from counterparty default;
- reporting of credit exposures to senior management, the Board and regulators;

- use of credit risk mitigants, including collateral and hedging; and
- communication and collaboration with other independent control and support functions such as operations, legal and compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of our counterparties. A credit review is an independent judgment about the capacity and willingness of a counterparty to meet its financial obligations. For substantially all of our credit exposures, the core of our 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 firm. 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.

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

Risk Measures and Limits

We measure our credit risk based on the potential loss in an event of non-payment by a counterparty. For derivatives and securities financing transactions, the primary measure is potential exposure, which is our 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. We also monitor credit risk in terms of current exposure, which is the amount presently owed to the firm after taking into account applicable netting and collateral.

We use credit limits at various levels (counterparty, economic group, industry, country) to control the size of our credit exposures. Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing appetites for a given counterparty or group of counterparties. Limits for industries and countries are based on the firm's risk tolerance and are

designed to allow for regular monitoring, review, escalation and management of credit risk concentrations.

Stress Tests/ Scenario Analysis

We use regular stress tests to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e.g., currency rates, interest rates, equity prices). These shocks include a wide range of moderate and more extreme market movements. Some of our stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring.

We run stress tests on a regular basis as part of our routine risk management processes and conduct tailored stress tests on an ad hoc basis in response to market developments. Stress tests are regularly conducted jointly with the firm's market and liquidity risk functions.

Risk Mitigants

To reduce our credit exposures on derivatives and securities financing transactions, we may enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. We may also reduce credit risk with counterparties by entering into agreements that enable us to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty's credit rating falls below a specified level.

For loans and lending commitments, we typically employ a variety of potential risk mitigants, depending on the credit quality of the borrower and other characteristics of the transaction. Risk mitigants include: collateral provisions, guarantees, covenants, structural seniority of the bank loan claims and, for certain lending commitments, provisions in the legal documentation that allow the firm to adjust loan amounts, pricing, structure and other terms as market conditions change. The type and structure of risk mitigants employed can significantly influence the degree of credit risk involved in a loan.

When we do not have sufficient visibility into a counterparty's financial strength or when we believe a counterparty requires support from its parent company, we may obtain third-party guarantees of the counterparty's obligations. We may also mitigate our credit risk using credit derivatives or participation agreements.

GSGHUK uses legal documentation allowing for netting, collateral collection and early termination rights as primary risk mitigants. GSGHUK also uses credit derivatives as a credit risk mitigation tool. These are

transacted with counterparties who are in the most part highly rated financial institutions.

Models and Methodologies

GSGHUK has been approved by the FSA to use the Advanced Internal Ratings Based (“AIRB”) approach for Credit Risk, and the Internal Models Method (“IMM”) for the measurement of exposure on OTC derivative and secured funding transactions.

Risk Weighted Assets (“RWAs”) for credit risk are calculated for on- and off-balance sheet exposures that are not captured in our market risk RWAs, with the exception of OTC derivatives for which both market risk and credit risk RWAs are calculated. The calculations are consistent with the AIRB and IMM approaches of Basel II, and are based on Exposure at Default (EAD), which is an estimate of the amount that would be owed to us at the time of a default, multiplied by each counterparty’s risk weight.

Under the Basel II AIRB approach, a counterparty’s risk weight is generally derived from a combination of the Probability of Default (PD), the Loss Given Default (LGD) and the maturity of the trade or portfolio of trades, where:

- PD is an estimate of the probability that an obligor will default over a one-year horizon. PD is derived from the use of internally determined equivalents of public rating agency ratings.
- LGD is an estimate of the economic loss rate if a default occurs during economic downturn conditions. LGD is determined based on industry data.

EAD - The firm calculates a variety of model-based exposure metrics for OTC derivatives and secured funding trades, among them the Effective Expected Positive Exposure (EEPE).

EEPE is the average of potential positive credit exposure, calculated for the first year of the portfolio.

Wrong-way risk

Wrong-way risk arises from positive expected correlation between EAD and PD to the same counterparty, and GS ensures this risk is avoided or appropriately mitigated through collateral or other mitigants. Stress testing is utilised to identify any wrong-way risk in existing portfolios and risk mitigants and /or adjustments to capital are employed to reflect any existing wrong-way risk.

Factors impacting loss experience

Global economic growth generally moderated in 2011, as real gross domestic product (GDP) grew in most major economies and emerging markets, but at a slower pace

than in 2010. Certain unfavorable market conditions that emerged in 2010 continued during the year, including concerns about European sovereign debt risk and uncertainty regarding financial regulatory reform. Additional concerns that emerged during the first half of the year that affected our businesses included political unrest in the Middle East, the earthquake and tsunami in Japan and inflation in emerging markets. During the second half of the year, 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 emerged, 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. Industry-wide completed and announced mergers and acquisitions volumes increased compared with 2010, but declined during the second half of the year. Industry-wide equity and equity related offerings and industry-wide debt offerings both decreased compared with 2010, including significant declines during the second half of the year. Our client base, skewed towards higher quality (highly rated) counterparties, is less sensitive (though not immune) to the global economic environment and our collateralisation terms significantly reduce any loss experience.

For further information on credit exposures see “Credit Risk Management” of our Annual Report. For a further discussion of how market conditions affect our businesses, see “Certain Risk Factors That May Affect Our Businesses” of our Annual Report.

Derivatives

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

As described earlier in this section for risk management purposes GSGHUK has approval to use the Internal Models Method for the measurement of exposure on OTC derivative and secured funding transactions. EAD is regarded as a better measure of credit exposure value than balance sheet value.

As GSGHUK calculates its credit exposure under the IMM method the impact of netting and collateral are integral to the calculation of the exposure. The exposures disclosed below are therefore only available

on a net basis. This does not include the effect of any economic hedges.

The table below shows GSGHUK's credit risk capital requirement and its credit exposure as at 31 December 2011.

IRB Approach - Exposure Class

(\$ in millions)	Capital requirements	EAD
Central governments or central banks	253	17,393
Institutions	2,831	60,399
Corporates	4,283	83,036
Total IRB Approach Requirement	\$7,367	\$160,828

The table below shows GSGHUK's credit exposure by residual maturity as at 31 December 2011.

EAD by residual maturity

(\$ in millions)	less than one year	one-five years	over five years	Total
Central governments or central banks	10,798	3,991	2,604	17,393
Institutions	16,505	26,063	17,831	60,399
Corporates	21,980	31,504	29,552	83,036
Total Exposure by residual maturity	\$49,283	\$61,558	\$49,987	\$160,828

The table below shows GSGHUK's credit exposure by industry as at 31 December 2011.

EAD by industry type

(\$ in millions)	EAD
Credit Institution	44,657
Insurance	9,905
Funds and Asset Management	13,594
Financial Services	62,413
Sovereigns	17,393
Business and other services	8,927
Manufacturing and Construction	1,154
Energy	1,417
Transport	1,076
Property	292
Total	\$160,828

The table below shows GSGHUK's credit exposure by geography as at 31 December 2011.

EAD by geography

(\$ in millions)	Americas	Asia	EMEA	Total
Central governments or central banks	317	5,289	11,787	17,393
Institutions	12,992	6,724	40,683	60,399
Corporates	37,408	2,015	43,613	83,036
Total Credit Risk Exposure	\$50,717	\$14,028	\$96,083	\$160,828

The table below shows GSGHUK's credit exposure by financial contract type as at 31 December 2011.

EAD by contract type

(\$ in millions)	EAD
Derivative contracts	94,248
Funding	46,848
Other	19,732
Total	\$160,828

The tables below show a distribution of EAD, Exposure Weighted Average LGD, and Average Risk Weight by IRB exposure class and by credit quality as at 31 December 2011

Obligor Grade	Sovereigns			Institutions			Corporates		
	EAD Post CRM \$m	Exposure Weighted Average LGD %	Average Risk Weight %	EAD Post CRM \$m	Exposure Weighted Average LGD %	Average Risk Weight %	EAD Post CRM \$m	Exposure Weighted Average LGD %	Average Risk Weight %
1. 0%-0.03%	8,503	75.85%	19.85%	10,480	75.57%	22.49%	34,830	73.94%	23.18%
2. 0.03%-0.04%	8,452	75.13%	24.11%	38,568	78.70%	23.54%	28,105	70.75%	22.70%
3. 0.04%-0.27%	355	75.49%	63.63%	7,639	78.53%	89.19%	10,212	76.94%	77.32%
4. 0.27%-1.33%	33	77.84%	158.08%	1,209	79.98%	177.61%	3,104	75.16%	170.97%
5. 1.33%-6.49%	2	78.18%	273.02%	215	76.43%	282.09%	2,291	74.95%	279.91%
6. 6.49%-29.34%	22	76.91%	431.19%	300	78.11%	413.59%	4,058	76.49%	360.66%
7. 29.34%-100%	-	-	-	-	-	-	-	-	-
8. Unrated	26	N/A	100.00%	1,988	N/A	100.00%	436	N/A	100.00%
Total	17,393			60,399			83,036		

6. MARKET RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

Overview

Market risk is the risk of loss in the value of our inventory due to changes in market prices. We hold inventory primarily for market making for our clients and for our investing and lending activities. Our inventory therefore changes based on client demands and our investment opportunities. Our inventory is accounted for at fair value and therefore fluctuates on a daily basis.

Categories of market risk include the following:

- Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads.
- Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices.
- Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates.
- Commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

Market Risk Management Process

We manage our market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This includes:

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

Market Risk Management, which is independent of the revenue-producing units and reports to the firm's chief risk officer, has primary responsibility for assessing, monitoring and managing market risk at the firm. We monitor and control risks through strong firmwide oversight and independent control and support functions across the firm's global businesses.

Managers in revenue-producing units are accountable for managing risk within prescribed limits. These managers

have in-depth knowledge of their positions, of markets and the instruments available to hedge their exposures.

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

Risk Measures

Market Risk Management produces risk measures and monitors them against market risk limits set by our firm's risk committees. These measures reflect an extensive range of scenarios and the results are aggregated at trading desk, business and firmwide levels.

We use a variety of risk measures 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 VaR and sensitivity metrics. For longer-term horizons, our primary risk measures are stress tests. Our risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both our revenue-producing units and our independent control and support functions.

Systems

We have made a significant investment in technology to monitor market risk including:

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

Value-at-Risk

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

We are aware of the inherent limitations to VaR and therefore use a variety of risk measures in our market

risk management process. Inherent limitations to VaR include:

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

When calculating VaR, we use historical simulations with full valuation of approximately 70,000 market factors. The historical data used in our VaR calculation is weighted to give greater importance to more recent observations and reflect current asset volatilities. This improves the accuracy of our estimates of potential loss. As a result, even if our inventory positions were unchanged, our VaR would increase with increasing market volatility and vice versa.

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

We evaluate the accuracy of our VaR model through daily backtesting (i.e., comparing daily trading net revenues to the VaR measure calculated as of the prior business day) for major regulated entities. Overall the backtesting results were well within the expected threshold.

Our VaR measure does not include:

- positions that are best measured and monitored using sensitivity measures; and
- the impact of changes in counterparty and our own credit spreads on derivatives as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected.

Stress Testing

We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the firm. We use a variety of scenarios to calculate the potential loss from a wide range of market moves on the firm's portfolios. These scenarios include the default of single corporate or sovereign entities, the impact of a move in a single risk factor across all positions (e.g., equity prices or credit spreads) or a combination of two or more risk factors.

Unlike VaR measures, which have an implied probability because they are calculated at a specified confidence level, there is generally no implied probability that our stress test scenarios will occur. Instead, stress tests are used to model both moderate and more extreme moves

in underlying market factors. When estimating potential loss, we generally assume that our positions cannot be reduced or hedged (although experience demonstrates that we are generally able to do so).

Stress test scenarios are conducted on a regular basis as part of the firm's routine risk management process and on an ad hoc basis in response to market events or concerns. Stress testing is an important part of the firm's risk management process because it allows us to highlight potential loss concentrations, undertake risk/reward analysis, and assess and mitigate our risk positions.

Limits

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

The Firmwide Risk Committee sets market risk limits at firmwide and product levels and our Securities Division Risk Committee sets sub-limits for market-making and investing activities at a business level. The relevant legal entity risk committees set firmwide, product level and business level market risk limits as appropriate. The purpose of the firmwide limits is to assist senior management in controlling the firm's overall risk profile. Sub-limits set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day trading decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

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

When a risk limit has been exceeded (e.g., due to changes in market conditions, such as increased volatilities or changes in correlations), it is reported to the appropriate risk committee and a discussion takes place with the relevant desk managers, after which either the

risk position is reduced or the risk limit is temporarily or permanently increased.

Capital Requirements

Subsidiaries of GSGHUK have been approved by the FSA to use models for the calculation of capital requirements for market risk. Further information in respect of these approvals can be found on the FSA website.

For positions captured in VaR, RWAs are calculated using VaR, Stressed VaR and other model-based measures, including requirements for incremental default risk. Market risk RWAs are calculated consistent with the specific conditions set out in the CRD (based on VaR calibrated to a 99% confidence level, over a 10-day holding period, multiplied by a factor which depends on backtesting performance and was a value of 3 throughout 2011).

Stressed VaR (SVaR) is the potential loss in value of inventory positions during a period of significant market stress. SVaR is calculated at a 99% confidence level over a 10-day period using market data inputs from a continuous 12-month period of stress. We identify the stressed period by comparing VaR using market data inputs from different historical periods. Our stressed VaR model is based on our regular VaR model. It utilizes the same set of risk factors and re-pricing. The SVaR calculation is subject to independent validation with regards to modelling assumptions, conceptual soundness, limitations and uncertainties.

The Incremental Risk Capital Requirement (IRC) is the potential loss in value of non-securitized inventory positions due to the default or credit migration of issuers of traded instruments over a one-year time horizon. The IRC is calculated at a 99.9% confidence level over a one-year time horizon using a multi-factor model. When assessing the IRC, we take into account market and issuer-specific concentration, credit quality, the time to hedge or unwind an exposure in a stressed period, and correlation of default and migration risk. We also capture recovery uncertainty and basis risk. The IRC model is subject to independent validation with regards to modelling assumptions, limitations and uncertainties.

The All Price Risk Measure (APRM) is the potential loss in value of inventory positions within the firm's correlation trading portfolio due to price risk and defaults. The APRM is calculated at a 99.9% confidence level over a one-year time horizon. When assessing the APRM, we take into account contractual structure and the effect of multiple defaults. The APRM model is subject to independent validation with regards to modelling assumptions, limitations and uncertainties.

For positions in the correlation trading portfolio, we are required to calculate capital requirements under both the APRM and standard rules, where the results of the standard rules acts as a floor for the APRM measure.

Market Risk

(\$ in millions)	2011 Capital requirement
Model based capital requirement	1,806
Stressed VaR	2,356
Incremental risk charge	2,162
All price risk measure	891 ²
Interest Rate PRR	971
Equity PRR	103
Option PRR	264
Collective investment schemes PRR	71
Commodity PRR	206
Foreign exchange PRR	58
Securitisation	354 ³
Total Market Risk Capital Requirement	\$9,242

In the following table VaR and Stressed VaR (SVaR) are expressed as 99% 10-day⁴, For IRC the average liquidity horizon is 3 months.

GSGHUK	VaR	IRC	SVaR
High	363	2,162	785
Low	230	2,162	785
Mean	293	2,162	785
Period End	304	2,162	785

The table below shows GSGHUK's 95% one day VaR as at 31 December 2011.

Risk Portfolio

Product Category	High	Low	Mean	Period end
Rates	68	25	41	40
Equities	105	9	18	11
FX	15	4	9	6
Commodities	5	1	2	1
Diversification				(14)
Total	101	33	49	44

² APRM result was \$740m however the number referenced in the table above is the standard rules floor, excluding the amount deducted from capital resources (please see pg 2 for detail)

³ This excludes amounts deducted from capital resources (please see pg 2 for detail).

⁴ IRC and SVaR became effective on 31st December 2011 therefore, the numbers are only representative of one business day.

Securitisations

GS Group undertakes securitisation activity as disclosed in the firm's 10-K disclosures for 2011 (Note 10). For the purposes of the CRD GSGHUK acted as an investor in third party securitisations, rather than as originator or sponsor. During 2011, GSGHUK complied with the relevant requirements for investors relating to risk retention, due diligence and capital requirements, where applicable. In its role as investor, GSGHUK acted as market maker in and traded securitisation products including asset backed securities and correlation trading instruments. Securitisation positions held in trading inventory are risk managed in the same way as other inventory positions, as described in the risk management paragraphs above.

GS Groups business activity in this area arises through the trading of securitisation products and is accounted for on a basis consistent with our broader accounting policies for recognition, derecognition and measurement for financial instruments in accordance with FRS 26 (IAS 39). Securitisation positions held in trading inventory and are associated hedging transactions are recognised at fair value with changes in fair value recognised in the profit and loss account. Fair value is determined in line with firmwide pricing policies.

GSGHUK uses the Supervisory Formula Approach (as defined in BIPRU) for eligible positions in the correlation trading portfolio for the calculation of the APRM floor, and the Ratings Based Approach (as defined in BIPRU)⁵ for all other securitisation positions. Under both approaches, capital requirements are capped at the maximum loss that could be incurred on the transaction. The following tables show GSGHUK securitisation and resecuritisation exposure and capital charges by approach for 31st December 2011.

Securitisation Exposure⁶ where RBA is used

(\$ in millions)	At 31 December 2011	
Risk weights	Securitisation	Resecuritisation
– less than or equal to 10%	291	
– greater than 10% and less than or equal to 20%	4,159	
– greater than 20% and less than or equal to 50%	1,480	
– greater than 50% and less than or equal to 100%	620	
– greater than 100% and less than or equal to 650%	850	
– greater than 650% and less than 1250%	0	
Exposures subject to 1250% risk weight	1,044	4
	<u>8,445</u>	<u>4</u>

Securitisation Capital Resources Requirement (RBA)

(\$ in millions)	At 31 December 2011	
Risk weights	Securitisation	Resecuritisation
– less than or equal to 10%	2	
– greater than 10% and less than or equal to 20%	49	
– greater than 20% and less than or equal to 50%	41	
– greater than 50% and less than or equal to 100%	38	
– greater than 100% and less than or equal to 650%	224	
– greater than 650% and less than 1250%	0	
Deductions from capital ⁷	1,044	4
	<u>1,397</u>	<u>4</u>

Securitisation Exposure⁸ –where SFA is used

(\$ in millions)	At 31 December 2011	
Risk weights	Securitisation	Resecuritisation
– less than or equal to 10%	63,638	
– greater than 10% and less than or equal to 20%	984	
– greater than 20% and less than or equal to 50%	4,070	
– greater than 50% and less than or equal to 100%	7,620	
– greater than 100% and less than or equal to 650%	6,241	
– greater than 650% and less than 1250%	2,122	
Max loss ⁹	349	
Exposures subject to 1250% risk weight	5,853	
	<u>90,875</u>	<u>0</u>

Securitisation Capital Resources Requirement (SFA)

(\$ in millions)	At 31 December 2011	
Risk weights	Securitisation	Resecuritisation
– less than or equal to 10%	28	
– greater than 10% and less than or equal to 20%	1	
– greater than 20% and less than or equal to 50%	9	
– greater than 50% and less than or equal to 100%	33	
– greater than 100% and less than or equal to 650%	93	
– greater than 650% and less than 1250%	132	
Max loss	28	
Deductions from capital	465	
	<u>789</u>	<u>0</u>

⁵ The following External Credit Assessment Institutions are used for this purpose; S&P, Moodys, Fitch.

^{6&8} Securitisation exposures include both derivative and cash products. For derivative contracts, exposure is defined as the notional value for bought protection contracts and notional adjusted for changes in the market value of the credit derivative since trade inception for sold protection contracts. For cash products, exposure is the current market value.

⁷ Positions with risk weights of 1250% but where maximum loss may have been applied.

⁹ Positions with risk weights less than 1250% where maximum loss has been applied.

7. OPERATIONAL RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Our exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. 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.

The firm maintains a comprehensive control framework designed to provide a well-controlled environment to minimize operational risks. The Firmwide Operational Risk Committee provides oversight of the ongoing development and implementation of our operational risk policies and framework. Our Operational Risk Management and Analysis department (Operational Risk Management) is a risk management function independent of our revenue-producing units and is responsible for developing and implementing policies, methodologies and a formalized framework for operational risk management with the goal of minimizing our exposure to operational risk.

Operational Risk Management

Managing operational risk requires timely and accurate information as well as a strong control culture. We seek to manage our operational risk through:

- the training, supervision and development of our people;
- the active participation of senior management in identifying and mitigating key operational risks across the firm;
- independent control and support functions that monitor operational risk on a daily basis and have instituted extensive policies and procedures and implemented controls designed to prevent the occurrence of operational risk events;

- proactive communication between our independent control functions, and revenue-producing units and our independent control and support functions; and
- a network of systems throughout the firm to facilitate the collection of data used to analyze and assess our operational risk exposure.

We combine top-down and bottom-up approaches to manage and measure operational risk. From a top-down perspective, the firm's senior management assesses firmwide and business level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions are responsible for risk management on a day-to-day basis, including identifying, mitigating, and escalating operational risks to senior management.

Our operational risk framework is in part designed to comply with the operational risk measurement rules under Basel 2 and has evolved based on the changing needs of our businesses and regulatory guidance. Our framework includes the following practices:

- Risk identification and reporting;
- Risk measurement; and
- Risk monitoring.

Internal Audit performs a review of our operational risk framework, including our key controls, processes and applications, on an annual basis to ensure the effectiveness of our framework.

Risk Identification and Reporting

The core of our operational risk management framework is risk identification and reporting. We have a comprehensive data collection process, including firmwide policies and procedures, for operational risk events collection.

We have established policies that require managers in our revenue-producing units and our independent control and support functions to escalate operational risk events. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in the firm's systems and/or processes to further mitigate the risk of future events.

In addition, our firmwide systems capture internal operational risk event data, key metrics such as transaction volumes, and statistical information such as performance trends. We use an internally-developed operational risk management application to aggregate and organize this information. Managers from both revenue-producing units and independent control and support functions analyze the information to evaluate

operational risk exposures and identify businesses, activities or products with heightened levels of operational risk. We also provide operational risk reports to senior management, risk committees and the Board periodically.

Risk Measurement

We measure the firm's operational risk exposure over a twelve-month time horizon using scenario analyses, together with qualitative assessments of the potential frequency and extent of potential operational risk losses, for each of the firm's businesses. Operational risk measurement incorporates qualitative and quantitative assessments of factors including:

- internal and external operational risk event data;
- assessments of the firm's internal controls;

results of risks and controls self-assessments performed by revenue-producing units and independent control and support functions;

- evaluations of the complexity of the firm's business activities;
- the degree of and potential for automation in the firm's processes;
- new product information;
- the legal and regulatory environment;
- changes in the markets for the firm's products and services, including the diversity and sophistication of the firm's customers and counterparties; and
- the liquidity of the capital markets and the reliability of the infrastructure that supports the capital markets.

The results from these scenario analyses are used to monitor changes in operational risk and to determine business lines that may have heightened exposure to operational risk. These analyses ultimately are used to determine the appropriate level of operational risk capital to hold.

Risk Monitoring

We evaluate changes in the operational risk profile of the firm and its businesses, including changes in business mix or jurisdictions in which the firm operates, by monitoring these factors at a firmwide, entity and business level. The firm has both detective and preventive internal controls, which are designed to reduce the frequency and severity of operational risk losses and the probability of operational risk events. We monitor the results of assessments and independent internal audits of these internal controls.

GSGHUK's capital requirements for operational risk are currently calculated under the Standardised Approach in accordance with Basel standards.

The table below shows GSGHUK's capital requirement for Operational risk as at 31 December 2011.

Operational Risk

(\$ in millions)	Capital Requirement
Standardised Approach	1,265

8. UK REMUNERATION DISCLOSURES

The following disclosures are made in accordance with section 11.5.18 R of the UK Financial Services Authority's ("FSA") Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), and the requirements of the FSA's policy statement PS 10/21 'Implementing CRD3 requirements on the disclosure of remuneration' issued in December 2010 (the "FSA Remuneration Code") in respect of Goldman Sachs International, Goldman Sachs International Bank, Goldman Sachs Asset Management International and Montague Place Custody Services (together the "UK Companies").

Remuneration Programme Philosophy

Retention of talented employees is critical to executing our business strategy successfully. Remuneration is, therefore, a key component of the costs the firm incurs to generate revenues, similar to cost of goods sold or manufacturing costs in other industries.

The remuneration philosophy and the objectives of the remuneration programme for The Goldman Sachs Group, Inc. ("GS Group") and its affiliates, including the UK Companies (together, "the firm"), are reflected in GS Group's Compensation Policy Statement and Compensation Principles as posted on the Goldman Sachs public website (<http://www2.goldmansachs.com/investor-relations/corporate-governance/compensation.html>), and as described in the firm's "Compensation Practices" document attached to the proxy statement of GS Group that was filed with the U.S. Securities and Exchange Commission on 1 April 2011. In particular, effective remuneration practices should:

- (i) Encourage a real sense of teamwork and communication, binding individual short-term interests to the institution's long-term interests;
- (ii) Evaluate performance on a multi-year basis;
- (iii) Discourage excessive or concentrated risk taking;
- (iv) Allow an institution to attract and retain proven talent; and

- (v) Align aggregate remuneration for the firm with performance over the cycle.

Remuneration Governance

The Compensation Committee

The Board of Directors (the "Board") of GS Group oversees the development, implementation and effectiveness of the firm's global remuneration practices, which it generally exercises directly or through delegation to the Compensation Committee of the Board (the "Compensation Committee"). The responsibilities of the Compensation Committee include:

- Review and approval of (or recommendation to the Board to approve) the firm's variable remuneration structure, including the portion to be paid as equity-based awards, all year-end equity-based grants for eligible employees (including those employed by the UK Companies), and the terms and conditions of such awards.
- Assisting the Board in its oversight of the development, implementation and effectiveness of policies and strategies relating to the Human Capital Management ("HCM") function, including recruiting, retention, career development and progression, management succession (other than that within the purview of the Corporate Governance and Nominating Committee) and diversity.

The Compensation Committee held 8 meetings in 2011 as well as 2 meetings in early 2012 to discuss and make determinations regarding 2011 remuneration.

The members of the Compensation Committee at the end of 2011 were James A. Johnson (Chair), John H. Bryan, M. Michele Burns, Claes Dahlbäck, Stephen Friedman, William W. George, Lois D. Juliber, Lakshmi N. Mittal, James J. Schiro and Debora L. Spar. None of the members of the Compensation Committee is an employee of the firm. All members of the Compensation Committee are "independent" within the meaning of the New York Stock Exchange Rules and the firm's Director Independence Policy and were also members of the Audit Committee, the Corporate Governance and Nominating Committee and the Risk Committee.

Role of the Relevant Stakeholders

In carrying out the responsibilities of the Compensation Committee, individual members of the Compensation Committee met multiple times with senior management during the year. In addition, the Chair of the Compensation Committee met frequently with the firm's Chief Financial Officer ("CFO") and other members of senior management.

The firm's Chief Risk Officer ("CRO") presents an annual compensation-related risk assessment report to the Compensation Committee, meeting jointly with Risk Committee, to assist the Compensation Committee in its assessment of the effectiveness of the remuneration programme in addressing risk, and particularly, whether the programme is consistent with regulatory guidance that financial services firms ensure variable remuneration does not encourage inappropriate risk-taking.

The firm's global process for setting variable remuneration (including the requirement to consider risk and compliance issues) applies to employees of the UK Companies in the same way as to employees in other regions and is subject to oversight by the senior management of the firm in the region. The firm uses a highly disciplined and robust process for setting variable remuneration across all divisions and regions, which occurs prior to the Compensation Committee's review and approval. The process involves divisional compensation managers, divisional compensation committees, regional heads, HCM, the firmwide Management Committee (the firm's most senior executives), senior management (e.g., the firm's Chief Executive Officer ("CEO"), the Chief Operating Officer ("COO"), the CFO and the Head of HCM) and/or the Compensation Committee, as appropriate.

In addition, as part of the remuneration determination process, members of the firm's Compliance, Risk, Employment Law Group and Employee Relations functions make recommendations to divisional management to take into consideration all compliance or policy-related disciplinary matters when determining remuneration of individuals. Before any remuneration decisions are finalised, the Employee Relations and Employment Law Group assess the recommended remuneration for these individuals in the context of overall performance and other factors, and recommendations are reviewed with respect to comparators.

The firm's Compensation Principles were approved by shareholders at the 2010 annual shareholders' meeting.

External Consultants

The Compensation Committee has for several years recognised the importance of using an independent consultant that provides services solely to the Compensation Committee and not to the firm. The Compensation Committee continued to retain Semler Brossy Consulting Group LLC (“Semler Brossy”) as its independent remuneration consultant in 2011. Consistent with past practice, the Compensation Committee asked Semler Brossy during 2011 to assess the remuneration programme for Participating Managing Directors (“PMDs”, the firm’s approximately 430 most senior employees as at 31 March 2012), and to identify the challenges and accompanying considerations that could inform remuneration decisions for 2011.

In connection with its work for the Compensation Committee, Semler Brossy reviews the information provided to the Compensation Committee by the CFO, HCM, and the firm’s remuneration consultants. In its assessment of the remuneration programme for PMDs, Semler Brossy confirmed that, consistent with last year, the programme has been aligned with, and is sensitive to, corporate performance, contains features that reinforce significant alignment with shareholders and a long-term focus, and utilises policies and procedures, including subjective determinations that appropriately encourage PMDs to address known and perceived risks. Semler Brossy also identified current challenges facing the PMD remuneration programme and outlined considerations for both 2011 remuneration decisions and ongoing remuneration programme design.

Semler Brossy also reviewed and participated in the CRO’s annual compensation-related risk assessment report that was presented to the Compensation Committee, meeting jointly with the Risk Committee, in December 2011 to facilitate discussion on risk management and the remuneration programme.

Link Between Pay and Performance

Annual remuneration for employees is generally comprised of salary and variable remuneration. The firm’s remuneration practices provide for variable remuneration determinations to be made on a discretionary basis. Variable remuneration is based on multiple factors and is not set as a fixed percentage of revenue or by reference to any other formula. Firmwide performance is a key factor in determining variable remuneration.

We are committed to aligning remuneration with performance. In order to do so, we look at the performance of the firm, division and individual over the past year, as well as over the past several years. We believe that the firm’s senior leaders have responsibility for overall performance and, as a result, senior

employees have experienced more volatility in their remuneration year-over-year, particularly in periods when net revenues have declined significantly.

We believe that multi-year guarantees should be avoided entirely to avoid misaligning remuneration and performance, and guaranteed remuneration in employment contracts should be used only in exceptional circumstances (for example, for certain new hires).

Performance Measurement

In connection with making remuneration decisions for 2011, the Compensation Committee reviewed with the CFO the following firmwide financial metrics and year-on-year changes:

- Return on equity (“ROE”);
- Diluted earnings per share;
- Book value per share (“BVPS”);
- Net earnings;
- Net revenues;
- Remuneration and benefits expense;
- Ratio of remuneration and benefits to net revenues; and
- Non-remuneration expense.

No specific goals for these metrics were used, nor were any specific weights ascribed to them, in making remuneration determinations.

Additionally, each revenue-producing division, in coordination with the CRO, identifies annually the quantitative and/or qualitative financial and non-financial metrics (none of which is given specific weight in determining remuneration) specific to the division, its business units and, where applicable, desks to be used to evaluate the performance of the division and its employees. Metrics include, but are not limited to:

- For the *Investment Bank*: Revenues net of variable expenses, adjusted net revenues, average VaR, lost business, backlog, client team and activity, relationship lending history, principalling, key transactions, as well as performance reviews, conduct flags, franchise accretion, risk management, leadership and citizenship.
- For the *Investment Manager*: Revenues, pre-tax profit, pre-tax margin, assets under management and net sales (including gross sales and redemptions), as well as business-specific measures such as client metrics for distribution channels and investment performance and risk measures for the portfolio management business units.

All employees are evaluated annually as part of the “360 degree” feedback process. This process reflects input from a number of employees, including supervisors, peers and those who are junior to the employee, regarding an array of performance measures. The detailed performance evaluations include assessments of risk management, reputational judgment and compliance with firm policies, as well as teamwork, citizenship and communication.

Risk Adjustment

Prudent risk management is a hallmark of the firm’s culture and sensitivity to risk and risk management are key elements in assessing employee performance, including as part of the “360 degree” feedback process noted above.

We take risk into account in setting the amount and form of variable remuneration for employees. Different lines of business have different risk profiles and these are taken into account when determining remuneration. These include credit, market, liquidity and operational risks, including legal, compliance and reputational risks. We provide guidelines to assist compensation managers when applying discretion during the remuneration process to promote consistent consideration of the different risks presented by our firm’s businesses. Further, to ensure the independence of control function employees, remuneration for those employees is not determined by individuals in revenue-producing positions but by the management of the relevant control function.

For 2011 all employees with total remuneration above a particular threshold were subject to deferral of part of their variable remuneration in the form of an equity-based award. As in prior years, all 2011 equity-based awards are subject to a number of terms and conditions that could result in forfeiture or recapture. For further details see “Structure of Remuneration” below.

In the 2011 annual compensation-related risk assessment report presented to the Compensation Committee, meeting jointly with our Risk Committee, the CRO presented his view that the various components of our remuneration programmes and policies (for example, process, structure and governance) work together to balance risk and incentives in a manner that does not encourage inappropriate risk-taking. In addition, the CRO stated that the firm has a risk management process that, among other things, is consistent with the safety and soundness of the firm and focuses on our:

(i) *Risk management culture*: while the nature of our business requires certain employees to make decisions involving the use of our capital on a daily basis, the firm’s culture emphasises continuous and prudent risk management

(ii) *Risk-taking authority*: there is a formal process for identifying employees who, individually or as part of a group, have the ability to expose the firm to material amounts of risk

(iii) *Upfront risk management*: the firm has tight controls on the allocation, utilisation and overall management of risk-taking, as well as comprehensive profit and loss and other management information which provide ongoing performance feedback

(iv) *Remuneration structure and policies*: there are rigorous, multi-party (i) employee performance assessments and (ii) remuneration decisions

(v) *Governance*: the oversight of our Board, management structure and the associated processes all contribute to a strong control environment and control functions have input into remuneration structure and design

Structure of remuneration

Fixed Remuneration

In fiscal year 2010 the firm introduced a global salary model to ensure greater consistency in salary levels. The global salary model is intended to achieve an appropriate balance between fixed and variable remuneration. Salaries for UK employees are generally determined using the global salary model. Increases in fixed salaries are determined based on total remuneration levels, pursuant to the salary model, and salary levels are reviewed on an annual basis. Generally, salaries are only increased if total remuneration has increased.

Variable Remuneration

For employees with total remuneration above a specific threshold, variable remuneration is generally paid in a combination of cash and equity-based remuneration. In general, the portion paid in the form of an equity-based award increases as variable remuneration increases and for Remuneration Code Staff is set to ensure compliance with Principles 12(f) and 12(g) of the FSA Remuneration Code.

The variable remuneration programme is flexible to allow the firm to respond to changes in market conditions and to maintain its pay-for-performance approach. Variable remuneration is discretionary (even if paid consistently over a period of years).

Equity Remuneration

We believe that remuneration should encourage a long-term, firmwide approach to performance and discourage inappropriate risk taking. Paying a significant portion of variable remuneration in the form of equity-based remuneration that is delivered over time, changes in value according to the price of shares of common stock

("shares") of GS Group, and is subject to forfeiture or recapture encourages a long-term, firmwide focus because its value is realised through long-term responsible behavior and the financial performance of our firm.

We impose transfer restrictions, retention requirements and hedging policies to further align the interests of the firm's employees with those of our shareholders. The firm's retention policies, coupled with the practice of paying senior employees a significant portion of variable remuneration in the form of equity-based awards, leads to a considerable investment in shares of GS Group over time. We believe that this investment advances our partnership culture of teamwork and stewardship of the firm. In addition from time to time we may make awards consisting of unfunded, unsecured promises to deliver other instruments on terms and conditions that are substantially similar to those for RSUs described below.

Deferral Policy and Vesting Criteria: The portion of fiscal year 2011 annual remuneration subject to deferral was generally made in the form of Restricted Stock Units ("RSUs"). An RSU is an unfunded, unsecured promise to deliver a share on a predetermined date. RSUs awarded in respect of fiscal year 2011 deliver in three equal instalments on the first, second and third anniversary of the date of award, assuming the employee has satisfied the terms and conditions of the award at each such date.

Transfer Restrictions: All shares delivered to employees designated as Remuneration Code Staff are subject to retention in accordance with Principle 12(f) of the FSA Remuneration Code. In addition, the firm requires all individuals to hold, until the expiration of a period of up to five years from grant, a material portion of the shares they receive in respect of RSUs granted as part of their variable remuneration according to the firm's global deferral table. These transfer restrictions apply to the lower of 50% of the shares delivered before reduction for tax withholding, or the number of shares received after reduction for tax withholding. Because combined tax and social security rates in the United Kingdom are close to or exceed 50%, transfer restrictions apply to all, or substantially all, net shares delivered to employees resident in the United Kingdom.

An employee generally cannot sell, exchange, transfer, assign, pledge, hedge or otherwise dispose any RSUs or shares that are subject to transfer restrictions.

Retention Requirement: In addition, we require each of the CEO, CFO, COO and Vice Chairmen of GS Group, for so long as each holds such position, to retain sole beneficial ownership of a number of shares equal to 75% of the shares received (net of payment of any option exercise price and taxes) under the firm's equity plan since becoming a senior executive. We impose a similar

retention requirement, equal to 25%, on other PMDs. These shares are referred to as "retention shares".

Forfeiture and Recapture Provisions: All RSUs are subject to forfeiture and all shares are subject to recapture, even after transfer restrictions lapse. If we determine that shares may be recaptured after delivery, we can require repayment to the firm of the fair market value of the shares when delivered (including those withheld to pay withholding taxes).

The RSUs and shares are subject to forfeiture or recapture if the Compensation Committee determines that during 2011 the employee participated (which could include, depending on the circumstances, participation in a supervisory role) in the structuring or marketing of any product or service, or participated on behalf of the firm or any of its clients in the purchase or sale of any security or other property, in any case without appropriate consideration of the risk to the firm or the broader financial system as a whole (for example, if the employee were to improperly analyse risk or fail sufficiently to raise concerns about such risk) and, as a result of such action or omission, the Compensation Committee determines there has been, or reasonably could be expected to be, a material adverse impact on the firm, the employee's business unit or the broader financial system.

This provision is not limited to financial risks and is designed to encourage the consideration of the full range of risks associated with the activities (for example, legal, compliance or reputational). The provision also does not require that a material adverse impact actually occur, but rather may be triggered if the firm determines that there is a reasonable expectation of such an impact.

The Compensation Committee approved guidelines in 2011 that set forth a formal process regarding determinations to forfeit or recapture awards for improper risk analysis upon the occurrence of certain pre-determined events (for example, in the event of any annual firmwide, divisional or business unit losses). The review of whether forfeiture or recapture is appropriate includes input from our CRO, as well as representatives from Finance, Legal and Compliance. Determinations are made by the Compensation Committee or its delegates, with any determinations made by delegates reported to the Compensation Committee.

RSUs granted to all Remuneration Code Staff are subject to forfeiture until delivery of the underlying shares if GS Group is determined by bank regulators to be "in default" or "in danger of default" as defined under the US Dodd-Frank Wall Street Reform and Consumer Protection Act 2010, or fails to maintain for 90 consecutive business days, the required minimum tier 1 capital ratio (as defined under Federal Reserve Board regulations).

An employee's RSUs may also be forfeited, and shares recaptured if they engage in conduct constituting "cause" at any time until the transfer restrictions lapse. "Cause" includes, among other things, any material violation of any firm policy, any act or statement that negatively reflects on the firm's name, reputation or business interests and any conduct detrimental to the firm.

Hedging: The firm's anti-hedging policy ensures employees maintain the intended exposure to the firm's stock performance. In particular, all employees are prohibited from hedging RSUs and shares that are subject to transfer restrictions and, in the case of PMDs, retention shares. In addition, Executive Officers of GS Group are prohibited from hedging any shares that they can freely sell. Employees, other than Executive Officers, may hedge only shares that they can otherwise sell. However, no employee may enter into uncovered hedging transactions or sell short any shares. Employees may only enter into transactions or otherwise make investment decisions with respect to shares during applicable "window periods".

Treatment upon Termination or Change-in-Control: As a general matter, delivery schedules are not accelerated, and transfer restrictions are not removed, when an employee leaves the firm. The limited exceptions include death and departure for "conflicted employment". A change in control alone is not sufficient to trigger acceleration of any deliveries or removal of transfer restrictions; only if the change in control is followed within 18 months by a termination of employment by the firm without "cause" or by the employee for "good reason" will delivery and release of transfer restrictions be accelerated.

Long-Term Performance Incentive Plan ("LTIP")

The Compensation Committee approved a limited number of awards under the LTIP, which allows the Compensation Committee to award remuneration based on specific performance metrics. The LTIP is intended to incentivise long-term performance in a manner that does not encourage inappropriate risk taking. Awards are not considered part of annual remuneration.

Both the performance metrics and thresholds of awards made under this plan, which represent strong relative performance, are meant to provide an appropriate focus on long-term shareholder returns. Subject to Compensation Committee discretion, under the terms of the awards, recipients will be rewarded for generating strong shareholder returns over a forward-looking period but, if our firm generates low or negative returns, they will not realise any compensation under these awards.

Quantitative Remuneration Disclosures

The following tables show aggregate quantitative remuneration information for 95 employees, categorised as Remuneration Code Staff for the purposes of the FSA Remuneration Code in respect of their duties for the UK Companies. The FSA was consulted on these awards as part of their normal assessment of remuneration.

Remuneration Code Staff are also eligible to receive certain general non-discretionary ancillary payments and benefits on a similar basis to other employees. These payments and benefits are not included in the disclosures below.

Aggregate remuneration by business area

The amounts below include fixed and variable remuneration paid or awarded for the financial year ended 31 December 2011:

	Investment Bank	Investment Manager	Control Function	Total
Non-equity remuneration (\$ in millions)	81.1	14.1	30.2	125.4
Restricted Stock Units (number of RSUs in 000s)	1,052	140	192	1,384

Aggregate remuneration: split between fixed and variable remuneration and forms of variable remuneration

Remuneration paid or awarded for the financial year ended 31 December 2011 comprised fixed remuneration (salaries and director fees) and variable remuneration. The figures in the table below are split into "Senior Management" and "Other Remuneration Code Staff" according to the following definitions:

- **Senior Management:** members of the Board of Directors of Goldman Sachs International, members of the Management Committee for the Europe, Middle East and Africa ("EMEA") region, the head of each revenue-producing division in the EMEA region and heads of significant business lines in the EMEA region who perform a significant management function corresponding to FSA controlled function CF29.
- **Other Remuneration Code Staff:** other employees whose activities have a material impact on the risk profile of the firm, including individuals performing an FSA Significant Influence Function, and heads of certain divisions in EMEA that perform a control function.

As required by the FSA Pillar 3 Disclosure Rules we have disclosed quantitative information separately for the senior personnel who effectively direct the business of Goldman Sachs International. Amounts disclosed in

respect of senior personnel are also included in the amounts for senior management.

Form of Remuneration	Senior Management	Other Remuneration Code Staff	Total	Senior Personnel
Fixed (\$ in millions)	34.8	43.6	78.4	10.6
Variable, of which:				
Non-equity remuneration (\$ in millions)	23.9	23.1	47.0	7.0
Restricted Stock Units (number of RSUs in 000s)	759	625	1,384	213

Deferred Remuneration

The table below includes remuneration subject to the deferral requirements in Principle 12 of the FSA Remuneration Code. The amounts relate only to those employees who were Remuneration Code Staff at the end of the fiscal year, 31 December 2011.

Restricted Stock Units (number of RSUs in 000s)	Senior Management	Other Remuneration Code Staff	Total	Senior Personnel
Outstanding unvested as at 1 January 2011	1,966	1,311	3,277	376
Awarded during 2011 ¹⁰	515	384	899	195
Paid out during 2011	(663)	(437)	(1,100)	(125)
Reduced through performance adjustments during 2011	0	0	0	0
Outstanding unvested as at 31 December 2011 ¹⁰	1,818	1,258	3,076	446

Sign-on and severance payments

There were no sign-on or severance payments made or awarded to Remuneration Code Staff during the year.

¹⁰ Amounts disclosed do not include awards made under the Long-Term Performance Incentive Plan described on page 16 because the forward-looking period for calculating the metrics against which any payouts are assessed is ongoing.