

AS AT 28 NOVEMBER 2008

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 Critical Accounting Policies, Equity Capital and 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 28 November 2008 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)
- Goldman Sachs Europe (GSE)

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

The table below shows GSGHUK's financial resources as at 28 November 2008 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.

Capital resources

(\$ in millions)

Ordinary share capital	18
Non Cumulative preference shares	5
Share premium account including reserves	2,941
Audited retained earnings	10,804
Tier one capital before deductions	13,767
Deductions from Tier One capital	(173)
Tier one capital	13,593
Tier two capital (before deductions)	1,297
Deductions from Tier Two capital	(141)
Tier two capital	1,156
Tier three capital	8,000
Total Capital resources (net of deductions)	\$22,749

GSI Capital Resources

The table below shows GSI's financial resources as at 28 November 2008 based upon the audited financial statements.

Capital resources

(\$ in millions)

Ordinary share capital	493
Non Cumulative preference shares	12
Share premium account including reserves	2,741
Audited retained earnings	9,811
Tier one capital before deductions	13,057
Deductions from Tier One capital	(164)
Tier one capital	12,893
Tier two capital (before deductions)	1,113
Deductions from Tier Two capital	(132)
Tier two capital	981
Tier three capital	8,000
Deductions from Total Capital	(549)
Total Capital resources (net of deductions)	\$21,326

As at 28th November 2008, GSGHUK's and GSI's capital requirements were as follows:

Capital requirement

(\$ in millions)	GSGHUK	GSI
Market Risk Capital requirement	6,493	6,406
Credit Risk Capital requirement	6,016	5,771
Concentration Risk Capital requirement	2,526	2,491
Operational Risk Capital requirement	1,316	1,247
Total Capital Requirement	\$16,352	\$15,915

5. CREDIT RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

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

To measure and manage our credit exposures, we use a variety of tools, including credit limits referenced to both current exposure and potential exposure. Potential exposure is an estimate of exposure, within a specified confidence level, that could be outstanding over the life of a transaction based on market movements. In addition, as part of our market risk management process, for positions measured by changes in credit spreads, we use VaR and other sensitivity measures. To supplement our primary credit exposure measures, we also use scenario analyses, such as credit spread widening scenarios, stress tests and other quantitative tools.

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

While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks and investment funds, resulting in significant credit concentration with respect to this industry. In the ordinary course of business, we may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer.

The Credit Department is responsible for managing GS Group's credit risk. The Credit Department is independent from the business units and reports to the CFO. It produces internal credit ratings for all risk counterparties, based on counterparty-specific credit reviews.

The credit review of a counterparty represents an independent judgement of the Firm's risk appetite to trade with each counterparty, and incorporates (among other factors) the capacity and willingness of a counterparty to meet its obligations. Counterparty reviews are performed in accordance with guidelines specified by the Credit Department's various Industry Committees and the depth of review depends on several factors including size and volume of exposure.

The Credit Department operates within a global and regional governance structure which is responsible for approving all material aspects of the credit ratings and estimation processes. This includes both global and regional committees, including Firmwide Risk Committee, Credit Policy Committee (CPC) and Counterparty Focus Committee (CFC). The Firmwide Risk Committee, amongst its other risk management functions, approves sovereign credit risk limits and credit risk limits by ratings group. The CPC, authorised by the Firmwide Risk Committee, establishes and reviews broad credit policies

and parameters that are implemented by the Credit Department. In addition, Internal Audit assesses compliance with regulatory requirements and internal policies, and performs a review of credit systems.

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. GS ensures this risk is avoided through business selection or appropriately mitigated through collateral or other mitigants. Stress testing is utilised to identify any wrong-way risk in existing portfolios, and adjustments to capital are employed where appropriate to reflect any residual wrong-way risk.

Factors impacting loss experience

The global economic climate and financial system stability had deteriorated significantly during the second and third quarter of 2008, and as economies globally slowed during the fourth quarter of 2008 there was an evident increase in default rates across many industries. Our internal 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. Further disclosure relating to credit risk is outlined in the Annual Report.

Credit Risk Mitigation

GSGHUK uses legal documentation allowing for netting, collateral collection and early termination rights as primary risk mitigants. The firm 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.

A general discussion of credit risk mitigation policies and techniques is presented in the 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.

The table below shows GSGHUK's credit risk capital requirement and its credit exposure as at 28th November 2008.

IRB Approach - Exposure Class

(\$ in millions)	Capital requirements	EAD
Central governments or central banks	156	6,230
Institutions	2,522	71,023
Corporates	3,338	73,175
Total IRB Approach Requirement	\$6,016	\$150,428

The table below shows GSGHUK's credit exposure by residual maturity as at 28th November 2008.

EAD by residual maturity

(\$ in millions)	less than one	one-five years	over five years	Total
Central governments or central banks	755	3,517	1,958	6,230
Institutions	27,031	21,038	22,954	71,023
Corporates	19,313	46,281	7,582	73,175
Total Exposure by residual maturity	\$47,099	\$70,836	\$32,493	\$150,428

The table below shows GSGHUK's credit exposure by financial contract type as at 28th November 2008.

EAD by contract type

(\$ in millions)	EAD
Derivative contracts	110,317
Funding	32,290
Other	7,821
Total	\$150,428

The table below shows GSGHUK's credit exposure by industry as at 28th November 2008.

EAD by industry type

(\$ in millions)	EAD
Financial Institutions and Services	135,701
Sovereigns	6,230
Business and other services	5,132
Manufacturing and Construction	1,644
Energy	920
Transport	567
Property	234
Total	\$150,428

The table below shows GSGHUK's credit exposure by geography as at 28th November 2008.

EAD by geography

(\$ in millions)	Americas	Asia	EMEA	Total
Central governments or central banks	472	757	5,002	6,230
Institutions	3,226	21,275	46,522	71,023
Corporates	13,754	26,627	32,794	73,175
Total Credit Risk Exposure	\$17,452	\$48,658	\$84,318	\$150,428

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 28th November 2008

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 %
As at 28/11/08									
1. 0%-0.03%	4,843	68.79	15.05	29,570	74.99	28.87	39,634	68.52	32.42
2. 0.03%-0.04%	397	68.04	86.50	28,012	80.41	30.13	17,810	67.61	25.46
3. 0.04%-0.27%	16	68.63	60.73	11,542	73.13	108.79	8,168	75.10	106.21
4. 0.27%-1.33%	408	68.37	118.95	1,177	78.55	427.37	3,109	74.30	398.63
5. 1.33%-6.49%	34	68.79	237.67	185	68.05	309.19	1,993	74.20	553.29
6. 6.49%-29.34%	2	68.37	379.98	66	69.13	305.78	373	71.73	406.62
7. 29.34%-100%	-	0.00	0.00	-	-	-	-	-	-
8. Unrated	531	N/A	100	472	N/A	100	2,089	N/A	100
Total	6,230			71,023			73,175		

6. MARKET RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

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

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

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

- Currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates.
- Commodity price risks result 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.

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

In addition to applying business judgment, senior management uses a number of quantitative tools to manage our exposure to market risk for "Trading assets, at fair value" and "Trading liabilities, at fair value" in the consolidated statements of financial condition. These tools include:

- Risk limits based on a summary measure of market risk exposure referred to as VaR;
- Scenario analyses, stress tests and other analytical tools that measure the potential effects on our trading net revenues of various market events, including, but not limited to, a large widening of credit spreads, a substantial decline in equity markets and significant moves in selected emerging markets; and inventory position limits for selected business units.

VaR

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

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

more frequently or accumulate over a longer time horizon such as a number of consecutive trading days.

The modeling of the risk characteristics of our trading positions involves a number of assumptions and approximations. While we believe that these assumptions and approximations are reasonable, there is no standard methodology for estimating VaR, and different assumptions and/or approximations could produce materially different VaR estimates.

We use historical data to estimate our VaR and, to better reflect current asset volatilities, we generally weight historical data to give greater importance to more recent observations. Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.

Further disclosures relating to GS Group's market risk can be found in the Annual Report (pages 57-60).

Subsidiaries of GSGHUK have been approved by the FSA to use VaR 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 and other model-based measures, including requirements for incremental default risk and other event risks. Market risk RWAs are calculated consistent with the specific conditions set out in the Basel II framework (based on VaR calibrated to a 99% confidence level, over a 10-day holding period, multiplied by a factor). Additional RWAs are calculated with respect to incremental default risk and other event risks, in a manner generally consistent with our internal risk management methodologies.

For positions not included in the VaR based calculation of market risk capital requirements, we calculate RWAs based on the FSA's standard rules in BIPRU.

The table below shows the components of the total market risk requirement for GSGHUK as at 28th November 2008.

Market Risk

(\$ in millions)	Capital requirement
VaR based capital requirement ¹	5,077
Interest Rate PRR	1,465
Equity PRR	167
Option PRR	281
Collective investment schemes PRR	41
Commodity PRR	398
Foreign exchange PRR	64
Total Market Risk Capital Requirement	\$7,493

The table below shows GSGHUK's 95%/one day VaR as at 28th November 2008.

Risk Portfolio

(\$ in millions)	Daily VaR
Interest rates	124
Equity prices	22
Foreign exchange rate	6
Commodity price	1
Less Diversification Effect	(34)
Total	\$119

7. OPERATIONAL RISK MANAGEMENT, METHODOLOGIES AND QUANTITATIVE DISCLOSURES

Disclosures made in the Annual Report (pg72) for GS Group in relation to Operational Risk are fully applicable to GSGHUK. The Annual Report can be found in the link on page 1.

Operational risk capital charges are designed to account for the risk of losses due to inadequate or failed internal processes, people and systems, or external events and take into account legal risk. 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 28th November 2008.

Operational Risk

(\$ in millions)	Capital Requirement
Standardised Approach	1,316

¹ VaR based capital requirement includes requirements for incremental default risk and other regulatory add-ons.