

## Goldman Sachs Bank (Europe) plc Pillar 3 Qualitative disclosures for 2008

Goldman Sachs Bank (Europe) plc (“GSBE”) is an EU credit institution regulated by the Financial Regulator in Ireland. Goldman Sachs Group, Inc. (“GS Group”) is the ultimate parent of GSBE. Disclosures made in the Annual Report for GS Group in relation to Accounting Policies, Risk Management and Equity Capital are fully applicable to GSBE. The 2008 Annual Report can be found at the link below:

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

Further disclosures relevant to Pillar 3 can be found in the 2008 GSBE Financial Statements:

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

The basis of consolidation for accounting purposes is consistent with that used for regulatory purposes.

### Additional disclosures required by Pillar 3 specific to GSBE for 2008 (not included in the GSBE Financial Statements)

GSBE has adopted the Standardised Approach for Credit Risk capital requirements. Under this approach, counterparty risk weightings are determined on the basis of external credit ratings assigned to the counterparty. GSBE uses Standard and Poor’s Rating Services, Moody’s Investors Service and Fitch Ratings as its nominated External Credit Assessment Institutions (“ECAIs”). Exposures are assigned to exposure classes in accordance with Article 78 of the Capital Requirements Directive (“CRD”).

The table below displays the mapping of ECAI’s credit assessments to credit quality steps:

Credit Quality Step	Fitch's assessments	Moody's assessments	S&P's assessments	Corporate	Institution (includes banks)			Sovereign
					Sovereign method	Credit Assessment method		
						Maturity > 3 months	Maturity 3 months or less	
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%	20%	20%	0%
2	A+ to A-	A1 to A3	A+ to A-	50%	50%	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%	100%	50%	20%	50%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%	100%	100%	50%	100%
5	B+ to B-	B1 to B3	B+ to B-	150%	100%	100%	50%	100%
6	CCC+ and below	Caa1 and below	CCC+ and below	150%	150%	150%	150%	150%

For exposure measurement, GSBE uses a haircut approach for funding and derivative transactions and the use of credit conversion factors for undrawn loans.

The Credit Department is the department 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.

There is a global and regional governance structure with responsibility 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.

### **Wrong-way risk**

Stress testing is utilised at GS Group level to identify any wrong-way risk in existing portfolios. At present, no legal entity specific stress tests are carried out in GSBE.

### **Credit Risk Mitigation**

GSBE 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 GS Group's Annual Report.

### **Operational Risk**

GSBE uses the Basic Indicator Approach for the calculation of operational risk capital. Under this approach, an alpha factor (i.e. percentage – 15%), specified in the CRD, is applied to a 3-year rolling average of gross revenues.

### **Market Risk**

GSBE does not currently hold any material market risk in its Trading Book.

### **Interest Rate Risk in the Banking Book**

Interest rate risk in the banking book reflects the Bank's sensitivity to earnings volatility in non-trading activity arising from movements in interest rates. A Market Risk Report detailing interest rate risk in the banking book is prepared on a weekly basis and reviewed by the GSBE Risk Committee and Asset Liability Committee. Interest rate risk in the banking book is managed within VaR limits that give full consideration to the potential earnings and/or capital impact for the Bank due to changes in market interest rates.