

**BREVAN HOWARD**

**Brevan Howard Master Fund Limited**  
Annual Audited Consolidated Financial  
Statements 2011

ANNUAL AUDITED CONSOLIDATED  
FINANCIAL STATEMENTS  
31 December 2011

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# Independent Auditors' Report to the Shareholders

We have audited the accompanying consolidated financial statements of Brevan Howard Master Fund Limited (the "Master Fund"), which comprise the consolidated statement of assets and liabilities including the consolidated condensed schedule of investments as at 31 December 2011, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is made solely to the Master Fund's shareholders, as a body. Our audit work has been undertaken so that we might state to the Master Fund's shareholders those matters we are required to state them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Master Fund and the Master Fund's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Master Fund as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

## KPMG

George Town  
Grand Cayman

14 March 2012

# Consolidated Statement of Assets and Liabilities

31 December 2011

	2011 US\$ '000
<b>Assets</b>	
Investments at market value (cost: US\$45,391,033) (Notes 3, 5)	56,301,714
Cash (Note 2)	34
Investments purchased under agreements to resell (cost: US\$3,214,008) (Note 7)	3,143,130
Dividends and interest receivable	106,132
Due from broker (Note 2)	11,828,578
Long – term interest-bearing subscriptions receivable (Note 13)	141,900
Other assets (Note 4)	478
<b>Total assets</b>	<b>71,521,966</b>
<b>Liabilities</b>	
Investments sold short at market value (proceeds: US\$7,383,620) (Note 3)	17,641,765
Investments sold under agreements to repurchase (proceeds: US\$14,047,084) (Note 7)	13,766,399
Accounts payable and accrued expenses (Notes 4, 5, 6)	3,376
Dividends and interest payable	12,807
Redemptions payable	1,715,436
Subscriptions in advance	4
Due to broker (Note 2)	12,936,697
Performance fee payable (Note 5)	14,625
Equalisation factor (Note 15)	970
<b>Total liabilities</b>	<b>46,092,079</b>
<b>Net assets</b> (Notes 8, 12)	<b>25,429,887</b>
<b>Net Asset Value per share</b>	
US Dollar Class A	US\$4,304.49
US Dollar L.P. Class A	US\$3,867.78
Euro Class A	€4,245.77
Sterling Class A	£4,702.17
Yen Class A	¥13,915.94
Australian Dollar Class A	AUD 1,339.95
Brazilian Real Class A	BRL 1,429.14
Canadian Dollar Class A	CAD 1,233.41
Norwegian Krone Class A	NOK 1,269.40
Singapore Dollar Class A	SGD 1,181.66
Gold Class A	XAU 111.60
US Dollar Class B	US\$2,426.00
Euro Class B	€2,456.50
Sterling Class B	£2,529.75
US Dollar Class Y	US\$139.83
Euro Class Y	€135.57
Sterling Class Y	£135.65
US Dollar Class Z	US\$122.22
Euro Class Z	€123.20
Sterling Class Z	£122.79
Yen Class Z	¥12,064.76

Cost and proceeds are presented in US\$'000.

See accompanying notes to the Consolidated Financial Statements.

Signed on behalf of the Board by:

**Dennis Hunter**

Director

14 March 2012

# Consolidated Condensed Schedule of Investments

31 December 2011

Cost is presented in US\$ '000	Market Value US\$ '000	% of Net Assets
<b>Long Portfolio</b>		
Equities		
Brazil (cost 3,735)		
Energy	3,364	0.01
Canada (cost 8,399)		
Basic Materials	7,403	0.03
France (cost 28,004)		
Consumer, Non-Cyclical	5,986	0.02
Diversified	6,634	0.03
Energy	3,015	0.01
Industrial	7,712	0.03
Technology	3,771	0.01
	<b>27,118</b>	<b>0.10</b>
Germany (cost 7,905)		
Communications	2,971	0.01
Consumer, Cyclical	851	0.00
Consumer, Non-Cyclical	1,513	0.01
Utilities	1,397	0.01
	<b>6,732</b>	<b>0.03</b>
Guernsey (cost 540)		
Financial	508	0.00
Israel (cost 2,189)		
Communications	1,952	0.01
Italy (cost 27,848)		
Consumer, Cyclical	11,701	0.05
Financial	156	0.00
Utilities	8,777	0.03
	<b>20,634</b>	<b>0.08</b>
Norway (cost 20,686)		
Basic Materials	1,561	0.01
Energy	11,406	0.04
Financial	5,166	0.02
	<b>18,133</b>	<b>0.07</b>
Sweden (cost 7,219)		
Communications	1,508	0.01
Financial	2,782	0.01
Industrial	2,991	0.01
	<b>7,281</b>	<b>0.03</b>

# Consolidated Condensed Schedule of Investments continued

31 December 2011

Cost is presented in US\$ '000	Market Value US\$ '000	% of Net Assets
<b>Long Portfolio (continued)</b>		
Equities (continued)		
Switzerland (cost 12,222)		
Consumer, Cyclical	9,233	0.04
Financial	2,916	0.01
	<b>12,149</b>	<b>0.05</b>
United Kingdom (cost 6,860)		
Financial	4,450	0.02
United States (cost 254,038)		
Basic Materials	46,076	0.18
Communications	35,508	0.14
Consumer, Cyclical	10,516	0.04
Consumer, Non-Cyclical	30,641	0.12
Energy	39,235	0.15
Financial	21,106	0.09
Industrial	22,847	0.09
Technology	50,860	0.20
	<b>256,789</b>	<b>1.01</b>
<b>Total Equities (cost 379,645)</b>	<b>366,513</b>	<b>1.44</b>
Fixed Income Securities		
Argentina (cost 15,944)		
Government	15,389	0.06
Australia (cost 4,705)		
Industrial	3,671	0.01
Bermuda (cost 4,295)		
Industrial	4,622	0.02
Canada (cost 2,495)		
Basic Materials	8,468	0.03
Cayman Islands (cost 40,807)		
Asset Backed Securities	11,500	0.05
Financial	6,488	0.03
Mortgage Backed Securities	1,100	0.00
	<b>19,088</b>	<b>0.08</b>
Denmark (cost 2,542)		
Mortgage Backed Securities	2,462	0.01
France (cost 909,581)		
Basic Materials	12,776	0.05
Financial	2,216	0.01
Government	862,922	3.39
	<b>877,914</b>	<b>3.45</b>

Cost is presented in US\$ '000	Market Value US\$ '000	% of Net Assets
<b>Long Portfolio (continued)</b>		
Fixed Income Securities (continued)		
Germany (cost 77,681)		
Financial	772	0.00
Government	78,181	0.31
	<b>78,953</b>	<b>0.31</b>
Greece (cost 169,277)		
Government	65,937	0.26
Ireland (cost 69,725)		
Asset Backed Securities	2,527	0.01
Financial	2,863	0.02
Mortgage Backed Securities	44,344	0.17
	<b>49,734</b>	<b>0.20</b>
Japan (cost 3,920,104)		
Government		
30,000,000 JGB 0.4% 09/20/2016	387,154	1.52
21,000,000 JTDB 0.0% 01/20/2012	270,190	1.06
50,000,000 JTDB 0.0% 04/20/2012	643,143	2.53
70,000,000 JTDB 0.0% 05/21/2012	900,320	3.54
20,000,000 JTDB 0.0% 06/11/2012	257,217	1.01
20,000,000 JTDB 0.0% 06/20/2012	257,213	1.01
40,000,000 JTDB 0.0% 07/20/2012	514,375	2.02
50,000,000 JTDB 0.0% 11/20/2012	642,751	2.53
Utilities	4,277	0.02
	<b>3,876,640</b>	<b>15.24</b>
Jersey (cost 6,290)		
Asset Backed Securities	6,689	0.03
Kazakhstan (cost 7,129)		
Energy	3,430	0.01
Financial	1,791	0.01
	<b>5,221</b>	<b>0.02</b>
Luxembourg (cost 22,491)		
Asset Backed Securities		
Financial	2,698	0.01
Industrial	4,060	0.02
Mortgage Backed Securities	1,734	0.01
	6,038	0.02
	<b>14,530</b>	<b>0.06</b>
Mexico (cost 503)		
Financial	371	0.00
Netherlands (cost 13,594)		
Mortgage Backed Securities	10,735	0.04

# Consolidated Condensed Schedule of Investments continued

31 December 2011

Cost is presented in US\$ '000	Market Value US\$ '000	% of Net Assets
<b>Long Portfolio (continued)</b>		
Fixed Income Securities (continued)		
Norway (cost 6,746)		
Energy	4,054	0.02
Portugal (cost 16,658)		
Financial	16,128	0.06
South Africa (cost 62,914)		
Government	62,988	0.25
Spain (cost 33,029)		
Government	31,314	0.12
United Kingdom (cost 3,360,079)		
Asset Backed Securities		
Government	10,372	0.04
600,000 UKT 3.7% 09/07/2019	1,064,177	4.18
282,600 UKT 3.7% 09/07/2020	503,269	1.98
7,170 UKT 3.7% 07/09/2021	12,762	0.05
121,000 UKT 3.7% 09/07/2021	215,367	0.85
117,400 UKT 3.7% 07/22/2052	209,172	0.82
683,300 UKT 4.5% 03/07/2019	1,267,462	4.99
57,400 UKT 4.7% 03/07/2020	109,047	0.43
25,000 UKTI 0.1% 03/22/2029	40,963	0.16
38,950 UKTI 1.9% 11/22/2022	88,658	0.35
Mortgage Backed Securities	83,877	0.33
	<b>3,605,126</b>	<b>14.18</b>
United States (cost 27,488,332)		
Asset Backed Securities		
	369,536	1.45
Basic Materials	8,263	0.03
Communications	1,726	0.01
Consumer, Cyclical	34,523	0.13
Consumer, Non-Cyclical	11,121	0.04
Energy	13,228	0.05
Financial	310,291	1.22
Government		
500,000 B 0.0% 01/12/2012	499,998	1.97
300,000 B 0.0% 02/09/2012	299,997	1.18
1,000,000 B 0.0% 03/01/2012	999,992	3.93
2,000,000 B 0.0% 03/08/2012	1,999,981	7.86
1,175,000 B 0.0% 05/04/2012	1,174,968	4.62
2,500,000 B 0.0% 05/03/2012	2,499,913	9.83
200,000 B 0.0% 05/10/2012	199,984	0.79
2,800,000 B 0.0% 05/31/2012	2,799,643	11.01
2,250,000 B 0.0% 06/28/2012	2,249,491	8.85
750,000 B 0.0% 09/20/2012	749,648	2.95
2,025,000 B 0.0% 10/18/2012	2,023,887	7.96
1,000,000 B 0.0% 11/15/2012	999,264	3.93
1,600,000 B 0.0% 12/13/2012	1,598,410	6.29



Cost is presented in US\$ '000		Market Value US\$ '000	% of Net Assets
<b>Long Portfolio (continued)</b>			
Fixed Income Securities (continued)			
United States (cost 27,488,332) (continued)			
12,312	T 1.0% 10/31/2016	12,393	0.05
504,532	T 1.4% 11/30/2015	518,682	2.04
29,419	T 1.7% 05/31/2016	30,685	0.12
2,204,447	T 2.0% 11/15/2021	2,219,086	8.73
45,107	T 2.1% 05/31/2015	47,553	0.19
43,031	T 2.1% 12/31/2015	45,539	0.18
23,634	T 2.4% 05/31/2018	25,251	0.10
15,379	T 2.4% 07/31/2017	16,482	0.06
362	T 2.6% 08/15/2020	389	0.00
780	T 2.7% 05/31/2017	851	0.00
427,268	T 2.7% 12/31/2017	466,807	1.84
1,341,570	T 3.1% 05/15/2021	1,491,763	5.87
492,800	T 3.1% 01/31/2017	546,257	2.15
500,000	T 3.1% 11/15/2041	518,984	2.04
128,044	T 3.5% 05/15/2020	146,790	0.58
515,783	T 3.7% 08/15/2041	601,451	2.37
4,409	T 3.9% 08/15/2040	5,240	0.02
45,097	T 4.2% 11/15/2040	57,034	0.22
39,521	T 4.6% 02/15/2040	52,883	0.21
14,851	T 4.7% 02/15/2041	20,302	0.08
122,250	T 7.5% 11/15/2016	160,878	0.63
67,261	TII 0.6% 04/15/2013	73,307	0.29
122,709	TII 2.0% 04/15/2012	137,532	0.54
116,405	TII 3.0% 07/15/2012	149,726	0.59
Industrial		15,900	0.06
Mortgage Backed Securities		1,530,532	6.01
		<b>27,736,161</b>	<b>109.07</b>
Venezuela (cost 6,589)			
Government		6,485	0.03
Virgin Islands, British (cost 4,597)			
Diversified		3,600	0.01
<b>Total Fixed Income Securities (cost 36,246,107)</b>		<b>36,506,280</b>	<b>143.56</b>
Private Placements			
Cyprus (cost 42,364)			
Property		35,459	0.14
Germany (cost 13,897)			
Funds		13,554	0.05

# Consolidated Condensed Schedule of Investments continued

31 December 2011

Cost is presented in US\$ '000		Market Value US\$ '000	% of Net Assets
<b>Long Portfolio (continued)</b>			
Private Placements (continued)			
Israel (cost 2,500)			
Technology		–	0.00
Italy (cost 4,415)			
Financial		–	0.00
United Kingdom (cost 267)			
Funds		257	0.00
United States (cost 8,922)			
Communications		2,735	0.01
Funds		2,690	0.02
		<b>5,425</b>	<b>0.03</b>
<b>Total Private Placements (cost 72,365)</b>		<b>54,695</b>	<b>0.22</b>
Interest Rate Guarantee Options (cost 967,809)			
EUR	termination dates through December 2049	482,299	1.90
GBP	termination dates through January 2040	248,264	0.98
KRW	termination dates through August 2012	5	0.00
SEK	termination dates through June 2012	1,172	0.00
USD	termination dates through October 2036	615,468	2.42
		<b>1,347,208</b>	<b>5.30</b>
Forward Rate Agreements			
EUR	termination dates through March 2013	12,904	0.05
ILS	termination dates through June 2012	391	0.00
NOK	termination dates through December 2012	191	0.00
PLN	termination dates through April 2012	443	0.00
SEK	termination dates through December 2013	25,403	0.10
USD	termination dates through March 2013	4,427	0.02
		<b>43,759</b>	<b>0.17</b>
Cross Currency Swaps			
DKK	termination dates through March 2017	7,308	0.03
EUR	termination dates through September 2012	51,376	0.20
GBP	termination dates through January 2014	70,436	0.28
SEK	termination dates through October 2014	49,347	0.19
TRY	termination dates through May 2017	44,659	0.18
USD	termination dates through December 2018	77,273	0.30
		<b>300,399</b>	<b>1.18</b>

Cost is presented in US\$ '000		Market Value US\$ '000	% of Net Assets
<b>Long Portfolio (continued)</b>			
<b>Interest Rate Swaps</b>			
AUD	termination dates through December 2013	4,777	0.02
BRL	termination dates through January 2014	27,596	0.11
CAD	termination dates through April 2031	8,433	0.03
CHF	termination dates through March 2041	53,832	0.21
CLP	termination dates through December 2013	327	0.00
CZK	termination dates through December 2021	36	0.00
EUR	termination dates through December 2051	1,343,362	5.28
GBP	termination dates through December 2069	606,366	2.38
HKD	termination dates through August 2018	2,086	0.01
ILS	termination dates through December 2021	20,278	0.08
JPY	termination dates through June 2031	25,578	0.10
KRW	termination dates through January 2016	1,957	0.01
MXN	termination dates through October 2012	263	0.00
MYR	termination dates through September 2013	1,997	0.01
NOK	termination dates through September 2013	57	0.00
PLN	termination dates through January 2012	1,698	0.01
RUB	termination dates through January 2012	3,567	0.01
SAR	termination dates through June 2013	64	0.00
SEK	termination dates through December 2031	1,062	0.01
TWD	termination dates through November 2012	253	0.00
USD	termination dates through June 2049	1,990,737	7.83
		<b>4,094,326</b>	<b>16.10</b>
<b>Credit Default Swaps (cost 865,266)</b>			
EUR	termination dates through December 2021	218,178	0.86
JPY	termination dates through December 2015	957	0.00
USD	termination dates through October 2052	877,227	3.45
		<b>1,096,362</b>	<b>4.31</b>
<b>Swaptions (cost 2,507,497)</b>			
AUD	termination dates through February 2012	28,108	0.11
CAD	termination dates through August 2013	319	0.00
EUR	termination dates through September 2032	1,447,884	5.69
GBP	termination dates through October 2037	1,906,115	7.50
HKD	termination dates through November 2012	4,687	0.02
JPY	termination dates through March 2014	41,157	0.16
SEK	termination dates through May 2013	198,247	0.78
USD	termination dates through October 2052	3,507,394	13.79
		<b>7,133,911</b>	<b>28.05</b>

# Consolidated Condensed Schedule of Investments continued

31 December 2011

Cost is presented in US\$ '000		Market Value US\$ '000	% of Net Assets
<b>Long Portfolio (continued)</b>			
<b>FX Contracts</b>			
AUD/JPY	termination dates through June 2014	19,233	0.08
AUD/USD	termination dates through June 2012	45,185	0.18
BRL/USD	termination dates through March 2012	29,231	0.11
CAD/USD	termination dates through September 2012	13,575	0.05
CHF/USD	termination dates through July 2018	164,073	0.65
CNH/USD	termination dates through January 2012	12,699	0.05
CNY/USD	termination dates through October 2012	29,831	0.12
EUR/BRL	termination dates through June 2012	105,657	0.42
EUR/CHF	termination dates through August 2017	76,275	0.30
EUR/GBP	termination dates through May 2012	11,899	0.05
EUR/JPY	termination dates through October 2012	29,155	0.11
EUR/USD	termination dates through June 2027	261,437	1.02
GBP/USD	termination dates through August 2012	38,010	0.15
INR/USD	termination dates through June 2012	47,938	0.19
JPY/USD	termination dates through January 2016	69,652	0.27
KRW/USD	termination dates through September 2012	19,180	0.08
RUB/USD	termination dates through December 2012	33,723	0.13
SGD/USD	termination dates through September 2012	23,537	0.09
TRY/USD	termination dates through December 2012	13,523	0.05
Other	termination dates through October 2012	60,963	0.24
		<b>1,104,776</b>	<b>4.34</b>
<b>Exchange Traded Futures</b>			
Euribor 3 month	termination dates through March 2015	32,726	0.13
Eurodollar	termination dates through June 2017	164,304	0.65
Euro	termination dates through March 2012	127,128	0.50
US Treasury Note	termination dates through March 2012	36,002	0.14
WTI Crude Oil	termination dates through November 2017	33,480	0.13
Other	termination dates through November 2012	23,575	0.09
		<b>417,215</b>	<b>1.64</b>
<b>Exchange Traded Options (cost 252,294)</b>			
Euribor 3 month	termination dates through September 2013	223,826	0.88
Eurodollar	termination dates through December 2012	131,179	0.52
Euro	termination dates through January 2012	19,320	0.08
Sterling 3 month	termination dates through March 2013	26,274	0.10
US Treasury Note	termination dates through February 2012	53,223	0.21
Other	termination dates through February 2012	2,700	0.01
		<b>456,522</b>	<b>1.80</b>
<b>Commodity Options (cost 1,416,114)</b>			
ICE BRENT	termination dates through December 2012	140,911	0.55
Natural Gas	termination dates through November 2017	165,515	0.65
WTI Crude Oil	termination dates through November 2017	489,731	1.93
Other	termination dates through December 2014	28,222	0.11
		<b>824,379</b>	<b>3.24</b>

Cost is presented in US\$ '000		Market Value US\$ '000	% of Net Assets
<b>Long Portfolio (continued)</b>			
Equity Options (cost 320,056)			
DAX Index	termination dates through February 2012	37,144	0.15
NIKKEI 225 Index	termination dates through December 2013	25,278	0.10
S&P 500	termination dates through September 2015	81,054	0.32
Other	termination dates through December 2014	31,446	0.12
		<b>174,922</b>	<b>0.69</b>
FX Options (cost 1,351,542)			
AUD/USD	termination dates through August 2012	28,807	0.11
EUR/AUD	termination dates through May 2012	15,394	0.06
EUR/BRL	termination dates through June 2012	27,702	0.11
EUR/CHF	termination dates through August 2012	25,708	0.10
EUR/GBP	termination dates through June 2012	11,600	0.05
EUR/HUF	termination dates through March 2012	26,967	0.11
EUR/NOK	termination dates through December 2012	15,052	0.06
EUR/SEK	termination dates through May 2012	21,146	0.08
EUR/USD	termination dates through January 2018	409,599	1.61
USD/BRL	termination dates through June 2012	15,994	0.06
USD/CAD	termination dates through June 2012	12,289	0.05
USD/CHF	termination dates through October 2027	119,670	0.47
USD/JPY	termination dates through March 2020	176,989	0.69
USD/TRY	termination dates through October 2012	27,062	0.11
XCU/USD	termination dates through December 2013	73,018	0.29
Other	termination dates through May 2014	131,138	0.52
		<b>1,138,135</b>	<b>4.48</b>
Equity Swaps		17,580	0.06
Investments in Affiliated Funds (cost 1,012,338)			
Brevan Howard Commodities Strategies Fund L.P.		209,986	0.82
Brevan Howard Emerging Market Strategies Fund L.P.		473,661	1.86
Brevan Howard Equity Strategies Master Fund Limited		1,743	0.01
Brevan Howard Investment Fund – Absolute Return Bond Plus Fund		101,145	0.40
Brevan Howard Investment Fund – Emerging Markets Local Fixed Income Fund		98,188	0.39
Brevan Howard Investment Fund – Emerging Markets Local Fixed Income Fund Limited		10,141	0.04
Brevan Howard Strategic Opportunities Fund Limited		4,790	0.02
Brevan Howard Systematic Trading Master Fund Limited		325,078	1.28
		<b>1,224,732</b>	<b>4.82</b>
<b>Total Investments at Market Value (cost 45,391,033)</b>		<b>56,301,714</b>	<b>221.40</b>

# Consolidated Condensed Schedule of Investments continued

31 December 2011

Proceeds are presented in US\$ '000	Market Value US\$ '000	% of Net Assets
<b>Short Portfolio</b>		
Equities		
Australia (proceeds (2,017))		
Basic Materials	(2,004)	(0.01)
Denmark (proceeds (6,758))		
Industrial	(6,983)	(0.03)
France (proceeds (25,208))		
Basic Materials	(3,235)	(0.01)
Consumer, Cyclical	(5,451)	(0.02)
Consumer, Non-Cyclical	(9,073)	(0.04)
Industrial	(4,375)	(0.02)
Utilities	(3,031)	(0.01)
	<b>(25,165)</b>	<b>(0.10)</b>
Germany (proceeds (21,054))		
Basic Materials	(1,606)	(0.01)
Consumer, Cyclical	(10,743)	(0.04)
Technology	(6,034)	(0.02)
Utilities	(1,335)	(0.01)
	<b>(19,718)</b>	<b>(0.08)</b>
Italy (proceeds (19,661))		
Consumer, Cyclical	(10,373)	(0.04)
Consumer, Non-Cyclical	(1,439)	(0.01)
Energy	(2,866)	(0.01)
Utilities	(153)	(0.00)
	<b>(14,831)</b>	<b>(0.06)</b>
Jersey (proceeds (1,237))		
Consumer, Cyclical	(1,320)	(0.01)
Luxembourg (proceeds (5,504))		
Basic Materials	(5,751)	(0.02)
Netherlands (proceeds (13,458))		
Basic Materials	(7,351)	(0.03)
Consumer, Non-Cyclical	(6,102)	(0.02)
Industrial	(591)	(0.00)
	<b>(14,044)</b>	<b>(0.05)</b>
Sweden (proceeds (7,961))		
Consumer, Cyclical	(3,984)	(0.01)
Industrial	(3,996)	(0.02)
	<b>(7,980)</b>	<b>(0.03)</b>

Proceeds are presented in US\$ '000	Market Value US\$ '000	% of Net Assets
<b>Short Portfolio (continued)</b>		
Equities (continued)		
Switzerland (proceeds (11,161))		
Communications	(1,494)	(0.01)
Consumer, Cyclical	(5,533)	(0.02)
Consumer, Non-Cyclical	(3,778)	(0.01)
	<b>(10,805)</b>	<b>(0.04)</b>
United Kingdom (proceeds (8,991))		
Energy	(9,146)	(0.04)
United States (proceeds (299,436))		
Basic Materials	(15,153)	(0.06)
Communications	(20,032)	(0.08)
Consumer, Cyclical	(66,940)	(0.26)
Consumer, Non-Cyclical	(1,756)	(0.01)
Financial	(9,958)	(0.04)
Funds	(145,549)	(0.57)
Industrial	(25,804)	(0.10)
Technology	(18,334)	(0.07)
	<b>(303,526)</b>	<b>(1.19)</b>
<b>Total Equities (proceeds (422,446))</b>	<b>(421,273)</b>	<b>(1.66)</b>
Fixed Income Securities		
France (proceeds (229,960))		
Government	(226,010)	(0.89)
Luxembourg (proceeds (34,063))		
Government	(33,197)	(0.13)
Netherlands (proceeds (72,949))		
Government	(73,703)	(0.29)
Spain (proceeds (60,598))		
Government	(60,968)	(0.24)
Turkey (proceeds (11,200))		
Government	(11,088)	(0.04)
United Kingdom (proceeds (95,124))		
Government	(94,992)	(0.37)
United States (proceeds (1,137,970))		
Financial	(3,876)	(0.02)
Government	(1,165,522)	(4.59)
Industrial	(5,932)	(0.02)
Mortgage Backed Securities	(7,581)	(0.03)
	<b>(1,182,911)</b>	<b>(4.66)</b>
<b>Total Fixed Income Securities (proceeds (1,641,864))</b>	<b>(1,682,869)</b>	<b>(6.62)</b>

# Consolidated Condensed Schedule of Investments continued

31 December 2011

Proceeds are presented in US\$ '000		Market Value US\$ '000	% of Net Assets
<b>Short Portfolio (continued)</b>			
Interest Rate Guarantee Options (proceeds (282,480))			
EUR	termination dates through December 2041	(55,193)	(0.22)
GBP	termination dates through June 2030	(82,940)	(0.33)
SEK	termination dates through June 2012	(535)	(0.00)
USD	termination dates through September 2028	(456,473)	(1.79)
		<b>(595,141)</b>	<b>(2.34)</b>
Forward Rate Agreements			
EUR	termination dates through March 2014	(85,975)	(0.34)
ILS	termination dates through October 2012	(485)	(0.00)
NOK	termination dates through December 2012	(98)	(0.00)
SEK	termination dates through December 2013	(26,187)	(0.10)
USD	termination dates through June 2012	(2,352)	(0.01)
		<b>(115,097)</b>	<b>(0.45)</b>
Cross Currency Swaps			
EUR	termination dates through March 2017	(7,541)	(0.03)
JPY	termination dates through August 2013	(26,920)	(0.11)
RON	termination dates through September 2012	(52,373)	(0.21)
SEK	termination dates through June 2012	(1,234)	(0.00)
TRY	termination dates through December 2018	(50,943)	(0.20)
USD	termination dates through May 2017	(163,964)	(0.64)
		<b>(302,975)</b>	<b>(1.19)</b>
Interest Rate Swaps			
BRL	termination dates through January 2014	(25,178)	(0.10)
CAD	termination dates through April 2036	(105,174)	(0.41)
CHF	termination dates through September 2036	(36,734)	(0.14)
CLP	termination dates through December 2013	(640)	(0.00)
CZK	termination dates through December 2021	(2,146)	(0.01)
EUR	termination dates through June 2059	(1,642,916)	(6.46)
GBP	termination dates through December 2061	(755,199)	(2.97)
HKD	termination dates through October 2021	(4,723)	(0.02)
ILS	termination dates through July 2021	(4,228)	(0.02)
JPY	termination dates through January 2036	(19,814)	(0.08)
KRW	termination dates through January 2021	(2,223)	(0.01)
MXN	termination dates through March 2013	(1,302)	(0.00)
MYR	termination dates through October 2021	(153)	(0.00)
NZD	termination dates through June 2014	(15,596)	(0.06)
PLN	termination dates through January 2012	(1,512)	(0.01)
SAR	termination dates through May 2012	(557)	(0.00)
SEK	termination dates through December 2031	(108)	(0.00)
SGD	termination dates through May 2015	(2,822)	(0.01)
TWD	termination dates through March 2016	(1,325)	(0.01)
USD	termination dates through December 2051	(2,228,290)	(8.76)
		<b>(4,850,640)</b>	<b>(19.07)</b>



Proceeds are presented in US\$ '000		Market Value US\$ '000	% of Net Assets
<b>Short Portfolio (continued)</b>			
Credit Default Swaps (proceeds (1,058,283))			
EUR	termination dates through January 2050	(397,515)	(1.56)
GBP	termination dates through June 2016	(336)	(0.00)
JPY	termination dates through June 2016	(1,564)	(0.01)
USD	termination dates through October 2052	(952,562)	(3.75)
		<b>(1,351,977)</b>	<b>(5.32)</b>
Swaptions (proceeds (1,201,817))			
AUD	termination dates through February 2012	(41,390)	(0.16)
EUR	termination dates through June 2036	(773,352)	(3.04)
GBP	termination dates through May 2030	(559,456)	(2.20)
JPY	termination dates through March 2014	(26,176)	(0.10)
SEK	termination dates through May 2013	(183,249)	(0.72)
USD	termination dates through June 2036	(2,990,525)	(11.76)
		<b>(4,574,148)</b>	<b>(17.98)</b>
FX Contracts			
AUD/USD	termination dates through March 2012	(46,621)	(0.19)
BRL/USD	termination dates through June 2012	(37,702)	(0.15)
CHF/USD	termination dates through July 2018	(145,011)	(0.57)
CNY/USD	termination dates through August 2012	(34,993)	(0.14)
EUR/BRL	termination dates through March 2012	(105,722)	(0.42)
EUR/CHF	termination dates through August 2017	(92,676)	(0.36)
EUR/GBP	termination dates through June 2012	(12,659)	(0.05)
EUR/NOK	termination dates through May 2012	(16,083)	(0.06)
EUR/USD	termination dates through June 2027	(292,680)	(1.15)
GBP/USD	termination dates through June 2012	(89,139)	(0.35)
INR/USD	termination dates through June 2012	(49,198)	(0.19)
JPY/USD	termination dates through November 2013	(183,017)	(0.72)
Other	termination dates through March 2012	(116,490)	(0.46)
		<b>(1,221,991)</b>	<b>(4.81)</b>
Exchange Traded Futures			
Euribor 3 month	termination dates through December 2013	(36,583)	(0.14)
Eurodollar	termination dates through September 2021	(273,834)	(1.08)
Natural Gas	termination dates through November 2015	(18,095)	(0.07)
US Treasury Note	termination dates through March 2012	(21,709)	(0.09)
Other	termination dates through November 2018	(33,757)	(0.13)
		<b>(383,978)</b>	<b>(1.51)</b>
Exchange Traded Options (proceeds (293,112))			
Euribor 3 month	termination dates through September 2013	(122,382)	(0.48)
Euro	termination dates through January 2012	(23,931)	(0.09)
Eurodollar	termination dates through February 2014	(142,239)	(0.56)
Sterling 3 month	termination dates through December 2012	(23,229)	(0.09)
US Treasury Note	termination dates through February 2012	(38,659)	(0.15)
Other	termination dates through February 2012	(6,649)	(0.03)
		<b>(357,089)</b>	<b>(1.40)</b>

# Consolidated Condensed Schedule of Investments *continued*

31 December 2011

Proceeds are presented in US\$ '000		Market Value US\$ '000	% of Net Assets
<b>Short Portfolio (continued)</b>			
Commodity Options (proceeds (1,013,922))			
ICE BRENT	termination dates through December 2014	(161,206)	(0.64)
Natural Gas	termination dates through November 2017	(47,684)	(0.19)
WTI Crude Oil	termination dates through November 2015	(388,097)	(1.52)
Other	termination dates through May 2014	(12,962)	(0.05)
		<b>(609,949)</b>	<b>(2.40)</b>
Equity Options (proceeds (236,719))			
DAX Index	termination dates through February 2012	(29,917)	(0.12)
S&P 500	termination dates through December 2013	(109,926)	(0.43)
Other	termination dates through December 2014	(11,327)	(0.04)
		<b>(151,170)</b>	<b>(0.59)</b>
FX Options (proceeds (1,232,977))			
EUR/CHF	termination dates through October 2012	(60,146)	(0.24)
EUR/GBP	termination dates through May 2012	(12,877)	(0.05)
EUR/HUF	termination dates through March 2012	(19,904)	(0.08)
EUR/NOK	termination dates through May 2012	(11,893)	(0.05)
EUR/SEK	termination dates through May 2012	(17,457)	(0.07)
EUR/USD	termination dates through November 2013	(249,418)	(0.98)
GBP/USD	termination dates through August 2012	(15,322)	(0.06)
USD/CHF	termination dates through November 2017	(33,286)	(0.13)
USD/JPY	termination dates through December 2020	(406,119)	(1.60)
USD/KRW	termination dates through September 2012	(23,608)	(0.09)
USD/SGD	termination dates through June 2012	(13,970)	(0.05)
XCU/USD	termination dates through December 2013	(72,533)	(0.28)
Other	termination dates through March 2020	(72,543)	(0.29)
		<b>(1,009,076)</b>	<b>(3.97)</b>
Equity Swaps		(14,392)	(0.06)
<b>Total Investments sold short at Market Value (proceeds (7,383,620))</b>		<b>(17,641,765)</b>	<b>(69.37)</b>

See accompanying notes to the Consolidated Financial Statements.

# Consolidated Statement of Operations

31 December 2011

	2011 US\$ '000
<b>Investment income</b>	
Interest income	762,305
Dividend income (net of withholding tax of US\$1,840)	5,720
<b>Total income</b>	<b>768,025</b>
<b>Expenses</b>	
Interest expense	405,408
Professional fees and other	6,073
Operational services fee (Note 4)	124,267
Management fee (Note 5)	27,739
Administration fee (Note 6)	28,460
Commission for futures and options	114,896
Dividend expense on investments sold short	8,112
Performance fee (Note 5)	17,220
<b>Total expenses</b>	<b>732,175</b>
<b>Net investment income</b>	<b>35,850</b>
<b>Net realised and unrealised gain/(loss) on investments</b>	
Net realised gain on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase (Note 2)	5,437,251
Net change in unrealised depreciation on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase (Note 2)	(1,426,343)
<b>Net realised and unrealised gain on investments</b>	<b>4,010,908</b>
<b>Net increase in net assets resulting from operations</b>	<b>4,046,758</b>

Withholding tax is presented in US\$'000.

See accompanying notes to the Consolidated Financial Statements.

# Consolidated Statement of Changes in Net Assets

31 December 2011

	2011 US\$ '000
<b>Net increase in net assets resulting from operations</b>	
Net investment income	35,850
Net realised gain on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase	5,437,251
Net change in unrealised depreciation on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase	(1,426,343)
	<b>4,046,758</b>
<b>Share Capital Transactions</b>	
<i>Issue of shares</i>	
US Dollar Class A	2,271,535
US Dollar L.P. Class A	443,784
Euro Class A	120,201
Sterling Class A	508,550
Yen Class A	193,368
Australian Dollar Class A	18,255
Brazilian Real Class A	1,991
Canadian Dollar Class A	120,122
Norwegian Krone Class A	43,376
Singapore Dollar Class A	181,269
Gold Class A	7,307
US Dollar Class B	3,377
Sterling Class B	162,325
US Dollar Class Y	17,288
Euro Class Y	4,452
Sterling Class Y	85,037
US Dollar Class Z	310,427
Euro Class Z	14,942
Sterling Class Z	319,125
Yen Class Z	12,280

	2011 US\$ '000
Redemption of Shares	
US Dollar Class A	(4,524,389)
US Dollar L.P. Class A	(904,235)
Euro Class A	(626,306)
Sterling Class A	(477,111)
Yen Class A	(150,754)
Australian Dollar Class A	(186,600)
Canadian Dollar Class A	(79,885)
Singapore Dollar Class A	(3,327)
Swiss Franc Class A	(127,766)
US Dollar Class B	(55,891)
Euro Class B	(146,713)
Sterling Class B	(58,478)
US Dollar Class Y	(39,462)
Euro Class Y	(4,917)
Sterling Class Y	(11,168)
US Dollar Class Z	(220,000)
Euro Class Z	(10,513)
Sterling Class Z	(17,263)
Equalisation write back (Note 15)	73
<b>Net increase in net assets</b>	<b>1,241,064</b>
<b>Net assets – beginning of year</b>	<b>24,188,823</b>
<b>Net assets – end of year</b>	<b>25,429,887</b>

See accompanying notes to the Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

31 December 2011

2011  
US\$ '000

<b>Cash flows from operating activities:</b>	
<b>Net increase in net assets resulting from operations</b>	<b>4,046,758</b>
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:	
Increase in investments at market value	(3,032,407)
Decrease in investments purchased under agreement to resell	2,077,000
Decrease in dividends and interest receivable	62,599
Increase in other assets	(215)
Increase in due from broker	(9,393,986)
Decrease in securities sold short at market value	(7,412,149)
Increase in due to broker	8,066,243
Decrease in accounts payable and accrued expenses	(2,310)
Decrease in dividends and interest payable	(182,133)
Decrease in performance fee payable	(6,539)
<b>Net cash used in operating activities</b>	<b>(5,777,139)</b>
<b>Cash flows from financing activities</b>	
Proceeds on issue of shares	4,812,977
Payment on redemption of shares	(6,428,392)
Equalisation factor	1,071
Decrease in investments purchased under agreement to resell	13,826,830
Decrease in investments sold under agreement to repurchase	(6,460,724)
<b>Net cash provided by financing activities</b>	<b>5,751,762</b>
<b>Net decrease in cash</b>	<b>(25,377)</b>
<b>Cash – beginning of year</b>	<b>25,411</b>
<b>Cash – end of year</b>	<b>34</b>

Non-cash financing activities not included herein consist of:  
 Movement in long-term interest-bearing subscriptions receivable of US\$5,945,239.  
 Movement in redemptions payable of US\$1,216,385,866.

See accompanying notes to the Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

31 December 2011

## 1. Organisation

Brevan Howard Master Fund Limited (the "Master Fund") is an exempted limited liability company which was incorporated under the Companies Law of the Cayman Islands on 22 January 2003 and commenced trading on 1 April 2003. The Master Fund registered under the Mutual Funds Law of the Cayman Islands on 4 March 2003.

The Master Fund seeks to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The Master Fund's investment strategy is comprised of global investment strategies, and a number of long and short strategies that may have directional risk.

Brevan Howard Capital Management L.P. (the "Manager"), acting through its sole general partner, Brevan Howard Capital Management Limited, is the Manager of the Master Fund.

The Manager has appointed each of: (i) Brevan Howard Asset Management LLP ("BHAM"); (ii) Brevan Howard Investment Products Limited ("BH IPL"); (iii) Brevan Howard (Hong Kong) Limited; (iv) Brevan Howard (Israel) Limited; (v) DW Investment Management, L.P and (vi) BH-DG Systematic Trading LLP, as Investment Managers of the Master Fund's assets, in each case subject to risk oversight and treasury management by BH IPL and/or BHAM. The Manager may in future appoint additional Investment Managers provided that they are affiliates of the Manager or the Investment Managers.

The Manager and the Investment Managers (and/or their members, Directors, employees, related entities and connected persons and their respective members, Directors and employees) may subscribe, directly or indirectly, for shares and/or interests in the Master Fund's feeder funds. The feeder funds comprise of Brevan Howard Fund Limited, Brevan Howard L.P. and BH Macro Limited (together the "Feeder Funds").

The registered office of the Master Fund is at M&C Corporate Services Limited, P.O. Box 309, George Town, Grand Cayman, KY1-1104, Cayman Islands.

## 2. Significant accounting policies

### Basis of preparation

The accompanying Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Consolidated Financial Statements are presented in US Dollars.

### Security transactions and valuation

Security transactions are accounted for on a trade date basis.

Most positions of the Master Fund and its Subsidiaries are priced at the same time each day. This provides reliable comparative

pricing of positions which are traded in different markets. A snapshot of all markets (excluding Pacific Rim and Australasia) is made at 4:00 p.m. GMT. Pacific Rim and Australasia positions are priced as at local end-of-day mid market levels. The investment valuation under the method employed by the Master Fund and its Subsidiaries as at 31 December 2011 is not materially different to the investment valuation using the last quoted price.

Instruments with directly observable prices are priced to independent external data sources (e.g. exchange traded futures, options, equities, government and corporate debt securities). Illiquid credit markets have resulted in inactive markets for certain of the Master Fund and its Subsidiaries' financial instruments. As a result, there is no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments for which no or limited observable market data is available are based on judgments regarding current economic conditions, liquidity discounts, currency, credit, and interest rate risks, loss experience and other factors. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result, such calculated fair value estimates may not be realisable in a current sale or immediate settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique, including discount rates, liquidity risks and estimates of future cash flows, could significantly affect these fair value estimates.

Estimates of the fair value Level 3 assets and liabilities as defined by the Accounting Standards Codification ("ASC") 820 of the Master Fund and its Subsidiaries' financial instruments are disclosed in Note 3.

Investments in other funds are valued at the latest available reported NAV of the respective fund received from that fund's administrator. In some cases these may be unaudited NAVs.

Some instruments may be priced using models in which some or all parameters are not directly driven by market – observable levels (e.g. unlisted securities, multifaceted options or private placements).

OTC swap, forward and option values are determined based on relevant market information on the underlying reference assets which may include credit spreads, credit event probabilities, index values, individual security values, forward interest rates, variable interest rates, volatility measures and forward currency rates.

Realised gains and losses on investments are calculated using the highest in first out method. Realised and unrealised gains and losses are recorded at the reporting date in the Consolidated Statement of Operations.

# Notes to the Consolidated Financial Statements

continued

31 December 2011

## 2. Significant accounting policies (continued)

### Income and expense recognition

Interest income and expense including prime broker and ISDA/ISMA interest is recognised in the Consolidated Statement of Operations on an accruals basis.

Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income on long positions is recognised on the ex-dividend date and dividend declared on short positions existing on the record date is recognised on the ex-dividend date as an expense in the Consolidated Statement of Operations.

### Investments purchased under agreements to resell and investments sold under agreements to repurchase

The Master Fund and its Subsidiaries enter into investments purchased under agreements to resell and investments sold under agreements to repurchase. These agreements are accounted for as collateralised investments and are recorded at cost plus accrued interest.

The Investment Managers monitor the market value of the Master Fund and its Subsidiaries' underlying contract amounts, including accrued interest, and requests or provides additional collateral where deemed appropriate. Interest on investments purchased under agreements to resell and investments sold under agreements to repurchase is accrued on a daily basis.

### Asset-Backed Securities

The Master Fund and its Subsidiaries may invest in asset-backed securities. These securities include mortgage backed securities, collateralised debt obligations and other asset-backed securities representing interests in pools of loans or other receivables. Mortgage backed securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. The rate of pre-payments on underlying assets will affect the price and volatility of an asset backed security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase.

Collateralised Debt Obligations ("CDOs") include Collateralised Bond Obligations, Collateralised Loan Obligations and other similarly structured securities. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Master Fund and its Subsidiaries invest. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the quality of the collateral may decline in value or default, (iii) the Master Fund and its Subsidiaries may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may produce disputes with the issuer or unexpected investment results.

### Derivative financial instruments

The Master Fund and its Subsidiaries use derivative financial instruments such as forward exchange contracts, options, futures contracts, forward rate agreements and swaps, which are recorded at fair value at the reporting date. Realised and unrealised changes in fair values are included in realised and unrealised gains and losses on investments in the Consolidated Statement of Operations in the period in which the changes occur. The fair value of derivative financial instruments at the reporting date generally reflects the amount that the Master Fund and its Subsidiaries would receive or pay to terminate the contract at the reporting date. Many derivative financial instruments are exchange traded or are traded in the over-the-counter market where market values are normally readily obtainable. Where such market prices are not readily available, fair values will be determined using commercial products which utilise valuation models that are consistent with market pricing methods.

When the Master Fund and its Subsidiaries purchase a put or call option, an amount, equal to the premium paid by the Master Fund and its Subsidiaries, is recorded as an investment and is subsequently adjusted to the current fair value of the option purchased on the reporting date.

Premiums paid for purchasing options that expire unexercised are treated by the Master Fund and its Subsidiaries on the expiration date as realised losses from investments. The difference between the premium and the amount received on writing an option to effect a closing transaction, including brokerage commissions, is also treated as a realised loss, or, if the premium is less than the amount received from the closing transaction, as a realised gain. If a call option is exercised, the premium is added to the cost of purchase of the underlying security or currency in determining whether the Master Fund and its Subsidiaries has realised a gain or loss. If a put option is exercised, the premium reduces the proceeds of the securities sold by the Master Fund and its Subsidiaries.

Unrealised gains or losses on open forward foreign exchange contracts and forward rate agreements represent the Master Fund and its Subsidiaries' net equity therein and is calculated as the present value of the difference between the contract date rate and the applicable forward rate at the reporting date, applied to the face amount of the forward contract. The unrealised gain or loss at the reporting date is included in the Consolidated Statement of Assets and Liabilities.

Unrealised gains or losses on open futures contracts are calculated as the difference between the contract price at trade date and the contract's revaluation price. Any payments made to satisfy initial and variation margin are reflected as due to and due from broker balances on the Consolidated Statement of Assets and Liabilities.

Unrealised gains or losses on swap agreements represent the cumulative fair value change since the last reporting date and are calculated as the present value of the future net cash flows to be received and paid under the agreement.



**2. Significant accounting policies (continued)****Derivative financial instruments (continued)**

The following table sets forth the fair value of the Master Fund and its Subsidiaries' derivative contracts by certain risk types as of 31 December 2011 in accordance with ASC 815. The values in the table below exclude the effects of cash received or posted pursuant to derivative contracts, and therefore are not representative of the Master Fund and its Subsidiaries' net exposure. The derivative assets and derivative liabilities are included in "Investments at market value" and "Investments sold short at market value", respectively, in the Consolidated Statement of Assets and Liabilities.

Derivative contracts for trading activities	Derivative Assets US\$ '000	Derivative Liabilities US\$ '000
Commodity Contracts (1,056 open positions)	861,396	650,248
Credit Contracts (842 open positions)	1,096,362	1,351,977
Equity Contracts (299 open positions)	195,620	169,904
Foreign Exchange Contracts (5,415 open positions)	2,543,564	2,534,061
Interest Rate Contracts (4,161 open positions)	13,452,552	10,831,433
<b>Gross Fair Value of Derivative Contracts</b>	<b>18,149,494</b>	<b>15,537,623</b>

The following table sets forth by certain risk types the Master Fund and its Subsidiaries' gains/(losses) related to derivative activities for the year ended 31 December 2011 in accordance with ASC 815. These gains/(losses) should be considered in the context that derivative contracts may have been executed to economically hedge certain securities and accordingly, certain gains or losses on derivative contracts may offset certain gains or losses attributable to securities. These gains/(losses) are included in "Net realised and unrealised gain/(loss) on investments" in the Consolidated Statement of Operations.

Derivative contracts for trading activities	Realised Gains/(Losses) Year Ended 31 December 2011 US\$ '000	Change in Unrealised Gains/(Losses) Year Ended 31 December 2011 US\$ '000
Commodity Contracts	416,202	(240,451)
Credit Contracts	(34,026)	(64,184)
Equity Contracts	(30,965)	(15,122)
Foreign Exchange Contracts	(770,220)	(179,043)
Interest Rate Contracts	4,008,443	(639,462)
<b>Total</b>	<b>3,589,434</b>	<b>(1,138,262)</b>

The Master Fund and its Subsidiaries enter into derivative contracts that meet the definition of a credit derivative as defined by ASC 815. These contracts are primarily written and purchased credit default swaps on single issuers, asset-backed securities, credit indices and index or CDO tranches.

The following table relates to the Master Fund and its Subsidiaries' written credit derivatives as at 31 December 2011:

**Maximum Payout/Notional Amount by Period of Expiration**

Contract Type	0-2 Years '000	2-5 Years '000	5 Years or Greater '000	Total '000
Bespoke CDO tranches	69,047	211,125	–	280,172
Corporates	(194)	125,394	40,037	165,237
Credit index – corporate	–	516,600	–	516,600
Credit index – mortgage backed	–	–	580,545	580,545
Credit index tranche – corporate	332,561	103,966	(34,871)	401,656
Mortgage backed	–	–	5,604	5,604
Recovery Swap	–	5,000	–	5,000
Sovereign	(2,500)	1,227,385	1,052	1,225,937
<b>Total</b>	<b>398,914</b>	<b>2,189,470</b>	<b>592,367</b>	<b>3,180,751</b>

# Notes to the Consolidated Financial Statements

continued

31 December 2011

## 2. Significant accounting policies (continued)

### Derivative financial instruments (continued)

#### Maximum Payout/Notional Amount

Contract Type	Written Credit Derivative '000	Offsetting Purchased Credit Derivative '000	Net of Offsetting Purchased Credit Derivative '000	Written Credit Derivative at Fair Value US\$ '000
Bespoke CDO tranches	280,172	–	280,172	(121,375)
Corporates	286,364	(121,127)	165,237	(15,487)
Credit index – corporate	552,973	(36,373)	516,600	(36,896)
Credit index – mortgage backed	744,045	(163,500)	580,545	(375,977)
Credit index tranche – corporate	484,958	(83,302)	401,656	(202,190)
Mortgage backed	5,604	–	5,604	(5,462)
Recovery Swap	5,000	–	5,000	(45)
Sovereign	1,636,150	(410,213)	1,225,937	(34,757)
<b>Total</b>	<b>3,995,266</b>	<b>(814,515)</b>	<b>3,180,751</b>	<b>(792,189)</b>

The Master Fund and its Subsidiaries may execute these types of credit derivatives as it seeks to increase its total return or as a means of hedging credit exposure.

Period of expiration, contract type, maximum payout and fair value are indicators of payment / performance risk. As a provider of credit protection, the Master Fund and its Subsidiaries receive a stream of payments from the counterparty representing the premium on the contract in exchange for guaranteeing the principal payment on a reference security or obligation upon the issuer's default. Upon the occurrence of a specified credit event, as a seller of credit protection, the Master Fund and its Subsidiaries are entitled to take possession of the defaulted underlying security and pay the buyer an amount equal to the notional amount of the swap. It may alternatively pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap reduced by the recovery value of the reference obligation.

#### Investments sold short

The Master Fund and its Subsidiaries may sell a security it does not own in anticipation of a decline in the market value of that security. When the Master Fund and its Subsidiaries sell a security short, it must borrow the security and deliver it to the broker-dealer through which it made the short sale. The Master Fund and its Subsidiaries are required to maintain collateral with the broker-dealer from which the security was borrowed. A gain, limited to the value at which the Master Fund and its Subsidiaries sold the security short, or a loss, unlimited in size, will be recognised upon the termination of a short sale and recorded as a net realised gain or loss on investments in the Consolidated Statement of Operations. Investments sold short are recorded as liabilities on the Consolidated Statement of Assets and Liabilities.

#### Foreign currency translation

Investment securities and other assets and liabilities denominated in foreign currencies are translated into US Dollar amounts at prevailing exchange rates at the reporting date. Purchases and sales of investment securities in foreign currencies and income and expense items denominated in foreign currencies are translated into US Dollar amounts at the exchange rate on the respective dates of such transactions.

The Master Fund and its Subsidiaries do not isolate that portion of the results of operations resulting from changes in currency exchange rates on investments from the fluctuations arising from changes in market prices of securities held. All currency gains and losses are included in net realised and unrealised gain or loss from investments in the Consolidated Statement of Operations.

## 2. Significant accounting policies (continued)

### Use of estimates

The preparation of Consolidated Financial Statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. In particular, valuation models used to determine the fair value of unlisted derivative instruments require the use of a number of assumptions.

### Netting

Financial assets and liabilities are offset and the net amount presented in the Statement of Assets and Liabilities when, and only when, the Master Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under U.S. GAAP.

### Basis of consolidation

The Master Fund has consolidated the following entities (together the "Subsidiaries") as at 31 December 2011:

- BHMF Investments II Limited, a company incorporated with limited liability on 7 May 2010 under the laws of the Cayman Islands;
- BHMF Investments III Limited, a company incorporated with limited liability on 23 May 2011 under the laws of the Cayman Islands;
- WCG Strategies Fund Limited, a company incorporated with limited liability on 27 October 2008 under the laws of the Cayman Islands;

The Master Fund owns 100% of BHMF Investments II Limited, 100% of BHMF Investments III Limited and 100% of WCG Strategies Fund Limited as at 31 December 2011.

The Consolidated Financial Statements include full consolidation of wholly owned subsidiaries and of majority owned subsidiaries, except where the effect on the Master Fund's financial position and results of operations are immaterial. Transactions between the Master Fund and the Subsidiaries have been eliminated on consolidation.

### Cash

Cash consists of cash on hand and bank balances.

### Due from and to brokers

Amounts receivable from and payable to brokers includes settlement of trades along with deposits held as collateral. As at 31 December 2011, deposits held as collateral amounted to US\$720,341,594 and amounts pledged as collateral amounted to US\$2,663,084,661.

### Allocation of income and expenses between share classes

Income and expenses that are identifiable with a particular class are allocated to that class in computing its Net Asset Value (NAV).

Income and expenses that are common to all classes are allocated between classes based on their monthly NAVs.

## 3. Fair value measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price).

The fair value hierarchy under ASC 820 prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for instruments that are identical or similar in markets that are not active and model derived valuations for which all significant inputs are observable, either directly or indirectly in active markets;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

# Notes to the Consolidated Financial Statements

continued

31 December 2011

## 3. Fair value measurements (continued)

The hierarchy requires the use of observable market data when available. As required by ASC 820, investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following is a summary of the levels within the fair value hierarchy for the Master Fund and its Subsidiaries' investments as at 31 December 2011:

### Assets

Fair value measurement at reporting date:	Level 1: US\$ '000	Level 2: US\$ '000	Level 3: US\$ '000	Total US\$ '000
Equity Securities	358,859	7,654	–	366,513
Private Placements	–	–	54,695	54,695
Funds	–	1,224,732	–	1,224,732
Fixed Income Securities				
Asset Backed Securities	–	371,459	31,863	403,322
Corporate Debt Securities	453,337	2,769	537	456,643
Mortgage Backed Securities	–	1,630,839	48,249	1,679,088
Non US Government Debt	8,506,456	–	–	8,506,456
Other Debt Obligations	–	19,730	–	19,730
US Government Debt	25,441,041	–	–	25,441,041
Derivatives				
Commodity Contracts	861,396	–	–	861,396
Credit Contracts	–	1,096,362	–	1,096,362
Equity Contracts	171,468	24,152	–	195,620
Foreign Exchange Contracts	255	2,543,309	–	2,543,564
Interest Rate Contracts	823,254	12,629,298	–	13,452,552
<b>Total assets</b>	<b>36,616,066</b>	<b>19,550,304</b>	<b>135,344</b>	<b>56,301,714</b>

### Liabilities

Fair value measurement at reporting date:	Level 1: US\$ '000	Level 2: US\$ '000	Level 3: US\$ '000	Total US\$ '000
Equity Securities	421,273	–	–	421,273
Fixed Income Securities				
Corporate Debt Securities	9,808	–	–	9,808
Mortgage Backed Securities	–	7,581	–	7,581
Non US Government Debt	499,958	–	–	499,958
US Government Debt	1,165,522	–	–	1,165,522
Derivatives				
Commodity Contracts	649,992	256	–	650,248
Credit Contracts	–	1,351,977	–	1,351,977
Equity Contracts	145,892	24,012	–	169,904
Foreign Exchange Contracts	19	2,534,042	–	2,534,061
Interest Rate Contracts	692,194	10,139,239	–	10,831,433
<b>Total liabilities</b>	<b>3,584,658</b>	<b>14,057,107</b>	<b>–</b>	<b>17,641,765</b>

### 3. Fair value measurements (continued)

The fair value of Equity Securities by industry type is presented in the Consolidated Condensed Schedule of Investments.

Foreign exchange contracts include foreign exchange futures, forwards, swaps, options and any other derivative contract in which the reference asset is a foreign exchange rate. Commodity contracts include commodity futures and options and any other derivative contract in which the reference asset is a commodity price or index. Credit contracts include credit default swaps, credit index options and any other derivative contract in which the reference asset is a credit event or other credit risk on an underlying entity, financial asset or a credit index. Equity contracts include equity futures, forwards, options, swaps, contracts for difference and any other derivative contract in which the reference asset is an equity price or index. Interest rate contracts include interest rate futures, forwards, swaps, options, caps and floors, swaptions, forward rate agreements and any other derivative contract in which the reference asset is an interest rate or debt security.

The Master Fund and its Subsidiaries policy is to recognise transfers in and transfers out of each level as at the end of each month.

Transfers in and transfers out of Level 3 have occurred due to the change in availability of observable market data.

There were no significant transfers between Level 1 and Level 2 during the year ended 31 December 2011. The Master Fund had no investments measured at fair value on a non-recurring basis during the year ended 31 December 2011.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Master Fund and its Subsidiaries have classified within the Level 3 category. As a result, the unrealised gains and losses for assets within the Level 3 category in the table below may include changes in fair value that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

#### Level 3 Assets

Investments	Asset Backed Securities US\$ '000	Corporate Debt US\$ '000	Mortgage Backed Securities US\$ '000	Other Debt Obligations US\$ '000	Private Placement US\$ '000	Total US\$ '000
Beginning balance as of 1 January 2011	5,893	–	795	2,221	70,491	79,400
Purchases	54,956	7,987	66,346	–	6,588	135,877
Sales	(18,224)	(6,247)	(28,924)	(311)	(23,280)	(76,986)
Transfers in to Level 3	24,164	–	42,318	–	–	66,482
Transfers out of Level 3	(31,120)	–	(26,486)	(1,942)	–	(59,548)
Realised gain/(loss)	1,545	–	2,211	(3)	1,739	5,492
Change in unrealised gain/(loss)	(5,351)	(1,203)	(8,011)	35	(843)	(15,373)
<b>Ending balance as of 31 December 2011</b>	<b>31,863</b>	<b>537</b>	<b>48,249</b>	<b>–</b>	<b>54,695</b>	<b>135,344</b>

#### Liabilities

At 31 December 2011, there were no Level 3 investments held short.

The change in unrealised movement for the year ended 31 December 2011 for Level 3 investments still held at 31 December 2011 amounted to an unrealised loss of US\$15,372,768 and is included in net change in unrealised depreciation on investments, investments purchased under agreements to resell and investments sold under agreements to repurchase on the Consolidated Statement of Operations.

# Notes to the Consolidated Financial Statements

continued

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## 4. Operational services fee

The Manager has received from the Master Fund a fee of 1/12 of 0.50% per month of the NAV, prior to the deduction of management and performance fees, of the Master Fund for the year to 31 December 2011 (the "operational services fee") as at the last valuation day in each month (excluding for these purposes such part of the NAV of the Master Fund which is attributable to (i) any investments made in other investment funds managed by the Manager which also charge an operational services fee, or (ii) the Class Z ordinary shares in the Master Fund). The Manager has appointed BHAM to provide certain services in respect of the Master Fund (including middle-office and back-office services and information technology services), for which the Manager pays BHAM a fee equal to the operational services fee the Manager receives from the Master Fund.

The operational services fee for the year ended 31 December 2011 amounted to US\$124,266,796. The operational services fee receivable at 31 December 2011 is US\$46,430.

## 5. Management and performance fees

The Manager receives a management fee of 1/12 of 2% (or a pro rata proportion thereof) per month of the NAV (before deduction of that month's management fee and before making any deduction for any accrued performance fee) as at the last valuation day in each month, payable monthly in arrears on Class X shares and Class Y shares. No management fees are payable in respect of Class A shares, Class B shares and Class Z shares. The management fee payable at 31 December 2011 is US\$2,808.

The Manager also receives a performance fee. The performance fee is equal to the relevant percentage of the appreciation in the NAV per share of that class during that calculation period which is above the base NAV of that class. The base NAV per share is the greater of the NAV per share of the relevant class at the time of issue of such share and the highest NAV per share achieved as at the end of any previous calculation period.

For the Master Fund, the applicable performance fees are 20% for Class X and 25% for Class Y. No performance fees are payable in respect of Class A shares, Class B shares and Class Z shares. Performance fees may be settled in cash or in the cash equivalent of US Treasury Bills at fair value on the date of transfer. In respect of the Subsidiaries, the applicable performance fees for 2011 are 20% for Class A of WCG Strategies Fund Limited. Performance fees for the period were US\$17,220,012 and the performance fee payable at 31 December 2011 was US\$14,625,046.

At 31 December 2011 the Master Fund held investments in the following funds (each an "underlying fund investment") managed by one or more of the Brevan Howard group of affiliated entities:

	US\$
BHMF Investments II Limited	15,880,327
BHMF Investments III Limited	15,000
Brevan Howard Commodities Strategies Fund L.P.	209,986,129
Brevan Howard Emerging Markets Strategies Fund L.P.	473,660,550
Brevan Howard Equity Strategies Master Fund Limited	1,742,903
Brevan Howard Investment Fund – Absolute Return Bond Plus Fund	101,145,425
Brevan Howard Investment Fund – Emerging Markets Local Fixed Income Fund	98,187,679
Brevan Howard Investment Fund – Emerging Markets Local Fixed Income Fund Limited	10,141,000
Brevan Howard Strategic Opportunities Fund Limited	4,790,180
Brevan Howard Systematic Trading Master Fund Limited	325,077,813
WCG Strategies Fund Limited	1,012,436,013

The return on the Master Fund's investment in these funds is net of applicable performance and management fees. To ensure that the effective rate of management fees and/or performance fees that is ultimately borne by shareholders in the Master Fund or Feeder Funds (in relation to each underlying fund investment) is not greater than the rate of performance and/or management fees applicable to the class of share held by that investor, the Master Fund or Feeder Fund reduces management and performance fees charged in relation to these investment holdings accordingly.

## 6. Administration fee

Under the terms of the Administrative Services Agreement, as amended, dated 18 February 2011 between International Fund Services (Ireland) Limited ("IFS") and the Master Fund, the Administrator receives a fee based on the month-end NAV of the Master Fund and its Subsidiaries calculated and payable monthly in arrears.

The administration fee on a monthly basis is 1/12 of 14 basis points (on the first \$15 billion month end NAV), 1/12 of 11 basis points (on the next \$15 billion month end NAV) and 1/12 of 9 basis points (on net assets over \$30 billion month end NAV), of the excess of the Master Fund's month end NAV over the sum of NAV that represents the amount of investment made by the Master Fund in other Brevan Howard managed funds administered by IFS held in the same month. The administration fee payable at 31 December 2011 is US\$2,541,420.

Administration fees are also incurred on investments made in affiliated and non-affiliated funds by the Master Fund that are not administered by IFS.

## 7. Investments purchased under agreements to resell and investments sold under agreements to repurchase

At 31 December 2011, investments with a market value of US\$3,143,130,300 were pledged to the Master Fund and its Subsidiaries as collateral (investments purchased under agreements to resell) and investments with a value of US\$13,766,398,427 were pledged by the Master Fund and its Subsidiaries as collateral (investments sold under agreements to repurchase).

All agreements to repurchase mature by 3 June 2012 and all agreements to resell mature by 3 June 2012.

## 8. Share capital

The Master Fund has an authorised share capital of:

- €100,000 divided into 10,000,000 ordinary shares of €0.01 par value;
- US\$400,000 divided into 40,000,000 ordinary shares of US\$0.01 par value;
- £100,000 divided into 10,000,000 ordinary shares of £0.01 par value;
- ¥10,000,000 divided into 10,000,000 ordinary shares of ¥1.00 par value;
- AUD400,000 divided into 40,000,000 ordinary shares of AUD0.01 par value;
- BRL400,000 divided into 40,000,000 ordinary shares of BRL0.01 par value;
- CAD400,000 divided into 40,000,000 ordinary shares of CAD0.01 par value;
- CHF400,000 divided into 40,000,000 ordinary shares of CHF0.01 par value;
- NOK400,000 divided into 40,000,000 ordinary shares of NOK0.01 par value;
- SGD400,000 divided into 40,000,000 ordinary shares of SGD0.01 par value.

All of which may be issued as Class A, Class B, Class X, Class Y and Class Z shares in any number of series.

The Class A US Dollar share class is divided into two series of shares, relating to Brevan Howard Fund Limited and Brevan Howard L.P. and may be issued as US\$ shares or Gold shares. These series commenced on 1 April 2003 and 1 February 2004 respectively. All Class A US Dollar, Euro, Sterling, Australian Dollar, Canadian Dollar, Brazilian Real, Norwegian Krone, Singapore Dollar, Gold and Yen shares are held by

Brevan Howard Fund Limited, whilst all Class A US Dollar L.P. shares are held by Brevan Howard L.P. All Class B US Dollar, Euro and Sterling shares are held by BH Macro Limited. Class Y US Dollar, Euro and Sterling shares are held by Brevan Howard Global Opportunities Master Fund Limited. Class Z US Dollar, Euro, Sterling and Yen shares are held by Brevan Howard Multi-Strategy Master Fund Limited.

The rights of the Class X US Dollar, Euro and Sterling Shares are substantially the same as those set out in respect of Class A US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus save that no redemption fees are payable in respect of such shares.

The rights of the Class Y US Dollar, Euro and Sterling Shares are substantially the same as those set out in respect of Class B US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus.

The rights of the Class Z US Dollar, Euro, Sterling and Yen Shares are substantially the same as those set out in respect of Class A US Dollar, Euro and Sterling Shares respectively in the Feeder Fund Prospectus.

During the year 495,128 shares were redeemed by the Master Fund following a decision by the fund's board of directors, with the proceeds paid by way of cash amounting to \$1,209,386,609. The value redeemed reflected the attributable net asset value of the shares at that date. This redemption was in line with the terms and conditions set out in the Master Fund's prospectus.

# Notes to the Consolidated Financial Statements

continued

31 December 2011

## 8. Share capital (continued)

	2011 Shares
<b>Shares in issue at start of year</b>	
US Dollar Class A	3,699,216
US Dollar L.P. Class A	829,180
Euro Class A	387,470
Sterling Class A	257,679
Yen Class A	4,305,902
Australian Dollar Class A	759,348
Brazilian Real Class A	86,533
Canadian Dollar Class A	67,220
Norwegian Krone Class A	285,802
Singapore Dollar Class A	200,631
Swiss Franc Class A	120,493
US Dollar Class B	265,152
Euro Class B	122,777
Sterling Class B	282,768
US Dollar Class Y	838,792
Euro Class Y	135,797
Sterling Class Y	1,498,660
US Dollar Class Z	1,895,050
Euro Class Z	305,935
Sterling Class Z	105,626
Yen Class Z	137,730
<b>Shares issued during the year</b>	
US Dollar Class A	574,686
US Dollar L.P. Class A	125,527
Euro Class A	22,285
Sterling Class A	74,187
Yen Class A	1,163,124
Australian Dollar Class A	14,764
Brazilian Real Class A	2,650
Canadian Dollar Class A	109,058
Norwegian Krone Class A	193,910
Singapore Dollar Class A	206,374
Gold Class A	37
US Dollar Class B	1,594
Sterling Class B	43,033
US Dollar Class Y	130,600
Euro Class Y	23,936
Sterling Class Y	412,092
US Dollar Class Z	2,791,037
Euro Class Z	99,246
Sterling Class Z	1,679,466
Yen Class Z	93,893



**8. Share capital (continued)**

	2011 Shares
<b>Shares redeemed during the year</b>	
US Dollar Class A	(1,125,803)
US Dollar L.P. Class A	(245,665)
Euro Class A	(115,351)
Sterling Class A	(68,302)
Yen Class A	(902,346)
Australian Dollar Class A	(155,930)
Canadian Dollar Class A	(70,863)
Singapore Dollar Class A	(3,443)
Swiss Franc Class A	(120,493)
US Dollar Class B	(24,287)
Euro Class B	(46,356)
Sterling Class B	(15,214)
US Dollar Class Y	(303,249)
Euro Class Y	(27,443)
Sterling Class Y	(56,212)
US Dollar Class Z	(1,929,665)
Euro Class Z	(64,762)
Sterling Class Z	(93,896)
<b>Shares in issue at end of year</b>	
US Dollar Class A	3,148,099
US Dollar L.P. Class A	709,042
Euro Class A	294,404
Sterling Class A	263,564
Yen Class A	4,566,680
Australian Dollar Class A	618,182
Brazilian Real Class A	89,183
Canadian Dollar Class A	105,415
Norwegian Krone Class A	479,712
Singapore Dollar Class A	403,562
Gold Class A	37
US Dollar Class B	242,459
Euro Class B	76,421
Sterling Class B	310,587
US Dollar Class Y	666,143
Euro Class Y	132,290
Sterling Class Y	1,854,540
US Dollar Class Z	2,756,422
Euro Class Z	340,419
Sterling Class Z	1,691,196
Yen Class Z	231,623

*It is envisaged that no income or gains are to be distributed by way of dividend.*

# Notes to the Consolidated Financial Statements

continued

31 December 2011

## 9. Taxes

Under current Cayman Islands laws, the Master Fund is not required to pay any taxes in the Cayman Islands on either income or capital gains. The Master Fund has received an undertaking from the Governor in Cabinet in the Cayman Islands exempting it from any such taxes for a period of 20 years until 11 February 2023. The only taxes payable by the Master Fund on its income are withholding taxes applicable to certain income. Accordingly, no provision for taxes is recorded in these Consolidated Financial Statements.

ASC 740, Income Taxes, established financial accounting and disclosure requirements for recognition and measurement of tax positions taken or expected to be taken on a tax return. The Manager has reviewed the Master Fund's tax positions for all open tax years and has concluded that no provision for income tax is required in the Master Fund's Consolidated Financial Statements.

The Master Fund is subject to potential examination by certain taxing authorities in various jurisdictions. The tax liability is also subject to ongoing interpretation of laws by taxing authorities. The tax years under potential examination vary by jurisdiction.

## 10. Financial instruments with off-balance sheet risk or concentration of credit risk

Derivative financial instruments may result in off-balance sheet market and credit risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable or more onerous. If the markets should move against one or more positions that the Master Fund and its Subsidiaries holds, the Master Fund and its Subsidiaries could incur losses greater than the unrealised amounts recorded in the Consolidated Statement of Assets and Liabilities. The principal credit risk is that the counterparty to the Master Fund and its Subsidiaries will default and fail to fulfill the terms of the agreement.

Investments sold short have market risk to the extent that the Master Fund and its Subsidiaries, in satisfying its obligation, may have to purchase securities to cover a short position at a higher value than that recorded on the Consolidated Statement of Assets and Liabilities.

Futures contracts expose the Master Fund and its Subsidiaries to credit, market and liquidity risks. The Master Fund and its Subsidiaries are exposed to market risk such that changes in the market values of the securities or indices underlying a contract may exceed the amount recognised in the Consolidated Statement of Assets and Liabilities. Liquidity risk represents the possibility that the Master Fund and its Subsidiaries may not be able to rapidly adjust the size of its futures position in times of high volatility and financial stress at a reasonable price.

Forward contracts expose the Master Fund and its Subsidiaries to market and liquidity risks. The Master Fund and its Subsidiaries are exposed to market risk to the extent that adverse changes occur in the value of the underlying asset. Liquidity risk represents the

possibility that the Master Fund and its Subsidiaries may not be able to rapidly adjust the size of its forwards positions in times of high volatility and financial stress at a reasonable price.

As a purchaser of an option contract, the Master Fund and its Subsidiaries are subject to credit risk since the counterparty is obligated to make payments under the terms of the option contract if the Master Fund and its Subsidiaries exercise the option. As a purchaser of an option contract, the Master Fund and its Subsidiaries are only subject to market risk to the extent of the premium paid.

The Master Fund and its Subsidiaries purchase both exchange-traded and over-the-counter options. For exchange-traded option contracts, the stock exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions. Over-the-counter option contracts are not guaranteed by any regulated stock exchange.

The Master Fund and its Subsidiaries invest in fixed income securities and bank loans. Until such investments are sold or mature, the Master Fund and its Subsidiaries are exposed to credit risk relating to whether the issuer will meet its obligation as it comes due.

Entering into credit default swap agreements and contracts for difference exposes the Master Fund and its Subsidiaries to market risks equivalent to actually holding securities of the notional value but typically involve little capital commitment relative to the exposure achieved. The gains or losses of the Master Fund and its Subsidiaries may therefore be significantly greater than this initial commitment.

In connection with investments sold under agreements to repurchase, it is the Master Fund and its Subsidiaries' policy that their prime brokers take possession of the underlying collateral securities. If the seller defaults and the fair value of the collateral declines, realisation of the collateral by the Master Fund and its Subsidiaries may be delayed or insufficient.

In accordance with ASC 815 the Master Fund records its trading-related derivative activities on a fair value basis (as described in Note 2).

Assets and liabilities represent the fair value of the Master Fund's and its Subsidiaries' holdings at the year end. These assets and liabilities are not representative of the outstanding credit risk to the Master Fund and its Subsidiaries due to the existence of master netting agreements. The table reflects the gross fair value of the Master Fund's and its Subsidiaries' derivative instruments.

**10. Financial instruments with off-balance sheet risk or concentration of credit risk (continued)**

	Fair value at 31 December 2011	
	Assets US\$ '000	Liabilities US\$ '000
Commodity options	824,379	609,949
Credit default swaps	1,096,362	1,351,977
Cross currency swaps	300,399	302,975
Equity options	174,922	151,170
Equity swaps	17,580	14,392
Exchange traded futures	417,215	383,978
Exchange traded options	456,522	357,089
Forward rate agreements	43,759	115,097
FX contracts	1,104,776	1,221,991
FX options	1,138,135	1,009,076
Interest rate guarantee options	1,347,208	595,141
Interest rate swaps	4,094,326	4,850,640
Swaptions	7,133,911	4,574,148
	18,149,494	15,537,623

Fair values represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Master Fund and its Subsidiaries maintain trading relationships with counterparties that include domestic and foreign brokers, dealers and financial institutions; these relationships could result in the concentration of the credit risk if counterparties fail to fulfill their obligations or the value of any collateral becomes inadequate.

BHIPL has formulated credit review policies that attempt to control credit risk by following an established credit approval process, daily monitoring of net exposure to individual counterparties, requiring the segregation of collateral where possible, and using master netting agreements whenever possible.

**Liquidity risk**

The Master Fund's and its Subsidiaries investment portfolios are leveraged and are actively managed to ensure there is sufficient liquidity to meet collateral calls, shareholder redemption requests and trading and other liabilities as they become due.

The Master Fund and its Subsidiaries seek to trade mainly in investments that are sufficiently liquid and readily realisable at close to fair value in order to meet any potential liquidity requirement. To this end, the Master Fund and its Subsidiaries monitor the speed at which the portfolio can be liquidated under ordinary market conditions and further monitors liquidity by a number of additional measures. Deteriorating market conditions, however, may hamper the ability of the fund to liquidate its investments in an orderly manner.

From time to time, market participants with which the Master Fund and its Subsidiaries effect transactions might cease making markets or quoting prices in certain instruments, may only continue to do so in limited size, or may widen the spreads at which they are prepared to transact. In such instances, the Master Fund and its Subsidiaries might be unable to enter into desired transactions, or close out existing transactions, at normal market levels, which might adversely affect its performance.

The Master Fund's and its Subsidiaries liquidity risk is monitored on a daily basis by staff of the Investment Managers, independent of the portfolio management team, using measures of risk and unencumbered cash and cash equivalents, and includes an escalation process in circumstances where liquidity approaches tolerance levels.

The Master Fund and its Subsidiaries may restrict redemptions in accordance with their Articles of Association if they receive requests for the redemption of Shares on any Redemption Day representing in aggregate more than ten per cent of the total number of Ordinary Shares then in issue on a class by class basis.

# Notes to the Consolidated Financial Statements

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## 11. Financial Highlights

The following tables include selected data for share classes outstanding throughout the year and other performance information derived from the Consolidated Financial Statements. The per share amounts and ratios which are shown reflect the consolidated income and expenses of the Master Fund.

Per Share Operating Performance	US Dollar Class A US\$	Euro Class A €	Sterling Class A £	Yen Class A ¥	Australian Dollar Class A AUD	Brazilian Real Class A BRL	Canadian Dollar Class A CAD	Norwegian Krone Class A NOK	Singapore Dollar Class A SGD	Swiss Franc Class A CHF	Gold Class A XAU
<b>Net asset value, beginning of year</b>	3,672.46	3,596.26	3,997.32	11,913.45	1,088.17	1,126.48	1,042.33	1,060.51	1,009.18	986.67	–
Shares issued during year	–	–	–	–	–	–	–	–	–	–	100.00
<b>Income from investment operations</b>											
Net investment income	8.86	8.94	9.61	28.43	2.68	2.95	2.53	2.58	2.46	0.28	0.26
Equalisation	–	–	–	–	–	–	–	–	–	–	–
Net realised and unrealised gain on investments	623.17	640.57	695.24	1,974.06	249.10	299.71	188.55	206.31	170.02	9.58	11.34
<b>Total from investment operations</b>	<b>632.03</b>	<b>649.51</b>	<b>704.85</b>	<b>2,002.49</b>	<b>251.78</b>	<b>302.66</b>	<b>191.08</b>	<b>208.89</b>	<b>172.48</b>	<b>9.86</b>	<b>11.60</b>
Net asset value redeemed during year	–	–	–	–	–	–	–	–	–	(996.53)	–
<b>Net asset value, end of year</b>	<b>4,304.49</b>	<b>4,245.77</b>	<b>4,702.17</b>	<b>13,915.94</b>	<b>1,339.95</b>	<b>1,429.14</b>	<b>1,233.41</b>	<b>1,269.40</b>	<b>1,181.66</b>	<b>–</b>	<b>111.60</b>
<b>Total return before performance fee</b>	17.21%	18.06%	17.63%	16.81%	23.14%	26.87%	18.33%	19.70%	17.09%	1.00%	11.60%
<b>Performance fee</b>	–	–	–	–	–	–	–	–	–	–	–
<b>Total return after performance fee</b>	17.21%	18.06%	17.63%	16.81%	23.14%	26.87%	18.33%	19.70%	17.09%	1.00%	11.60%
	US\$ '000	€ '000	£ '000	¥ '000	AUD '000	BRL '000	CAD '000	NOK '000	SGD '000	CHF '000	XAU '000
<b>Supplemental Data</b>											
Net assets											
31 December 2011	13,550,952	1,249,972	1,239,322	63,549,644	828,331	127,454	130,020	608,949	476,875	–	4
Average net assets for 2011	13,930,353	1,355,412	1,185,128	58,447,349	805,581	112,196	121,735	432,619	336,490	120,075	2
<b>Ratio to average net assets</b>											
Operating expenses	1.15%	1.16%	1.15%	1.15%	1.15%	1.16%	1.17%	1.14%	1.15%	0.84%	1.06%
Interest and dividend expenses	1.61%	1.62%	1.58%	1.56%	1.60%	1.57%	1.63%	1.46%	1.43%	2.37%	0.99%
Performance fee	–	–	–	–	–	–	–	–	–	–	–
	<b>2.76%</b>	<b>2.78%</b>	<b>2.73%</b>	<b>2.71%</b>	<b>2.75%</b>	<b>2.73%</b>	<b>2.80%</b>	<b>2.60%</b>	<b>2.58%</b>	<b>3.21%</b>	<b>2.05%</b>
<b>Net investment income</b>	0.22%	0.22%	0.22%	0.23%	0.22%	0.23%	0.20%	0.27%	0.26%	0.33%	0.53%

Operating expenses are total expenses from the Consolidated Statement of Operations, less interest and dividend expenses and performance fee.

Operating expenses, interest and dividend expenses and net investment income/(loss) ratios are annualised. Total returns and ratios on performance fee are not annualised.

## 11. Financial Highlights (continued)

Per Share Operating Performance	US Dollar L.P. Class A US\$	US Dollar Class B US\$	Euro Class B €	Sterling Class B £	US Dollar Class Y US\$	Euro Class Y €	Sterling Class Y £	US Dollar Class Z US\$	Euro Class Z €	Sterling Class Z £	Yen Class Z ¥
<b>Net asset value, beginning of year</b>	<b>3,299.84</b>	<b>2,069.75</b>	<b>2,080.67</b>	<b>2,150.51</b>	<b>125.38</b>	<b>120.90</b>	<b>121.33</b>	<b>103.58</b>	<b>103.66</b>	<b>103.69</b>	<b>10,260.13</b>
Shares issued during year	–	–	–	–	–	–	–	–	–	–	–
<b>Income from investment operations</b>											
Net investment income/(loss)	5.82	5.03	5.25	5.07	(6.57)	(6.62)	(6.52)	1.02	1.01	1.00	98.95
Equalisation	–	–	–	–	–	0.04	0.01	–	–	–	–
Net realised and unrealised gain on investments	562.12	351.22	370.58	374.17	21.02	21.25	20.83	17.62	18.53	18.10	1,705.68
<b>Total from investment operations</b>	<b>567.94</b>	<b>356.25</b>	<b>375.83</b>	<b>379.24</b>	<b>14.45</b>	<b>14.67</b>	<b>14.32</b>	<b>18.64</b>	<b>19.54</b>	<b>19.10</b>	<b>1,804.63</b>
Net asset value redeemed during year	–	–	–	–	–	–	–	–	–	–	–
<b>Net asset value, end of year</b>	<b>3,867.78</b>	<b>2,426.00</b>	<b>2,456.50</b>	<b>2,529.75</b>	<b>139.83</b>	<b>135.57</b>	<b>135.65</b>	<b>122.22</b>	<b>123.20</b>	<b>122.79</b>	<b>12,064.76</b>
<b>Total return before performance fee</b>	17.21%	17.21%	18.06%	17.63%	15.03%	15.88%	15.44%	18.00%	18.85%	18.42%	17.59%
<b>Performance fee</b>	–	–	–	–	(3.51%)	(3.75%)	(3.64%)	–	–	–	–
<b>Total return after performance fee</b>	17.21%	17.21%	18.06%	17.63%	11.52%	12.13%	11.80%	18.00%	18.85%	18.42%	17.59%
	US\$ '000	US\$ '000	€ '000	£ '000	US\$ '000	€ '000	£ '000	US\$ '000	€ '000	£ '000	¥ '000
<b>Supplemental Data</b>											
Net assets 31 December 2011	2,742,420	588,204	187,729	785,709	93,149	17,935	251,568	336,894	41,939	207,658	2,794,474
Average net assets for 2011	2,942,477	577,854	227,887	702,556	93,257	16,791	215,684	297,085	40,804	56,857	2,263,306
<b>Ratio to average net assets</b>											
Operating expenses	1.15%	1.15%	1.17%	1.15%	3.01%	3.03%	3.02%	0.48%	0.49%	0.41%	0.48%
Interest and dividend expenses	1.60%	1.61%	1.66%	1.57%	1.67%	1.61%	1.57%	1.50%	1.58%	0.99%	1.48%
Performance fee	–	–	–	–	3.25%	3.50%	3.47%	–	–	–	–
	<b>2.75%</b>	<b>2.76%</b>	<b>2.83%</b>	<b>2.72%</b>	<b>7.93%</b>	<b>8.14%</b>	<b>8.06%</b>	<b>1.98%</b>	<b>2.07%</b>	<b>1.40%</b>	<b>1.96%</b>
<b>Net investment income/(loss)</b>	0.22%	0.22%	0.21%	0.23%	(4.89%)	(5.12%)	(5.08%)	0.92%	0.90%	1.02%	0.91%

Operating expenses are total expenses from the Consolidated Statement of Operations, less interest and dividend expenses and performance fee.

Operating expenses, interest and dividend expenses and net investment income/(loss) ratios are annualised. Total returns and ratios on performance fee are not annualised.

# Notes to the Consolidated Financial Statements

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## 12. Related party transactions

Brevan Howard Capital Management L.P. acting through its sole general partner, Brevan Howard Capital Management Limited, is Manager of the Master Fund. The Manager has appointed each of: (i) BHAM; (ii) BHIPL; (iii) Brevan Howard (Hong Kong) Limited; (iv) Brevan Howard (Israel) Limited; (v) DW Investment Management, L.P and (vi) BH-DG Systematic Trading LLP as Investment Managers of the Master Fund's assets. The transactions with the Investment Managers and fees payable at the year-end are disclosed in Note 5 to the Consolidated Financial Statements.

Brevan Howard Multi-Strategy Master Fund Limited ("BHMS") is a Cayman incorporated limited liability company that is permitted to invest its assets in any investment funds of which one or more of the Brevan Howard group of affiliated companies is the manager or investment manager. The Manager of the Master Fund is also the manager of BHMS. BHMS held 2.94% (US\$746,578,242) of the net assets of the Master Fund through a holding of US Dollar, Euro, Sterling and Yen Class Z shares as at 31 December 2011.

BH Global Limited ("BHG") is a Guernsey incorporated closed-ended investment company listed on the London Stock Exchange that invests all of its assets in the Brevan Howard Global Opportunities Master Fund Limited ("BHGOMF"). The Manager of the Master Fund, is also the manager of BHG and BHGOMF. BHGOMF is permitted to invest in any investment funds of which one or more of the Brevan Howard group of affiliated entities is the manager or investment manager. At 31 December 2011 BHGOMF held 1.98% (US\$503,449,395) of the net assets of the Master Fund.

As at 31 December 2011 the Master Fund held investments in funds managed by one or more of the Brevan Howard group of affiliated entities as set out in Note 5.

## 13. Long-term interest-bearing subscriptions receivable

The subscriptions receivable amount of US\$ 141,900,116 is due from Brevan Howard Fund Limited and relates to Nil Paid US Dollar Class C and Nil Paid Sterling Class C shares issued by the Feeder Fund. Upon issuance of these Nil and Partly Paid shares by the Feeder Fund, additional shares were issued by the Master Fund (US Dollar Class A and Sterling Class A shares), resulting in the recognition of a corresponding receivable balance.

The following table details the share transactions during the year:

	In Issue At Start of Year	Issued during the Year	Redeemed during the Year	In Issue At End of Year
Nil Paid US Dollar Class C	227,933	46,467	(191,527)	82,873
Nil Paid Sterling Class C	138,926	42,817	(68,205)	113,538

The Nil Paid US Dollar Class C and Nil Paid Sterling Class C shares are issued to Brevan Howard Employee Benefit Trust Number 3, Brevan Howard Employee Benefit Trust Number 7, BH Partners L.P. and BH Partners 2009 LP. The Partly Paid Sterling Class D shares are issued to, or for the benefit of, Partners of BHAM.

A guarantee to pay any unmet capital calls covering the issue of the Class C shares has been given to the Feeder Fund by the Manager.

### 13. Long-term interest-bearing subscriptions receivable (continued)

Accrued interest receivable in the form of a funding fee has been recognised by the Feeder Fund as follows:

Share Class	Issue Date	Redemption Date	Number of Issued Shares	Funding Fee Rate
Nil Paid US Dollar Class C	Jan-2009	Jan-2012	–	1.03%
Nil Paid US Dollar Class C	Jan-2010	Jan-2013	36,406	1.32%
Nil Paid US Dollar Class C	Jan-2011	Jan-2014	46,467	1.50%
Nil Paid Sterling Class C	Jan-2009	Jan-2012	–	2.70%
Nil Paid Sterling Class C	Jan-2010	Jan-2013	70,721	1.85%
Nil Paid Sterling Class C	Jan-2011	Jan-2014	42,817	0.98%

This funding fee, together with the long-term interest-bearing subscriptions receivable, is withheld from the redemption proceeds at the end of the term by the Feeder Fund. The Directors of the Feeder Fund have resolved to call any Nil Paid Class C shares if the prevailing NAV of such share falls below 90% of the NAV at issuance.

### 14. Investment in affiliated funds

The Master Fund has invested in a number of affiliated funds as set out in Note 5.

### 15. Equalisation Factor

Where Shares are subscribed for at a time when the NAV per Share is greater than the Peak NAV per Share of the relevant Class, the investor will be required to pay an amount in excess of the then current NAV per Share of that Class equal to the Relevant Percentage of the difference between the then current NAV per Share of that Class (before accrual for the Performance Fee) and the Peak NAV per Share of that Class (an "Equalisation Credit").

At the date of subscription the Equalisation Credit will equal the Performance Fee per Share accrued with respect to the other Shares of the same Class in the Master Fund (the "Maximum Equalisation Credit"). The Equalisation Credit is payable to account for the fact that the NAV per Share of that Class has been reduced to reflect an accrued Performance Fee to be borne by existing Shareholders of the same Class and serves as a credit against Performance Fees that might otherwise be payable by the Master Fund but that should not, in equity, be charged against the Shareholder making the subscription because, as to such Shares, no favourable performance has yet occurred. The Equalisation Credit ensures that all holders of Shares of the same Class have the same amount of capital at risk per Share.

The additional amount invested as the Equalisation Credit will be at risk in the Master Fund and will therefore appreciate or depreciate based on the performance of the relevant Class subsequent to the issue of the relevant Shares but will never exceed the Maximum Equalisation Credit. In the event of a decline as at any Valuation Day in the NAV per Share of those Shares, the Equalisation Credit will also be reduced by an amount equal to the Relevant Percentage of the difference between the NAV per Share (before accrual for the Performance Fee) at the date of issue and as at that Valuation Day. Any subsequent appreciation in the NAV per Share of the relevant Class will result in the recapture of any reduction in the Equalisation Credit but only to the extent of the previously reduced Equalisation Credit up to the Maximum Equalisation Credit.

At the year end the equalisation factor accrued but not crystallised was US\$970,173 while the portion that crystallised during the year represented a write-back of US\$72,651.

### 16. Subsequent Events

For the year ended 31 December 2011, the Master Fund and its Subsidiaries evaluated subsequent events through 14 March 2012. No material events which would require to be disclosed in the Consolidated Financial Statements occurred during this period.

# Notes



# Notes

# Notes

# Management and Administration

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Philippe Lespinard  
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