Unaudited Half-yearly Financial Report

June 30, 2016

Goldman Sachs International Bank (unlimited company)

Company Number: 01122503

INDEX

Introduction

Goldman Sachs International Bank (the bank) acts as a primary dealer for European government bonds and is involved in market making in European government bonds, lending and deposit taking activities, and securities lending. The bank's principal office is in the United Kingdom, but the bank also operates branches in Korea (the Seoul branch), which is involved in client execution activities, and Germany (the Frankfurt branch), which is involved in lending activities, and has representative offices in China (the Beijing rep office) and Turkey (the Istanbul rep office).

The bank's primary regulators are the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The bank's ultimate parent undertaking and controlling entity is The Goldman Sachs Group, Inc. (Group Inc.). Group Inc. is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). Group Inc., together with its consolidated subsidiaries, form "GS Group" or "the group". GS Group is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and individuals. GS Group has a presence in Europe, the Middle East and Africa (EMEA) through a number of subsidiaries, including the bank.

As part of the group, the bank seeks to be a leading participant in the global financial markets in which it participates.

References to "the financial statements" are to the unaudited financial statements as presented in Part II of this financial report. All references to June 2016 and June 2015 refer to the periods ended, or the dates, as the context requires, June 30, 2016 and June 30, 2015, respectively. All references to December 2015 refer to the date December 31, 2015. All references to "the 2015 Annual Report" are to the bank's Annual Report for the year ended December 31, 2015.

All amounts in this financial report are prepared in accordance with United Kingdom Generally Accepted Accounting Practices (U.K. GAAP).

Executive Overview

Profit and Loss Account

The profit and loss account is set out on page 5 of this financial report. For the first half of 2016, the bank's profit for the financial period was $50 million, compared with $96 million for the first half of 2015.

Net interest income was $41 million for the first half of 2016, compared with $8 million for the first half of 2015. This increase reflects the bank's continued focus on the expansion of its lending activities and the diversification of funding sources and management of excess liquidity.

Trading profit was $70 million for the first half of 2016, compared with $166 million for the first half of 2015. This decrease reflects stronger performance in the bank's European government bond market-making business during the first half of 2015.

Administrative expenses were $41 million for the first half of 2016, compared with $51 million for the first half of 2015. This decrease reflects decreased management fees charged by group undertakings.

Balance Sheet

The balance sheet is set out on page 6 of this financial report.

As of June 2016, total assets were $44.77 billion, an increase of $3.84 billion from December 2015, reflecting increases in customer accounts receivable of $2.12 billion and collateralised agreements with group undertakings of $1.90 billion. Customer accounts receivable increased primarily due to an increase in lending activities. Collateralised agreements with group undertakings increased primarily due to an increase in deposit taking activities which were reinvested on a secured basis.

As of June 2016, total liabilities were $41.91 billion, an increase of $3.78 billion from December 2015, reflecting increases in customer accounts payable of $3.45 billion and financial instruments sold, but not yet purchased of $2.37 billion, partially offset by a decrease in collateralised financings with group undertakings of $2.18 billion. Customer accounts payable increased primarily due to an increase in deposit taking activities. Financial instruments sold, but not yet purchased increased primarily due to increases in derivative instruments and cash instruments. Collateralised financings with group undertakings decreased primarily due to a decrease in cash instruments owned resulting in lower funding requirements.

The balance sheet included the following amounts related to lending and deposit taking activities.

	As of	
$ in thousands	**June 2016**	December 2015
Lending activities		
Bank loans included in customer accounts receivable	**$ 2,739,511**	$ 1,866,017
Bank loans included in financial instruments owned	**66,821**	70,065
Total lending activities	**$ 2,806,332**	$ 1,936,082
Deposit taking activities		
Customer deposits included in customer accounts payable	**$15,940,541**	$13,492,360
Deposits from group undertakings included in customer accounts payable	**1,278,128**	1,387,190
Included in deposits by banks	**2,176,926**	1,955,165
Total deposit taking activities	**$19,395,595**	$16,834,715

The unfunded portion of bank loans held as principal risk was $4.93 billion and $3.96 billion as of June 2016 and December 2015, respectively.

In addition to the lending activities detailed above, the bank reinvests funds generated from deposit taking activities on both a secured and unsecured basis with group undertakings.

Future Outlook

The directors consider that the period-end financial position of the bank was satisfactory. Other than the closure of the Seoul branch as disclosed in the 2015 Annual Report, no significant change in the bank's principal business activities is currently expected.

Business Environment

Global

During the first half of 2016, global economic conditions were mixed compared with the second half of 2015 as real gross domestic product (GDP) growth increased in the Euro area and Japan, while growth slowed in the United States, United Kingdom and China. The primary economic disruptions in the first half of 2016 occurred in January with the Chinese Yuan devaluation and in late June when a referendum was passed for the United Kingdom to exit the European Union (EU). In the immediate days following the United Kingdom's decision, volatility rose sharply, nearing its year-to-date peak, and global equity markets declined significantly. In addition, the British pound reached its lowest level against the U.S. dollar in over thirty years. While volatility ended June 2016 where it began the year and global equity markets reversed these losses in the last few days of the first half of 2016, investors continued to weigh the long-term economic impacts of this decision. The expectation of significant monetary easing from the Bank of England (BOE), Bank of Japan (BOJ), and the European Central Bank (ECB) contributed to a decline in global interest rates from already low levels. Early in 2016, the BOJ followed the ECB to become the second major central bank to introduce negative interest rates. The price of crude oil dropped significantly at the beginning of 2016 before increasing for most of the first half of 2016, briefly reaching $50 per barrel (WTI) before declining slightly in late June 2016.

Europe

In the Euro area, real GDP growth increased during the first half of 2016, compared with the second half of 2015, while measures of inflation remained low. During the first half of 2016, the ECB expanded its easing measures – launching a new series of targeted longer-term refinancing operations (TLTROs) starting in June; increasing the volume of monthly purchases; and adding investment-grade, non-financial corporate bonds to the list of bonds purchased under its asset purchase programme. The ECB also lowered its main refinancing operations rate by 5 basis points to 0.00% and its deposit rate by 10 basis points to (0.40)%. Measures of unemployment in the Euro area remained high and the Euro appreciated by 2% against the U.S. dollar compared with the end of 2015. In the United Kingdom, real GDP growth decreased during the first half of 2016, compared with the second half of 2015. The BOE maintained its official bank rate at 0.50%, and the British pound depreciated by 10% against the U.S. dollar. Yields on 10-year government bonds generally declined in the region, with the yield on 10-year German bunds ending the second quarter in negative territory. In equity markets, the Euro Stoxx 50 Index, DAX Index and CAC 40 Index decreased by 12%, 10% and 9%, respectively, compared with the end of 2015, while the FTSE 100 Index increased by 4%.

Principal Risks and Uncertainties

The bank faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2015 Annual Report.

Other Developments

In June 2016, a referendum was passed for the United Kingdom to exit the European Union (Brexit). The exit of the United Kingdom from the European Union will likely change the arrangements by which U.K. firms are able to provide services in the European Union which may adversely affect the manner in which the bank operates certain of its businesses in the European Union and could require the bank to restructure certain of its operations. The timing and the outcome of the negotiations between the United Kingdom and the European Union in connection with Brexit are both highly uncertain. Such uncertainty has resulted in, and may continue to result in, market volatility and negatively impact the confidence of investors and clients.

Credit Ratings

The table below presents the unsecured credit ratings and outlook of the bank by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services (S&P).

	As of June 2016		
	Fitch	**Moody's**	**S&P**
Short-term Debt	**F1**	**P-1**	**A-1**
Long-term Debt	**A**	**A1**	**A**
Short-term Bank Deposits	**F1**	**P-1**	**N/A**
Long-term Bank Deposits	**A**	**A1**	**N/A**
Ratings Outlook	**Positive**	**Stable**	**Watch Positive**

Directors

E. G. Corrigan resigned as chairman and from the board of directors on June 17, 2016.

There were no other changes in the directorship of the company between the date of issue of this financial report and the 2015 Annual Report.

Responsibility Statement

The financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the interim management report herein includes a fair review of the information required by 4.2.7R of the FCA's Disclosure and Transparency Rules.

D. W. McDonogh
Director
August 30, 2016

Unaudited Financial Statements

GOLDMAN SACHS INTERNATIONAL BANK (UNLIMITED COMPANY)

Profit and Loss Account
(Unaudited)

		Six Months Ended June	
$ in thousands	**Note**	**2016**	2015
Interest receivable and similar income	6	**$111,107**	$ 49,451
Interest payable and similar charges	7	**(70,258)**	(41,030)
Net interest income		**40,849**	8,421
Trading profit	5	**70,204**	166,329
Total operating income	4	**111,053**	174,750
Administrative expenses	8	**(41,089)**	(50,628)
Profit on ordinary activities before taxation		**69,964**	124,122
Tax on profit on ordinary activities	9	**(19,693)**	(27,735)
Profit for the financial period		**$ 50,271**	$ 96,387

Total operating income and profit on ordinary activities before taxation of the bank are derived from continuing operations in the current and prior periods.

Statements of Comprehensive Income
(Unaudited)

	Six Months Ended June	
$ in thousands	**2016**	2015
Profit for the financial period	**$50,271**	$96,387
Other comprehensive income/(loss)		
Items that will be reclassified subsequently to profit or loss		
Translation gain/(loss)	**3,131**	(4,124)
Gain/(loss) on net investment hedge	**(4,127)**	2,556
U.K. deferred tax attributable to the cumulative translation reserve	**6,407**	–
Other comprehensive income/(loss) for the financial period, net of tax	**5,411**	(1,568)
Total comprehensive income for the financial period	**$55,682**	$94,819

The accompanying notes are an integral part of these financial statements.

Balance Sheet
(Unaudited)

		As of	
		June	December
$ in thousands	**Note**	**2016**	2015
Assets			
Cash at bank and in hand		**$ 383,984**	$ 289,437
Customer accounts receivable	10	**4,863,900**	2,748,390
Financial instruments owned (includes $5,555,639 and $7,124,105 pledged as collateral as of June 2016 and December 2015, respectively)	11	**11,932,036**	12,216,567
Collateralised agreements with group undertakings	12	**26,720,049**	24,818,466
Tangible fixed assets		**735**	795
Other assets	13	**870,424**	859,264
Total assets		**44,771,128**	40,932,919
Liabilities and shareholder's funds			
Customer accounts payable	14	**18,961,123**	15,515,407
Deposits by banks	15	**2,176,926**	1,955,165
Financial instruments sold, but not yet purchased	11	**11,195,020**	8,822,978
Collateralised financings with group undertakings		**7,410,972**	9,588,216
Other liabilities	16	**1,336,698**	1,416,446
Long-term subordinated loan from group undertakings	17	**826,000**	826,000
Total liabilities		**41,906,739**	38,124,212
Called up share capital	18	**62,558**	62,558
Share premium account		**2,094,303**	2,094,303
Cumulative translation reserve		**(16,473)**	(21,884)
Profit and loss account		**724,001**	673,730
Total shareholder's funds		**2,864,389**	2,808,707
Total liabilities and shareholder's funds		**$44,771,128**	$40,932,919
Memorandum items			
Financial commitments	19	**$ 6,831,407**	$ 4,846,104
Contingent liabilities	19	**$ 1,688,801**	$ 1,215,544

The accompanying notes are an integral part of these financial statements.
Company number: 01122503

Statements of Changes in Equity (Unaudited)

	Six Months Ended June	
$ in thousands	**2016**	2015
Called up share capital		
Balance, beginning of year	**$ 62,558**	$ 62,558
Balance, end of period	**62,558**	62,558
Share premium account		
Balance, beginning of year	**2,094,303**	2,094,303
Balance, end of period	**2,094,303**	2,094,303
Cumulative translation reserve		
Balance, beginning of year	**(21,884)**	(19,577)
Other comprehensive income/(loss)	**5,411**	(1,568)
Balance, end of period	**(16,473)**	(21,145)
Profit and loss account		
Balance, beginning of year	**673,730**	530,322
Profit for the financial period	**50,271**	96,387
Share-based payments	**287**	157
Management recharge related to share-based payments	**(287)**	(157)
Balance, end of period	**724,001**	626,709
Total shareholder's funds	**$2,864,389**	$2,762,425

No dividends were paid for the six months ended June 2016 and June 2015.

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements (Unaudited)

Note 1.

General Information

The bank is a private unlimited company and is incorporated and domiciled in England and Wales. The address of its registered office is Peterborough Court, 133 Fleet Street, London, EC4A 2BB, United Kingdom.

The bank's immediate parent undertaking is Goldman Sachs Group UK Limited (GSGUK), a company incorporated and domiciled in England and Wales.

The ultimate controlling undertaking and the parent company of the smallest and largest group for which consolidated financial statements are prepared is The Goldman Sachs Group, Inc., a company incorporated in the United States of America. Copies of its consolidated financial statements, as well as certain regulatory filings, for example Quarterly Reports on Form 10-Q and the Annual Report on Form 10-K, that provide additional information about GS Group and its business activities, can be obtained from Investor Relations, 200 West Street, New York, NY 10282, United States of America, GS Group's principal place of business, or at www.goldmansachs.com/shareholders/.

Note 2.

Summary of Significant Accounting Policies

Basis of Presentation

The bank prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting'. The financial statements should be read in conjunction with the 2015 Annual Report, which has been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

Accounting Policies

The accounting policies and applicable disclosure exemptions applied are consistent with those described in the 2015 Annual Report.

Following transition to FRS 101 'Reduced Disclosure Framework' as described in the 2015 Annual Report, the bank's other assets and retained earnings increased by $65 million as of December 2014. Tax on profit on ordinary activities increased by $3 million for the six months ended June 2015.

Note 3.

Critical Accounting Estimates and Judgements

The critical accounting estimates and judgements are consistent with those described in the 2015 Annual Report with the exception of the below.

Administrative Expenses

A substantial portion of the bank's administrative expenses, both within direct costs of employment and management fees charged by group undertakings, represents discretionary compensation, which is finalised at year-end. The bank believes the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the total operating income earned in such periods.

Note 4.

Segment Reporting

The table below presents the total operating income of the bank's segments.

	Six Months Ended June	
$ in thousands	**2016**	2015
Investment Banking	**$ 13,211**	$ 4,932
Institutional Client Services	**88,754**	165,835
Investing & Lending	**4,589**	1,992
Investment Management	**4,499**	1,991
Total operating income	**$111,053**	$174,750

The bank reports its business segments in line with that of GS Group:

Investment Banking

Comprises underwriting and origination of debt instruments including European government bonds and bank loans.

Institutional Client Services

Comprises client execution activities, market making in European government bonds, interest rate products and currencies, secondary dealing in bank loans and securities lending.

Investing & Lending

Comprises lending activities which are typically longer-term in nature.

Investment Management

Comprises deposit taking and lending activities with high-net-worth individuals.

Substantially all of the bank's administrative expenses and assets are attributable to Institutional Client Services.

Note 5.

Trading Profit

Trading profit includes trading interest income of $73 million and $93 million for the six months ended June 2016 and June 2015, respectively, and trading interest expense of $52 million and $81 million for the six months ended June 2016 and June 2015, respectively.

Trading interest income and expense represents coupon interest arising on European government bonds, interest on bank loans classified as held for trading, and interest on collateralised agreements and collateralised financings associated with the bank's European government bond market-making business.

Note 6.

Interest Receivable and Similar Income

The table below presents the bank's interest receivable and similar income.

	Six Months Ended June	
$ in thousands	**2016**	2015
Interest on loans to banks and customers	**$ 27,469**	$ 7,742
Interest on collateralised agreements with group undertakings	**61,052**	33,329
Interest on loans to group undertakings	**22,586**	8,380
Total interest receivable and similar income	**$111,107**	$49,451

Note 7.

Interest Payable and Similar Charges

The table below presents the bank's interest payable and similar charges.

	Six Months Ended June	
$ in thousands	**2016**	2015
Interest on loans from banks and customers[1]	**$44,818**	$22,651
Interest on long-term subordinated loans from group undertakings (see Note 17)	**15,752**	12,182
Interest on loans from group undertakings	**6,000**	6,197
Negative interest on collateralised agreements with group undertakings	**3,688**	–
Total interest payable and similar charges	**$70,258**	$41,030

1. Included in interest on loans from banks and customers is interest on customer deposits and deposits by banks.

Note 8.

Administrative Expenses

The table below presents the bank's administrative expenses.

	Six Months Ended June	
$ in thousands	**2016**	2015
Management fees charged by group undertakings[1]	**$30,052**	$38,834
Direct costs of employment[2]	**5,305**	5,334
Brokerage, clearing and exchange fees	**2,667**	3,540
Market development	**59**	168
Communications and technology	**249**	278
Depreciation of tangible fixed assets	**103**	87
Occupancy	**517**	508
Professional fees	**442**	659
Other expenses	**1,695**	1,220
Total administrative expenses	**$41,089**	$50,628

1. Management fees charged by group undertakings relate to operational and administrative support, and management services received from group undertakings.
2. Direct costs of employment are in relation to the Seoul branch and representative offices; and includes a credit of $150,000 and a charge of $74,000 for the six months ended June 2016 and June 2015, respectively, relating to the mark-to-market of share-based compensation.

Note 9.

Tax on Profit on Ordinary Activities

The table below presents the bank's analysis of tax on profit on ordinary activities.

	Six Months Ended June	
$ in thousands	**2016**	2015
Current tax		
U.K. corporation tax	**$17,411**	$20,881
Overseas taxation	**1,937**	13,810
Adjustments in respect of previous periods	**(528)**	390
Total current tax	**18,820**	35,081
Deferred tax		
Origination and reversal of temporary differences	**873**	(7,346)
Total deferred tax	**873**	(7,346)
Total	**$19,693**	$27,735

Note 10.

Customer Accounts Receivable

The table below presents the bank's customer accounts receivable balances. All customer accounts receivable balances are due within one year of the balance sheet date, unless noted below.

	As of	
	June	December
$ in thousands	**2016**	2015
Bank loans[1]	**$2,739,511**	$1,866,017
Amounts due from customers	**137,168**	317,269
Amounts due from group undertakings	**1,987,221**	565,104
Total customer accounts receivable	**$4,863,900**	$2,748,390

1. Includes balances due in more than one year of $2.20 billion and $1.31 billion as of June 2016 and December 2015, respectively.

Note 11.

Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased

Financial instruments owned and financial instruments sold, but not yet purchased comprise financial instruments and investments within the operating activities of the bank. Financial instruments owned includes instruments pledged as collateral to counterparties, that have the right to deliver or repledge.

The table below presents the bank's financial instruments owned.

	As of	
$ in thousands	**June 2016**	December 2015
Cash instruments		
Government bonds	**$ 6,037,233**	$ 7,664,493
Bank loans	**66,821**	70,065
Total cash instruments	**6,104,054**	7,734,558
Derivative instruments		
Interest rates	**5,521,194**	3,821,704
Currencies	**278,172**	639,287
Equities	**26,632**	18,840
Credit	**1,984**	2,178
Total derivative instruments	**5,827,982**	4,482,009
Total financial instruments owned	**$11,932,036**	$12,216,567

The table below presents the bank's financial instruments sold, but not yet purchased.

	As of	
$ in thousands	**June 2016**	December 2015
Cash instruments		
Government bonds	**$ 5,609,406**	$4,437,463
Bank loans	**1,655**	2,031
Total cash instruments	**5,611,061**	4,439,494
Derivative instruments		
Interest rates	**5,208,109**	3,684,514
Currencies	**337,638**	672,655
Equities	**26,632**	18,840
Credit	**11,580**	7,475
Total derivative instruments	**5,583,959**	4,383,484
Total financial instruments sold, but not yet purchased	**$11,195,020**	$8,822,978

Note 12.

Collateralised Agreements with Group Undertakings

The table below presents the bank's collateralised agreements with group undertakings. All collateralised agreements with group undertakings are due within one year of the balance sheet date, unless noted below.

	As of	
$ in thousands	**June 2016**	December 2015
Resale agreements[1]	**$26,372,021**	$24,818,466
Other secured lending arrangements	**348,028**	–
Total collateralised agreements with group undertakings	**$26,720,049**	$24,818,466

1. Includes balances due in more than one year of $212 million and $118 million as of June 2016 and December 2015, respectively.

Note 13.

Other Assets

The table below presents the bank's other assets. All other assets are due within one year of the balance sheet date.

	As of	
$ in thousands	**June 2016**	December 2015
Other amounts due from group undertakings	**$796,119**	$789,261
Deferred tax[1]	**61,611**	56,271
Other assets	**12,694**	13,732
Total other assets[2]	**$870,424**	$859,264

1. Includes $6 million of U.K. deferred tax attributable to the cumulative translation reserve as a result of the announcement of the closure of the Seoul branch as described in the 2015 Annual Report.
2. Includes financial assets of $805 million and $798 million as of June 2016 and December 2015, respectively, and non-financial assets of $66 million and $61 million as of June 2016 and December 2015, respectively.

Note 14.

Customer Accounts Payable

The table below presents the bank's customer accounts payable balances. All customer accounts payable balances are due within one year of the balance sheet date, unless noted below.

	As of	
$ in thousands	**June 2016**	December 2015
Customer deposits[1]	**$15,940,541**	$13,492,360
Amounts due to customers	**223,095**	322,026
Deposits from group undertakings	**1,278,128**	1,387,190
Amounts due to group undertakings	**1,519,359**	313,831
Total customer accounts payable	**$18,961,123**	$15,515,407

1. Includes balances due in more than one year of $497 million and $243 million as of June 2016 and December 2015, respectively.

Note 15.

Deposits by Banks

Deposits by banks of $2.18 billion and $1.96 billion as of June 2016 and December 2015, respectively, are due within one year of the balance sheet date.

Note 16.

Other Liabilities

The table below presents the bank's other liabilities. All other liabilities are due within one year of the balance sheet date, unless noted below.

	As of	
$ in thousands	**June 2016**	December 2015
Accruals and deferred income	**$ 20,456**	$ 21,857
Other amounts due to group undertakings[1]	**1,306,965**	1,380,087
Other liabilities[2]	**9,277**	14,502
Total other liabilities[3]	**$1,336,698**	$1,416,446

1. Includes balances due in more than one year of $571 million and $784 million as of June 2016 and December 2015, respectively. Other amounts due to group undertakings as of June 2016 decreased by $73 million compared with December 2015 due to repayments of $760 million, partially offset by new proceeds of $687 million.
2. Includes a provision for impairment in respect of unfunded bank loans held at amortised cost of $5 million and $6 million as of June 2016 and December 2015, respectively.
3. Includes financial liabilities of $1.32 billion and $1.40 billion as of June 2016 and December 2015, respectively, and non-financial liabilities of $16 million as of both June 2016 and December 2015.

Note 17.

Long-term Subordinated Loan from Group Undertakings

The long-term subordinated loan is unsecured and carries interest at a margin over the U.S. Federal Reserve's federal funds rate and constitutes regulatory capital as approved by the PRA. Repayment is subject to PRA approval and can be made no earlier than September 2020 following notice to GSGUK.

Note 18.

Share Capital

The table below presents the bank's share capital.

Allotted, called up and fully paid	Ordinary shares of £1 each	*$ in thousands*
As of January 1, 2016	40,169,994	$62,558
As of June 30, 2016	**40,169,994**	**$62,558**

Note 19.

Financial Commitments and Contingencies

Financial Commitments

The table below presents the bank's financial commitments.

	As of	
$ in thousands	**June 2016**	December 2015
Principal risk	**$4,929,000**	$3,957,873
Sub-participated	**1,832,060**	822,157
Unfunded bank loans[1]	**6,761,060**	4,780,030
Forward starting resale agreements[2]	**69,563**	65,000
Leases[3]	**784**	1,074
Total financial commitments	**$6,831,407**	$4,846,104

1. The bank originates a number of bank loans which are held as principal risk. The bank also holds bank loans which are sub-participated to group undertakings and third party institutions. The unfunded portion of these agreements, where cash has not been deposited with the bank to collateralise the undrawn commitment is presented above.
2. The bank enters into resale agreements that settle at a future date, generally within three business days. The bank's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.
3. The bank leases certain buildings under long-term lease agreements. Under these lease agreements, which are subject to renegotiation at various intervals specified in the leases, the bank pays all insurance, maintenance and repairs of these properties.

Contingent Liabilities

The bank, in its capacity as an agent in securities lending, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities. The maximum exposure to loss under guarantees was $1.69 billion and $1.22 billion as of June 2016 and December 2015, respectively. The market value of the collateral held to cover the loss was $1.86 billion and $1.36 billion as of June 2016 and December 2015, respectively. These guarantees are covered by back-to-back guarantees with the bank's ultimate parent company, Group Inc.

Note 20.

Financial Assets and Financial Liabilities

Financial Assets and Financial Liabilities by Category

The tables below present the carrying value of the bank's financial assets and financial liabilities by category.

	Financial Assets			
$ in thousands	Held for trading	Designated at fair value	Loans and receivables	Total
As of June 2016				
Cash at bank and in hand	**$ –**	**$ –**	**$ 383,984**	**$ 383,984**
Customer accounts receivable	**–**	**424,057**	**4,439,843**	**4,863,900**
Financial instruments owned	**11,932,036**	**–**	**–**	**11,932,036**
Collateralised agreements with group undertakings	**–**	**26,720,049**	**–**	**26,720,049**
Other assets	**–**	**–**	**804,818**	**804,818**
Total financial assets	**$11,932,036**	**$27,144,106**	**$5,628,645**	**$44,704,787**
As of December 2015				
Cash at bank and in hand	$ –	$ –	$ 289,437	$ 289,437
Customer accounts receivable	–	273,835	2,474,555	2,748,390
Financial instruments owned	12,216,567	–	–	12,216,567
Collateralised agreements with group undertakings	–	24,818,466	–	24,818,466
Other assets	–	–	798,079	798,079
Total financial assets	$12,216,567	$25,092,301	$3,562,071	$40,870,939

	Financial Liabilities			
$ in thousands	Held for trading	Designated at fair value	Amortised cost	Total
As of June 2016				
Customer accounts payable	**$ –**	**$ 7,737,240**	**$11,223,883**	**$18,961,123**
Deposits by banks	**–**	**2,176,926**	**–**	**2,176,926**
Financial instruments sold, but not yet purchased	**11,195,020**	**–**	**–**	**11,195,020**
Collateralised financings with group undertakings	**–**	**7,410,972**	**–**	**7,410,972**
Other liabilities	**–**	**50,213**	**1,270,736**	**1,320,949**
Long-term subordinated loan from group undertakings	**–**	**–**	**826,000**	**826,000**
Total financial liabilities	**$11,195,020**	**$17,375,351**	**$13,320,619**	**$41,890,990**
As of December 2015				
Customer accounts payable	$ –	$ 6,862,234	$ 8,653,173	$15,515,407
Deposits by banks	–	1,955,165	–	1,955,165
Financial instruments sold, but not yet purchased	8,822,978	–	–	8,822,978
Collateralised financings with group undertakings	–	9,588,216	–	9,588,216
Other liabilities	–	55,659	1,344,305	1,399,964
Long-term subordinated loan from group undertakings	–	–	826,000	826,000
Total financial liabilities	$8,822,978	$18,461,274	$10,823,478	$38,107,730

Fair Value Hierarchy

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. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The bank measures certain financial assets and financial liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks).

U.K. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritises inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial asset or financial liability's level in the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement.

The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the bank had access at the measurement date for identical, unrestricted assets or liabilities.

Level 2. Inputs to valuation techniques are observable, either directly or indirectly.

Level 3. One or more inputs to valuation techniques are significant and unobservable.

The fair values for substantially all of the bank's financial assets and financial liabilities that are fair valued on a recurring basis are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and GS Group's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

Valuation Techniques and Significant Inputs

Cash Instruments. Cash instruments include government bonds and bank loans. Valuation techniques and significant inputs for each level of the fair value hierarchy include:

Level 1 Cash Instruments

Level 1 cash instruments are valued using quoted prices for identical unrestricted instruments in active markets. The bank defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

Level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions and/or (ii) for other premiums and liquidity discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Level 3 Cash Instruments

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the bank uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales of financial assets.

Valuation techniques of level 3 cash instruments vary by instrument, but are generally based on discounted cash flow techniques. The valuation techniques and the nature of significant inputs used to determine the fair values of each type of level 3 cash instrument are described below.

- **Bank Loans.** Significant inputs are generally determined based on relative value analyses and include:
  - Market yields implied by transactions of similar or related assets;
  - Current levels and changes in market indices such as the iTraxx, CDX and LCDX (indices that track the performance of corporate credit and loans, respectively);
  - Current performance of the borrower or loan collateral and recovery assumptions if a default occurs; and
  - Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

Derivative Instruments. Derivatives may be traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as OTC derivatives. Certain of the bank's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

The bank's level 2 and level 3 derivatives are valued using derivative pricing models (e.g., discounted cash flow models, correlation models, and models that incorporate option pricing methodologies, such as Monte Carlo simulations). Price transparency of derivatives can generally be characterised by product type, as described below.

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialised nations are characterised by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.

- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.
- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialised nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.
- **Equity.** Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

Liquidity is essential to observability of all product types. If transaction volumes decline, previously transparent prices and other inputs may become unobservable. Conversely, even highly structured products may at times have trading volumes large enough to provide observability of prices and other inputs.

Level 1 Derivatives

Level 1 derivatives include short-term contracts for future delivery of securities when the underlying security is a level 1 instrument, and exchange-traded derivatives if they are actively traded and are valued at their quoted market price.

Level 2 Derivatives

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence and exchange-traded derivatives that are not actively traded and/or that are valued using models that calibrate to market-clearing levels of OTC derivatives. In evaluating the significance of a valuation input, the bank considers, among other factors, a portfolio’s net risk exposure to that input.

The selection of a particular model to value a derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. For derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market-clearing levels.

Valuation models require a variety of inputs, such as contractual terms, market prices, yield curves, discount rates (including those derived from interest rates on collateral received and posted as specified in credit support agreements for collateralised derivatives), credit curves, measures of volatility and correlations of such inputs. Significant inputs to the valuations of level 2 derivatives can be verified to market transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Level 3 Derivatives

Level 3 derivatives are valued using models which utilise observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs. Unobservable inputs include certain correlations as well as credit spreads and equity volatility inputs.

Subsequent to the initial valuation of a level 3 derivative, the bank updates the level 1 and level 2 inputs to reflect observable market changes and any resulting gains and losses are recorded in level 3. Level 3 inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations or other empirical market data. In circumstances where the bank cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

Where there is a difference between the initial transaction price and the fair value calculated by internal models, a gain or loss is recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralised portion of derivative portfolios. The bank also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the bank to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

In addition, for derivatives that include significant unobservable inputs, the bank makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

Other Financial Assets and Financial Liabilities.

Customer Accounts Receivable

Customer accounts receivable measured at fair value comprises certain bank loans. The significant inputs to the valuation of bank loans are consistent with those described above as part of cash instruments.

Collateralised Agreements With Group Undertakings and Collateralised Financings With Group Undertakings

The significant inputs to the valuation of resale and repurchase agreements are funding spreads, the amount and timing of expected future cash flows and interest rates.

Customer Accounts Payable and Deposits by Banks

Customer accounts payable and deposits by banks measured at fair value comprise certain balances related to deposit taking activities. The significant inputs to the valuation of these balances are interest rates and the amount and timing of future cash flows.

Fair Value of Financial Assets and Financial Liabilities by Level

The tables below present, by level within the fair value hierarchy, financial assets and financial liabilities measured at fair value on a recurring basis. Financial assets at fair value are shown as positive amounts and financial liabilities at fair value are shown as negative amounts.

	Financial Assets and Financial Liabilities at Fair Value as of June 2016			
$ in thousands	Level 1	Level 2	Level 3	Total
Financial Assets				
Customer accounts receivable	**$ –**	**$ 92,209**	**$331,848**	**$ 424,057**
Cash instruments	**5,776,124**	**311,275**	**16,655**	**6,104,054**
Derivative instruments	**1,912**	**5,822,078**	**3,992**	**5,827,982**
Financial instruments owned	**5,778,036**	**6,133,353**	**20,647**	**11,932,036**
Collateralised agreements with group undertakings	**–**	**26,720,049**	**–**	**26,720,049**
Total financial assets	**$ 5,778,036**	**$ 32,945,611**	**$352,495**	**$ 39,076,142**
Financial Liabilities				
Customer accounts payable	**$ –**	**$ (7,737,240)**	**$ –**	**$ (7,737,240)**
Deposits by banks	**–**	**(2,176,926)**	**–**	**(2,176,926)**
Cash instruments	**(5,467,240)**	**(142,145)**	**(1,676)**	**(5,611,061)**
Derivative instruments	**(243)**	**(5,579,961)**	**(3,755)**	**(5,583,959)**
Financial instruments sold, but not yet purchased	**(5,467,483)**	**(5,722,106)**	**(5,431)**	**(11,195,020)**
Collateralised financings with group undertakings	**–**	**(7,410,972)**	**–**	**(7,410,972)**
Other liabilities	**–**	**(50,213)**	**–**	**(50,213)**
Total financial liabilities	**$(5,467,483)**	**$(23,097,457)**	**$ (5,431)**	**$(28,570,371)**
Net derivative instruments	**$ 1,669**	**$ 242,117**	**$ 237**	**$ 244,023**

	Financial Assets and Financial Liabilities at Fair Value as of December 2015			
$ in thousands	Level 1	Level 2	Level 3	Total
Financial Assets				
Customer accounts receivable	$ –	$ 113,377	$160,458	$ 273,835
Cash instruments	7,482,228	240,150	12,180	7,734,558
Derivative instruments	400	4,472,546	9,063	4,482,009
Financial instruments owned	7,482,628	4,712,696	21,243	12,216,567
Collateralised agreements with group undertakings	–	24,818,466	–	24,818,466
Total financial assets	$ 7,482,628	$ 29,644,539	$181,701	$ 37,308,868
Financial Liabilities				
Customer accounts payable	$ –	$ (6,862,234)	$ –	$ (6,862,234)
Deposits by banks	–	(1,955,165)	–	(1,955,165)
Cash instruments	(4,327,931)	(109,661)	(1,902)	(4,439,494)
Derivative instruments	(402)	(4,373,910)	(9,172)	(4,383,484)
Financial instruments sold, but not yet purchased	(4,328,333)	(4,483,571)	(11,074)	(8,822,978)
Collateralised financings with group undertakings	–	(9,588,216)	–	(9,588,216)
Other liabilities	–	(55,659)	–	(55,659)
Total financial liabilities	$(4,328,333)	$(22,944,845)	$(11,074)	$(27,284,252)
Net derivative instruments	$ (2)	$ 98,636	$ (109)	$ 98,525

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

As of June 2016 and December 2015, the bank had level 3 asset bank loans of $349 million (comprising customer accounts receivable of $332 million and cash instruments of $17 million), and $173 million (comprising customer accounts receivable of $160 million and cash instruments of $12 million), respectively. Level 3 liability cash instruments and derivatives were not material. The table below presents the amount of level 3 assets, and ranges and weighted averages of significant unobservable inputs used to value the bank's level 3 asset bank loans.

	Level 3 Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
$ in thousands	**June 2016**	December 2015
Bank loans	**$348,503**	$172,638
Yield	**0.8% to 20.3% (8.7%)**	1.4% to 7.8% (5.2%)
Recovery rate	**40.0% to 85.0% (66.9%)**	20.0% to 85.0% (50.6%)
Duration (years)	**0.7 to 5.4 (3.0)**	0.9 to 4.9 (3.4)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation.
- Weighted averages are calculated by weighting each input by the relative fair value of the bank loans.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one bank loan. For example, the highest yield for bank loans is appropriate for valuing a specific loan but may not be appropriate for valuing any other loan. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the bank's level 3 bank loans.
- Increases in yield or duration used in the valuation of the bank's level 3 bank loans would result in a lower fair value measurement, while increases in recovery rate would result in a higher fair value measurement.
- Bank loans are valued using discounted cash flows.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Transfers Between Level 1 and Level 2 of the Fair Value Hierarchy

During the six months ended June 2016 and the year ended December 2015, there were no significant transfers between level 1 and level 2 financial assets and financial liabilities measured at fair value on a recurring basis.

Level 3 Rollforward

The table below presents the changes in fair value for all level 3 financial assets and financial liabilities measured at fair value on a recurring basis. Gains and losses arising on level 3 assets are recognised within trading profit in the profit and loss account. In the table below:

- If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. For level 3 financial assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Transfers between levels are recognised at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses for level 3 financial assets and financial liabilities that were transferred out of level 3 prior to the end of the period.
- Level 3 financial assets and financial liabilities are frequently economically hedged with level 1 and level 2 financial assets and financial liabilities. Accordingly, level 3 gains or losses that are reported in the table below for a particular class of financial asset or financial liability can be partially offset by gains or losses attributable to level 1 or level 2 in the same class of financial asset or financial liability or gains or losses attributable to level 1, level 2 or level 3 in a different class of financial asset or financial liability. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the bank's results of operations, liquidity or capital resources.

	Level 3 Financial Assets and Financial Liabilities at Fair Value							
$ in thousands	Balance, beginning of period	Gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Six Months Ended June 2016								
Customer accounts receivable	**$160,458**	**$(7,211)**	**$336,119**	**$(138,995)**	**$(17,519)**	**$ –**	**$(1,004)**	**$331,848**
Financial instruments owned	**21,243**	**1,485**	**4,914**	**(12)**	**(7,138)**	**155**	**–**	**20,647**
Total level 3 financial assets	**$181,701**	**$(5,726)**	**$341,033**	**$(139,007)**	**$(24,657)**	**$ 155**	**$(1,004)**	**$352,495**
Financial instruments sold, but not yet purchased	**$(11,074)**	**$(2,146)**	**$ 412**	**$ (21)**	**$ 7,026**	**$ –**	**$ 372**	**$ (5,431)**
Total level 3 financial liabilities	**$(11,074)**	**$(2,146)**	**$ 412**	**$ (21)**	**$ 7,026**	**$ –**	**$ 372**	**$ (5,431)**
Year Ended December 2015								
Customer accounts receivable	$ –	$(4,513)	$162,453	$ –	$ (557)	$ 3,075	$ –	$160,458
Financial instruments owned	99,973	8,666	3,140	(19,198)	(85,962)	20,677	(6,053)	21,243
Total level 3 financial assets	$ 99,973	$ 4,153	$165,593	$ (19,198)	$(86,519)	$23,752	$(6,053)	$181,071
Financial instruments sold, but not yet purchased	$(20,124)	$(5,806)	$ 3,749	$ (187)	$ 11,289	$ –	$ 5	$(11,074)
Total level 3 financial liabilities	$(20,124)	$(5,806)	$ 3,749	$ (187)	$ 11,289	$ –	$ 5	$(11,074)

Transfers Between Level 2 and Level 3 of the Fair Value Hierarchy

During the six months ended June 2016 and year ended December 2015 there were no significant transfers between level 2 and level 3 financial assets and financial liabilities measured at fair value on a recurring basis.

Fair Value Financial Assets and Financial Liabilities Valued Using Techniques That Incorporate Unobservable Inputs

The fair value of financial assets and financial liabilities may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. The potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs was not material as of June 2016 and December 2015.

Fair Value of Financial Assets and Financial Liabilities Not Measured at Fair Value

As of June 2016 and December 2015, the bank had $5.63 billion and $3.56 billion, respectively, of financial assets and $13.32 billion and $10.82 billion, respectively, of financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value with the exception of a liability which would be recognised in respect of unfunded bank loans held at amortised cost of $128 million and $105 million as of June 2016 and December 2015, respectively. The interest rate associated with long term subordinated loans from group undertakings is variable in nature and approximates prevailing market interest rates for instruments with similar terms and characteristics. As such, the carrying amount in the balance sheet is a reasonable approximation of fair value.