

**GOLDMAN SACHS INTERNATIONAL**

(unlimited company)

**UNAUDITED HALF-YEARLY FINANCIAL REPORT**

**30 JUNE 2015**

**GOLDMAN SACHS INTERNATIONAL**  
**(unlimited company)**

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**Part 1: Management report**

# GOLDMAN SACHS INTERNATIONAL

## (unlimited company)

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### MANAGEMENT REPORT

#### 1. Introduction

Goldman Sachs International ('the company' or 'GSI') provides a wide range of financial services to clients located worldwide. The company also operates a number of branches across Europe, the Middle East and Africa ('EMEA') to provide financial services to clients in those regions.

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

The company'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 high-net-worth individuals. GS Group has a presence in EMEA through a number of subsidiaries, including GSI.

GSI seeks to be the advisor of choice for its global clients and a leading participant in global financial markets. As part of GS Group, GSI also enters into transactions with affiliates in the normal course of business as part of market-making activities and general operations. GSI, consistent with GS Group, reports its activities in four business segments: Investment Banking; Institutional Client Services; Investing & Lending; and Investment Management.

#### **Adoption of revised financial reporting standards**

The Financial Reporting Council revised financial reporting standards ('FRSs') in the U.K. and Republic of Ireland for accounting periods beginning on or after 1 January 2015. The revisions fundamentally reform United Kingdom Generally Accepted Accounting Practices ('U.K. GAAP'), replacing the previous standards ('previous U.K. GAAP').

From 1 January 2015, the company has transitioned from the previous U.K. GAAP to the new FRS 101 framework ('FRS 101'), which applies the recognition and measurement requirements of International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU').

Unless otherwise stated, all amounts in this financial report are prepared in accordance with FRS 101, and the terms FRS 101 and U.K. GAAP are used interchangeably. The impact of adopting FRS 101 has been described in Notes 2b and 4 to the unaudited financial statements and summarised below.

- Collateralised agreements and collateralised financing balances reduced by US\$15.7 billion as at 31 December 2014 due to the adoption of IAS 32 'Financial Instruments: Presentation'. This also resulted in level 2 financial assets and financial liabilities reducing by the same amount.
- Profit on ordinary activities after taxation decreased by US\$9 million, with a corresponding increase in other comprehensive income, for the half-year ended 30 June 2014 due to the adoption of IAS 19 'Employee Benefits (amended 2011)'.
- Level 3 financial assets and financial liabilities decreased by US\$7.4 billion, respectively, as at 31 December 2014 due to the adoption of IFRS 13 'Fair Value Measurement'.
- Market-making related costs (i.e. brokerage, clearing, exchange and distribution fees) have been reclassified from net revenue to administrative expenses as permitted by IAS 1 'Presentation of Financial Statements' and IAS 18 'Revenue'. This resulted in net revenue and administrative expenses each increasing by US\$279 million for the half-year ended 30 June 2014 with no change to the operating profit of the company.
- The company has provided disclosures relating to financial instruments due to the adoption of IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair Value Measurement'. The company has retained all disclosures which would have been presented under the previous U.K. GAAP.

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**MANAGEMENT REPORT (continued)**

**2. Financial overview**

References to ‘the financial statements’ refer to the unaudited financial statements as presented in Part 2 of this financial report for the half-year ended 30 June 2015. All references to 30 June 2015 and 30 June 2014 refer to the periods ended, or the dates, as the context requires, 30 June 2015 and 30 June 2014, respectively. All references to 31 December 2014 refer to the date 31 December 2014.

GS Group prepares consolidated financial statements under United States Generally Accepted Accounting Principles (‘U.S. GAAP’), which include the results of GSI prepared on a U.S. GAAP basis. The company’s profit under U.K. GAAP differs from that under U.S. GAAP primarily due to timing differences in the recognition of certain revenues and expenses. The company’s total assets and total liabilities under U.K. GAAP are greater than under U.S. GAAP primarily due to certain financial assets and financial liabilities being offset under U.S. GAAP. Refer to “Balance sheet” below for further details.

**Profit and loss account**

The profit and loss account for the period is set out on page 28 of this financial report. Net revenue was US\$4.0 billion for the half-year ended 30 June 2015 (30 June 2014: US\$3.5 billion). The results of the company show a profit on ordinary activities before taxation of US\$1.2 billion for the half-year ended 30 June 2015 (30 June 2014: US\$1.1 billion).

**Balance sheet**

The balance sheet as at 30 June 2015 is set out on page 29 of this financial report. GSI had total assets and total liabilities of US\$869.1 billion and US\$844.1 billion, respectively, as at 30 June 2015 (31 December 2014: total assets of US\$977.2 billion and total liabilities of US\$955.2 billion). The decrease in total assets and total liabilities was primarily attributable to a decrease in financial instruments, mainly as a result of market movements during the period, and a reduction in collateralised agreements, reflecting an initiative in the first half of 2015 to reduce the size of the company’s balance sheet. These decreases were partially offset by an increase in debtors, due to increased client activity.

GSI had total assets and total liabilities under U.S. GAAP of US\$351.9 billion and US\$326.9 billion, respectively, as at 30 June 2015 (31 December 2014: total assets of US\$376.3 billion and total liabilities of US\$354.2 billion). GSI’s total assets and total liabilities under U.K. GAAP are greater than under U.S. GAAP primarily due to certain financial assets and financial liabilities being offset under U.S. GAAP. Under U.K. GAAP, the company presents derivative balances as gross if they are not net settled in the normal course of business, even where it has a legally enforceable right to offset those balances.

**Cash flows**

As a financial institution, the company’s cash flows are complex and bear little relation to the company’s profitability and net assets. Consequently, traditional cash flow analysis is less meaningful in evaluating the company’s liquidity position than liquidity and asset-liability management policies. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in the company’s businesses. The statement of cash flows for the period is set out on page 31 of this financial report. GSI’s cash increased by US\$4.5 billion in 2015 (30 June 2014: decrease of US\$50 million). The company generated net cash of US\$4.4 billion from financing activities mainly as a result of issuing US\$2.5 billion of long-term subordinated loans and US\$2.0 billion of ordinary share capital.

**Future outlook**

The directors consider that the period-end financial position of the company was satisfactory. No significant change in the company’s principal business activities is currently expected.

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**MANAGEMENT REPORT (continued)**

**3. Business environment**

**Global**

During the first half of 2015, global economic conditions appeared to be mixed, as real gross domestic product ('GDP') growth in the United States and China initially slowed during the first quarter and then increased during the second quarter when compared with the respective previous quarters, while real GDP growth in the Euro area appeared to increase in consecutive quarters. Sequential growth in Japan was negative in the second quarter following a strong growth rate in the first quarter; meanwhile, in the United Kingdom, growth improved in the second quarter compared with the first quarter. European equity markets were initially boosted as the European Central Bank ('ECB') announced an expanded asset purchase programme in January, but were dampened later in the period on concerns about the debt situation in Greece. In Asian equity markets, the Shanghai Composite Index rose rapidly particularly over the second quarter before sharply reversing much of these gains in the middle of June. These dramatic moves in the Chinese equity market, along with a continued period of low commodity prices, have intensified concerns about the outlook for growth in China. After steadily trending stronger during previous quarters, the U.S. dollar weakened against several major currencies during the second quarter of 2015. Long-term government bond yields in the United States and Europe shifted higher during the period. In investment banking, industry-wide mergers and acquisitions activity was strong during the first half of 2015, while industry-wide equity underwriting activity increased and industry-wide debt underwriting activity declined compared with the first half of 2014.

**Europe**

In the Euro area, real GDP growth increased during the first quarter of 2015, and appeared to increase slightly during the second quarter of 2015, reflecting small improvements in the growth of consumer and government spending, and exports. Measures of inflation remained at low levels, prompting the ECB to announce quantitative easing in the form of an expanded asset purchase programme. The ECB also maintained its main refinancing operations rate at 0.05% and the deposit rate at (0.20)%. Measures of unemployment remained high and the Euro depreciated by 8% against the U.S. dollar compared with the end of 2014. In the United Kingdom, real GDP growth increased during the second quarter of 2015, following a decline during the first quarter of 2015. The Bank of England maintained its official bank rate at 0.50%, and the British pound appreciated by 1% against the U.S. dollar compared with the end of 2014. Long-term government bond yields generally increased in both core and periphery economies. In equity markets, the DAX Index, CAC 40 Index and Euro Stoxx 50 Index increased by 12%, 12% and 9%, respectively, compared with the end of 2014, while the FTSE 100 Index decreased by 1%.

**4. Critical accounting policy**

The company's critical accounting policy, fair value, is consistent with that described in the Annual Report for the year ended 31 December 2014.

The fair values for substantially all of the company's financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. As at 30 June 2015, the company had level 3 financial assets of US\$6.5 billion (31 December 2014: US\$7.8 billion).

**5. Results of operations**

The composition of net revenue has varied over time as financial markets and the scope of the company's operations have changed. The composition of net revenue can also vary over the short-term due to fluctuations in economic and market conditions. In addition to transactions entered into with third parties, the company also enters into transactions with affiliates in the normal course of business as part of market-making activities and general operations.

**Net revenue**

Net revenue includes the net profit arising from transactions, with both affiliates and third parties, in securities, foreign exchange and other financial instruments, and fees and commissions. This is inclusive of associated interest and dividends.

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**MANAGEMENT REPORT (continued)**

**5. Results of operations (continued)**

Net revenue was US\$4.0 billion for the half-year ended 30 June 2015, 13% higher than the half-year ended 30 June 2014 (30 June 2014: US\$3.5 billion), reflecting higher net revenues in Institutional Client Services, and to a lesser extent, significantly higher net revenues in Investment Management and higher net revenues in Investing & Lending. These increases were partially offset by lower net revenues in Investment Banking. Refer to “Segment reporting” below for further details.

**Administrative expenses**

Administrative expenses are primarily influenced by compensation (including the impact of the Group Inc. share price on share-based compensation), headcount and levels of business activity. Administrative expenses were US\$2.7 billion for the half-year ended 30 June 2015, 15% higher than the half-year ended 30 June 2014 (30 June 2014: US\$2.3 billion). The increase was primarily due to the mark-to-market impact of share-based compensation.

Direct costs of employment include salaries, allowances, estimated year-end discretionary compensation, amortisation and mark-to-market of share-based compensation and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, overall financial performance, prevailing labour markets, business mix, the structure of share-based compensation programmes and the external environment.

Direct costs of employment were US\$2.1 billion for the half-year ended 30 June 2015, 15% higher than the half-year ended 30 June 2014 (30 June 2014: US\$1.8 billion). The mark-to-market of share-based compensation awarded in prior years by Group Inc. was a charge of US\$194 million due to an appreciation of the Group Inc. share price in 2015 (30 June 2014: credit of US\$163 million). Excluding the mark-to-market impact of share-based compensation, direct costs of employment were US\$1.9 billion for the half-year ended 30 June 2015, 5% lower than the half-year ended 30 June 2014 (30 June 2014: US\$2.0 billion). The average number of the company’s staff (employees including directors, and consultants and temporary staff) was 5,824 for the half-year ended 30 June 2015, 6% higher than for the half-year ended 30 June 2014.

Administrative expenses excluding direct costs of employment were US\$593 million for the half-year ended 30 June 2015 (30 June 2014: US\$516 million). The increase was primarily driven by lower management recharges to affiliates.

**Interest payable and similar charges**

Interest payable and similar charges comprises interest on long-term subordinated loans from group undertakings of US\$125 million for the half-year ended 30 June 2015 (30 June 2014: US\$114 million). The increase was due to an increase in the average long-term subordinated loans balance in comparison to the half-year ended 30 June 2014.

**Tax on profit on ordinary activities**

Tax on profit on ordinary activities was US\$234 million for the half-year ended 30 June 2015 (30 June 2014: US\$218 million). This increase was mainly due to an increase in profit on ordinary activities before taxation. The effective tax rate for the half-year ended 30 June 2015 was 19.1%, essentially unchanged from the half-year ended 30 June 2014.

In July 2015 the United Kingdom government announced a budget proposal which contained several provisions that will impact the tax on profit on ordinary activities of the company, including: (i) an 8 percentage point surcharge on banking profits effective in 2016; (ii) a 1 percentage point reduction in corporate income tax rates effective in 2017; and (iii) a further 1 percentage point reduction in corporate tax rates effective in 2020. The company’s deferred tax asset will be remeasured upon these provisions being substantively enacted. The company is currently evaluating the potential impact of these changes.

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MANAGEMENT REPORT (continued)

5. Results of operations (continued)

**Segment reporting**

The company's net revenue is categorised into the following business segments:

	Half-year Ended 30 June 2015 US\$'000	Half-year Ended 30 June 2014 US\$'000
<b>Investment Banking</b>		
Financial Advisory	296,164	235,796
Underwriting	449,526	625,788
	<b>745,690</b>	<b>861,584</b>
<b>Institutional Client Services</b>		
Fixed Income, Currency and Commodities Client Execution	1,541,233	1,488,009
Equities	1,267,138	893,366
	<b>2,808,371</b>	<b>2,381,375</b>
<b>Investing &amp; Lending<sup>1</sup></b>	<b>152,385</b>	<b>111,102</b>
<b>Investment Management<sup>1</sup></b>	<b>294,294</b>	<b>193,075</b>
<b>Net revenue</b>	<b>4,000,740</b>	<b>3,547,136</b>

1. The company has reclassified US\$82 million of net revenue for the half-year ended 30 June 2014 from Investing & Lending to Investment Management associated with providing investing services to funds managed by GS Group. There is no impact to total net revenue.

**Investment Banking**

Investment Banking is comprised of:

**Financial Advisory.** Includes strategic advisory engagements with respect to mergers and acquisitions, divestitures, corporate defence activities, restructurings, spin-offs, risk management and derivative transactions directly related to these client advisory engagements.

**Underwriting.** Includes equity and debt underwriting of public offerings and private placements across a wide range of securities and other financial instruments, and derivative transactions directly related to these client underwriting activities.

**Half-year ended 30 June 2015 versus 30 June 2014.** Net revenues in Investment Banking were US\$746 million for the half-year ended 30 June 2015, 13% lower than the half-year ended 30 June 2014. Net revenues in Financial Advisory were US\$296 million, 26% higher than the half-year ended 30 June 2014, reflecting an increase in industry-wide completed mergers and acquisitions. Net revenues in Underwriting were US\$450 million, 28% lower than the half-year ended 30 June 2014, primarily due to significantly lower net revenues in debt underwriting, reflecting lower leveraged finance and investment grade activity, and lower net revenues in equity underwriting, reflecting a decline in European initial public offerings.

During the first half of 2015, the company's investment banking transaction backlog decreased compared to the end of 2014 due to a decline in estimated net revenues from potential advisory transactions. This decrease was partially offset by an increase in estimated net revenues from potential debt underwriting transactions, principally related to leveraged finance transactions. Estimated net revenues from potential equity underwriting transactions were slightly higher compared with the end of 2014.



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**MANAGEMENT REPORT (continued)**

**5. Results of operations (continued)**

The company's investment banking transaction backlog represents an estimate of future net revenues from investment banking transactions where the company believes that future revenue realisation is more likely than not. The company believes changes in its investment banking transaction backlog may be a useful indicator of client activity levels which, over the long term, impact net revenues. However, the time frame for completion and corresponding revenue recognition of transactions in the backlog varies based on the nature of the engagement, as certain transactions may remain in the backlog for longer periods of time and others may enter and leave within the same reporting period. In addition, the company's transaction backlog is subject to certain limitations, such as assumptions about the likelihood that individual client transactions will occur in the future. Transactions may be cancelled or modified, and transactions not included in the estimate may also occur.

**Institutional Client Services**

Institutional Client Services generates revenues in four ways:

- In large, highly liquid markets, the company executes a high volume of transactions for clients for modest spreads and fees;
- In less liquid markets, the company executes transactions for clients for spreads and fees that are generally somewhat larger;
- The company also structures and executes transactions involving customised or tailor-made products that address clients' risk exposures, investment objectives or other complex needs; and
- The company provides financing to its clients for their securities trading activities, as well as securities lending and other prime brokerage services.

Institutional Client Services is comprised of:

**Fixed Income, Currency and Commodities Client Execution.** Includes client execution activities related to making markets in interest rate products, credit products, mortgages, currencies and commodities.

- **Interest rate products.** Government bonds, money market instruments such as commercial paper, treasury bills, securities sold under agreements to repurchase ('repurchase agreements') and other highly liquid securities and instruments, as well as interest rate swaps, options and other derivatives.
- **Credit products.** Investment-grade corporate securities, high-yield securities, credit derivatives, bank and bridge loans, municipal securities, emerging market and distressed debt, and trade claims.
- **Mortgages.** Commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives, and other asset-backed securities, loans and derivatives.
- **Currencies.** Most currencies, including growth-market currencies.
- **Commodities.** Crude oil and petroleum products, natural gas, base, precious and other metals, electricity, coal, agricultural and other commodity products.

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**MANAGEMENT REPORT (continued)**

**5. Results of operations (continued)**

**Equities.** Includes client execution activities related to making markets in equity products and commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide, as well as over-the-counter ('OTC') transactions. Equities also includes the securities services business, which provides financing, securities lending and other prime brokerage services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and generates revenues primarily in the form of interest rate spreads or fees.

**Half-year ended 30 June 2015 versus 30 June 2014.** Net revenues in Institutional Client Services were US\$2.8 billion for the half-year ended 30 June 2015, 18% higher than the half-year ended 30 June 2014.

Net revenues in Fixed Income, Currency and Commodities Client Execution were US\$1.5 billion, 4% higher than the half-year ended 30 June 2014, due to significantly higher net revenues in currencies and interest rate products, reflecting higher volatility levels which contributed to higher client activity levels. These increases were partially offset by significantly lower net revenues in credit products, mortgages and commodities. The decreases in credit products and mortgages reflected challenging market-making conditions and low levels of activity, whereas the decrease in commodities primarily reflected less favourable market-making conditions.

Net revenues in Equities were US\$1.3 billion, 42% higher than the half-year ended 30 June 2014, due to significantly higher net revenues in equities client execution, reflecting strong results in both derivatives and cash products, and higher securities services net revenues, reflecting the impact of higher average customer balances. These increases were partially offset by lower net revenues in commissions and fees.

During the first half of 2015, the operating environment for Institutional Client Services was positively impacted by diverging central bank monetary policies in the United States and the Euro area in the first quarter, as increased volatility levels contributed to strong client activity levels in currencies, interest rate products and equity products, and market-making conditions improved. However, during the second quarter, a shift in the macroeconomic backdrop, along with concerns about the debt situation in Greece and economy in China, negatively impacted client activity and market-making conditions, particularly in fixed income products.

**Investing & Lending**

Investing & Lending includes direct investments made by the company, which are typically longer-term in nature, and net revenues associated with providing investing services to other GS Group entities.

**Half-year ended 30 June 2015 versus 30 June 2014.** Net revenues in Investing & Lending were US\$152 million for the half-year ended 30 June 2015, 37% higher than the half-year ended 30 June 2014, primarily due to an increase in net revenues from providing investing services to other GS Group entities.

**Investment Management**

Investment Management offers investment management and wealth advisory services, including portfolio management and financial counselling, and brokerage and other transaction services to high-net-worth individuals and families. Investment Management also includes net revenues associated with providing investing services to funds managed by GS Group.

**Half-year ended 30 June 2015 versus 30 June 2014.** Net revenues in Investment Management were US\$294 million for the half-year ended 30 June 2015, 52% higher than the half-year ended 30 June 2014, reflecting significantly higher management and other fees, primarily due to an increase in net revenues from providing investing services to funds managed by GS Group.

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**MANAGEMENT REPORT (continued)**

**6. Balance sheet and funding sources**

**Balance sheet management**

One of the most important risk management disciplines for a financial institution is its ability to manage the size and composition of its balance sheet. GSI leverages the firmwide balance sheet management process performed at the GS Group level to manage these factors. While the asset base of Group Inc. and its affiliates vary due to client activity, market fluctuations and business opportunities, the size and composition of the balance sheet reflects (i) the overall risk tolerance of GS Group, (ii) the ability to access stable funding sources and (iii) the amount of equity capital held by GS Group.

In order to ensure appropriate risk management, GSI seeks to maintain a liquid balance sheet and leverages GS Group's processes to dynamically manage assets and liabilities which include (i) quarterly planning, (ii) business-specific limits, (iii) monitoring of key metrics, and (iv) scenario analyses.

**Liquidity and cash**

The company maintains substantial liquidity to meet a broad range of potential cash outflows and collateral needs in the event of a stressed environment. The company's liquidity exceeds the minimum liquidity requirement as defined by the PRA's Individual Liquidity Guidance ('ILG') framework. Refer to Item 9 "Risk management – Liquidity risk management – Global Core Liquid Assets" for details on the composition and sizing of the company's Global Core Liquid Assets ('GCLA').

**Funding sources**

The company's primary sources of funding are secured financings, intercompany unsecured borrowings and external unsecured borrowings.

GSI raises this funding through a number of different products, including:

- Collateralised financing, which are repurchase agreements and securities loaned;
- Intercompany unsecured loans from Group Inc. and other affiliates; and
- Debt securities issued to both external counterparties and affiliates, which includes securitised derivative products (including certificates and warrants), notes and vanilla debt, as well as transfers of assets accounted for as financings rather than sales.

GSI generally distributes funding products through its own sales force and third-party distributors, to a large, diverse creditor base in a variety of global markets. The company believes that its relationships with creditors are critical to its liquidity. Creditors include banks, securities lenders, pension funds, insurance companies and mutual funds. GSI has imposed various internal guidelines to monitor creditor concentration across its external funding programmes.

During the first half of 2015, the company undertook an initiative to reduce the size of its balance sheet. This contributed towards a reduction in the company's secured funding and intercompany unsecured borrowings of US\$14.8 billion and US\$13.6 billion, respectively. This was partially offset by an increase in the company's ordinary share capital of US\$2.0 billion.

**Secured funding.** The company funds a significant amount of inventory on a secured basis with external counterparties as well as with affiliates. As at 30 June 2015, secured funding with external counterparties totalled US\$47.9 billion (31 December 2014: US\$42.1 billion) and secured funding with affiliates totalled US\$84.4 billion (31 December 2014: US\$105.0 billion).

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MANAGEMENT REPORT (continued)

**6. Balance sheet and funding sources (continued)**

A majority of the company's secured funding for securities not eligible for inclusion in the GCLA is executed through term repurchase agreements and securities loaned contracts. The company also raises financing through other types of secured funding, such as secured loans and notes. The table below presents GSI's secured funding.

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$m</b>	<b>US\$m</b>
Repurchase agreements	54,481	46,801
Securities loaned	73,762	94,850
Debt securities issued	1,408	2,602
<b>Short-term secured funding</b>	<b>129,651</b>	<b>144,253</b>
Debt securities issued	2,658	2,840
<b>Long-term secured funding</b>	<b>2,658</b>	<b>2,840</b>
<b>Total</b>	<b>132,309</b>	<b>147,093</b>

The weighted average maturity of the company's external secured funding, excluding funding collateralised by highly liquid securities eligible for inclusion in the GCLA, exceeded 120 days as at 30 June 2015.

During the first half of 2015, the company received approval to access the Bank of England's Sterling Monetary Framework ('SMF'), following the Bank of England's efforts to extend access to broker dealers and central counterparties. As at the date this financial report was signed, the company has not accessed any funding via the SMF.

**Intercompany unsecured borrowings.** GSI sources funding through unsecured intercompany borrowings from Group Inc. and other affiliates. The majority of GS Group's unsecured funding is raised by Group Inc., which lends the necessary funds to its subsidiaries, including GSI, to meet asset financing, liquidity and capital requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of GSI and other subsidiaries. Intercompany unsecured borrowings also include debt securities issued. The table below presents GSI's intercompany unsecured borrowings.

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$m</b>	<b>US\$m</b>
Amounts due to parent and group undertakings	35,424	49,464
Debt securities issued	2,599	3,807
<b>Short-term intercompany unsecured borrowings</b>	<b>38,023</b>	<b>53,271</b>
Long-term subordinated loans	8,958	6,458
Amounts due to parent and group undertakings	1,500	2,702
Debt securities issued	781	471
<b>Long-term intercompany unsecured borrowings</b>	<b>11,239</b>	<b>9,631</b>
<b>Total</b>	<b>49,262</b>	<b>62,902</b>

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MANAGEMENT REPORT (continued)

6. Balance sheet and funding sources (continued)

**External unsecured borrowings.** External unsecured borrowings include debt securities issued and bank loans and overdrafts. The table below presents GSI's external unsecured borrowings.

	30 June 2015	31 December 2014
	US\$m	US\$m
Bank loans	-	111
Overdrafts	86	9
Debt securities issued	10,918	9,135
<b>Short-term external unsecured borrowings</b>	<b>11,004</b>	<b>9,255</b>
Bank loans	100	-
Debt securities issued	4,407	3,076
<b>Long-term external unsecured borrowings</b>	<b>4,507</b>	<b>3,076</b>
<b>Total</b>	<b>15,511</b>	<b>12,331</b>

**Total shareholder's funds**

As at 30 June 2015, GSI held US\$25.0 billion (31 December 2014: US\$22.0 billion) of total shareholder's funds. Refer to Item 7 "Regulatory – Regulatory capital" for further information on GSI's capital.

7. Regulatory

**Capital management**

Capital adequacy is of critical importance to the company. The company's objective is to be prudently capitalised in terms of the amount and composition of its equity base, both relative to the company's risk exposures and compared to external requirements and benchmarks. Accordingly, a comprehensive capital management policy is in place that provides a framework and a set of guidelines to assist in determining the level and composition of capital that is targeted and maintained.

The appropriate level and composition of equity capital is determined by considering multiple factors, including: current and future regulatory capital requirements; the results of the company's capital planning and stress testing process; and other factors such as rating agency guidelines, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in the company's business and market environments.

The company's capital planning and stress testing process incorporates internally designed stress tests and those required under the PRA's Internal Capital Adequacy Assessment Process ('ICAAP'). It is also designed to identify and measure material risks associated with business activities, including market risk, credit risk, operational risk and other risks. The company's goal is to hold sufficient capital to ensure that it remains adequately capitalised after experiencing a severe stress event. The company's assessment of capital adequacy is viewed in tandem with its assessment of liquidity adequacy and is integrated into its overall risk management structure, governance and policy framework.

In addition, as part of the company's comprehensive capital management policy, a contingency capital plan is maintained that provides a framework for analysing and responding to an actual or perceived capital shortfall, including, but not limited to, identification of drivers of a capital deficiency, as well as mitigants and potential actions. It outlines the appropriate communication procedures to follow during a crisis period, including internal dissemination of information as well as ensuring timely communication with external stakeholders.

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**MANAGEMENT REPORT (continued)**

**7. Regulatory (continued)**

**Resolution and recovery planning**

GS Group is required by the Federal Reserve Board and the Federal Deposit Insurance Corporation ('FDIC') to submit an annual plan that describes their strategy for a rapid and orderly resolution in the event of material financial distress or failure ('resolution plan'). GSI is considered to be a principal material operating entity for the purposes of the annual resolution plan prepared by GS Group. GS Group submitted its 2015 resolution plan on 30 June 2015 and GSI submitted the 2015 resolution plan to the PRA in July 2015.

GS Group also prepares, on an annual basis, a global recovery plan that outlines the steps that management could take to reduce risk, maintain sufficient liquidity, and conserve capital in times of prolonged stress.

The EU Bank Recovery and Resolution Directive ('BRRD') was published in the Official Journal of the European Union on 12 June 2014 and establishes a framework for the recovery and resolution of credit institutions and investment firms in the EU region. The BRRD was implemented in the UK on 1 January 2015, with the exception of certain powers which will come into effect by 1 January 2016. The BRRD aims to provide national supervisory authorities with tools and powers to pre-emptively address potential financial crises in order to promote financial stability and minimise taxpayers' exposure to losses.

Under the BRRD, a resolution authority is empowered to employ one or more resolution tools in relation to certain institutions, including investment firms (such as GSI), where the authority determines that the institution is failing or likely to fail, it is not reasonably likely that any other action can be taken to avoid the failure of the institution, and the resolution action is in the public interest.

The tools available to the resolution authority under the BRRD include a statutory 'write-down and conversion power,' the so-called 'bail-in' tool. The 'bail-in' tool gives the resolution authority the ability to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing institution and to convert certain debt claims into another security, including ordinary shares of the surviving entity or bridge institution, if any.

**Regulatory capital**

The company is subject to the revised capital framework for EU-regulated financial institutions (the fourth EU Capital Requirements Directive and EU Capital Requirements Regulation, collectively known as 'CRD IV'). These regulations are largely based on the Basel Committee's final capital framework for strengthening international capital standards ('Basel III').

On 1 January 2015, under CRD IV Pillar 1, the minimum Common Equity Tier 1 ('CET1') ratio increased from 4.0% to 4.5% and the minimum Tier 1 capital ratio increased from 5.5% to 6.0%. The Total capital ratio remained unchanged at 8.0%. The CET1 ratio is defined as CET1 divided by risk-weighted assets ('RWAs'). The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs.

In addition, the company is also subject to the PRA's Pillar 2 framework, which requires U.K. institutions, including GSI, to undertake an internal capital adequacy assessment. The PRA performs a periodic supervisory review of this assessment, which leads to a final determination by the PRA of individual capital guidance ('ICG') under Pillar 2A. This is a point in time assessment of the amount of capital the PRA considers that a bank should hold to meet the overall financial adequacy rule.

Since 1 January 2015, in accordance with the PRA supervisory statement SS 5/13, a bank's ICG must be covered by at least 56% CET1 capital and 75% Tier 1 capital resulting in an increase in the transitional CRD IV minimum ratios. For GSI, its minimum CET1 ratio increased by 1.7 percentage points, its minimum Tier 1 capital ratio increased by 2.2 percentage points and its minimum Total capital ratio increased by 2.9 percentage points from their 1 January 2015 levels, in each case reflecting the Pillar 2A ICG set by the PRA. As at 30 June 2015, GSI is required to maintain a minimum CET1 ratio of 6.2%, Tier 1 capital ratio of 8.2% and Total capital ratio of 10.9%.

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**MANAGEMENT REPORT (continued)**

**7. Regulatory (continued)**

These minimum ratios will be supplemented by a new capital conservation buffer, consisting entirely of capital that qualifies as CET1 that phases in, beginning 1 January 2016, in increments of 0.625% per year until it reaches 2.5% of RWAs on 1 January 2019. In addition to the capital conservation buffer, the company may become subject to a domestic systemically important institution ('D-SIB') buffer and a countercyclical buffer as these become applicable.

GSI was in compliance with external capital requirements as at 30 June 2015 and 31 December 2014.

The ratios in the following sections include the impact of the results for the half-year ended 30 June 2015.

**Regulatory capital ratios**

The table below presents a breakdown of GSI's capital ratios under CRD IV on a fully phased-in basis as at 30 June 2015.

	<b>30 June 2015</b>	<b>31 December 2014</b>
CET1 ratio	11.9%	9.7%
Total capital ratio	16.4%	12.7%

As at 30 June 2015 and 31 December 2014, GSI did not have any financial instruments which qualified as additional Tier 1 capital and the Tier 1 capital ratio was identical to the CET1 ratio disclosed above.

Although the fully phased-in capital ratios under CRD IV are not applicable until 2019, they are meaningful because they are measures that the company and its regulators and investors use to assess the company's ability to meet future regulatory capital requirements.

Certain CRD IV rules are subject to final technical standards and clarifications, which will be issued by the European Banking Authority ('EBA') and adopted by the European Commission and PRA. All capital, RWAs and estimated ratios are based on current interpretation, expectations and understanding of CRD IV and may evolve as its interpretation and application is discussed with the company's regulators.

**Capital resources**

The table below presents a breakdown of GSI's capital components under CRD IV on a fully phased-in basis as at 30 June 2015.

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$m</b>	<b>US\$m</b>
Called up share capital	582	533
Share premium account including capital reserves	4,882	2,880
Retained earnings	19,502	18,584
Total shareholder's funds	24,966	21,997
Deductions	(1,404)	(906)
<b>CET1</b>	<b>23,562</b>	<b>21,091</b>
<b>Tier 2 capital (long-term subordinated loans)</b>	<b>8,958</b>	<b>6,458</b>
<b>Total capital resources (net of deductions)</b>	<b>32,520</b>	<b>27,549</b>

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**MANAGEMENT REPORT (continued)**

**7. Regulatory (continued)**

**Risk-weighted assets**

The table below presents the components of RWAs within GSI's regulatory capital ratios under CRD IV as at 30 June 2015.

<b>RWAs</b>	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$m</b>	<b>US\$m</b>
Credit RWAs	113,710	127,346
Concentration RWAs	-	2,114
Market RWAs	72,117	75,958
Operational RWAs	12,303	11,804
<b>Total RWAs</b>	<b>198,130</b>	<b>217,222</b>

**Leverage ratio**

CRD IV, as amended by the European Commission Delegated Act, introduced a new leverage ratio, which compares Tier 1 capital, as defined under CRD IV, to a measure of leverage exposure, defined as the sum of assets less Tier 1 capital deductions plus off-balance-sheet exposures (including a measure of derivatives exposures, securities financing transactions and commitments). The leverage ratio becomes effective for the company on 1 January 2018, although public disclosure requirements are effective for reporting periods from 1 January 2015. As at 30 June 2015, the company had a leverage ratio of 3.1%.

**Regulatory developments**

GSI's businesses are subject to significant and evolving regulation. Reforms have been adopted or are being considered by regulators and policy makers worldwide. The expectation is that the principal areas of impact from regulatory reform for GSI will be increased regulatory capital requirements and increased regulation and restriction on certain activities. However, given that many of the new and proposed rules are highly complex, the full impact of regulatory reform will not be known until the rules are implemented and market practices develop under the final EU and or U.K. regulations.

With respect to capital requirements, the Basel Committee continues to consult on several potential changes to regulatory capital requirements that could impact our capital ratios in the future. In particular, the Basel Committee is considering changing the market risk capital requirements as described in the consultation papers on a "Fundamental Review of the Trading Book", the credit risk capital requirements applicable to credit valuation adjustments, and applying floors to internal-model based exposure requirements and revising the standardised credit risk rules. The impact of all of these developments on the company (including RWAs and regulatory capital ratios) is subject to uncertainty until corresponding legislation is implemented in the EU.

The provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank Act') referred to as the "Volcker Rule" became effective in July 2015 (subject to a conformance period, as applicable). GSI is subject to these provisions by virtue of being a subsidiary of GS Group. The Volcker Rule prohibits "proprietary trading", but permits activities such as underwriting, market making and risk-mitigation hedging. GS Group is also required to create an extensive compliance programme, which includes additional reporting and record keeping requirements. The reporting requirements include calculating daily quantitative metrics on covered trading activities (as defined in the rule) and providing these metrics to regulators on a monthly basis. The initial implementation of these rules did not have a material impact on the company's financial condition, results of operations or cash flows. However, the rule is highly complex, and its impact may change as market practices further develop. In addition to the prohibition on proprietary trading, the Volcker Rule limits the sponsorship of, and investment in, "covered funds" (as defined in the rule) by banking entities. It also limits certain types of transactions between the company and GS Group's sponsored funds. In December 2014, the Federal Reserve Board extended the conformance period through July 2016 for investments in, and relationships with, covered funds that were in place prior to 31 December 2013, and indicated that it intends to further extend the conformance period through July 2017.



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**MANAGEMENT REPORT (continued)**

**7. Regulatory (continued)**

The Dodd-Frank Act and other reform initiatives proposed and announced by the U.S. federal bank regulatory agencies, the PRA and the FCA, the Basel Committee and other governmental entities and regulators (including the EU) are not in all cases consistent with one another, which adds further uncertainty to the future capital, leverage and liquidity requirements of GSI as a consolidating subsidiary of GS Group.

**8. Principal risks and uncertainties**

GSI 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 Annual Report for the year ended 31 December 2014.

**9. Risk management**

The company's risk management framework is consistent with the Annual Report for the year ended 31 December 2014 (refer to Items 9 – 13).

**Liquidity risk management**

**Overview.** Liquidity risk is the risk that the company does not have sufficient cash or collateral to make payments to its counterparties and customers as they fall due. Liquidity is of critical importance to financial institutions. Most of the failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the company has in place a comprehensive and conservative set of liquidity and funding policies to address both company-specific and broader industry or market liquidity events. The principal objective is to be able to fund the company and to enable the core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

**Liquidity risk management principles.** GSI manages liquidity risk according to the following principles:

- Global Core Liquid Assets – maintain substantial liquidity (GCLA) to meet a broad range of potential cash outflows and collateral needs in a stressed environment;
- Asset-liability management – assess anticipated holding periods for the company's assets and their expected liquidity in a stressed environment, manage maturities and diversity of funding across markets, products and counterparties, and seek to maintain liabilities of appropriate tenor relative to the asset base; and
- Contingency funding plan ('CFP') – GSI maintains a CFP, which is an addendum to the GS Group CFP. The contingency funding plan provides a framework for analysing and responding to a liquidity crisis situation or periods of market stress. This framework sets forth the plan of action to fund normal business activity in emergency and stress situations.

**Global Core Liquid Assets.** The company's most important liquidity policy is to pre-fund its estimated potential cash and collateral needs during a liquidity crisis and hold this liquidity in the form of unencumbered, highly liquid securities and cash. The company believes that the securities held in its GCLA would be readily convertible to cash in a matter of days, through liquidation, by entering into repurchase agreements or from maturities of securities purchased under agreements to resell ('resale agreements'), and that this cash would allow it to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets.

In order to determine the appropriate size of the company's GCLA, an internal liquidity model is used, referred to as the Modelled Liquidity Outflow ('MLO'), which captures and quantifies the company's liquidity risks. Other factors are considered including, but not limited to, an assessment of potential intraday liquidity needs through an additional internal liquidity model, referred to as the Intraday Liquidity Model ('ILM'), and a qualitative assessment of the condition of the financial markets and of the company. Refer to Item 10 "Liquidity risk management" of the Annual Report for the year ended 31 December 2014 for further details.

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MANAGEMENT REPORT (continued)

9. Risk management (continued)

The table below presents the average daily fair value of GSI's GCLA by asset class.

	Average daily fair value of GCLA	
	Half-year Ended 30 June 2015	Year Ended 31 December 2014
	US\$m	US\$m
Overnight cash deposits	1,685	906
U.S. government obligations	18,244	15,322
French government obligations	8,740	9,073
United Kingdom government obligations	13,625	15,614
German government obligations	8,419	6,896
Japanese government obligations	3,504	2,086
<b>Total</b>	<b>54,217</b>	<b>49,897</b>

As at 30 June 2015, the fair value of the securities and certain overnight cash deposits included in GSI's GCLA totalled US\$55.1 billion (31 December 2014: US\$54.2 billion).

In addition to GCLA, the company has a significant amount of other unencumbered cash and financial instruments owned, at fair value, including other government obligations, high-grade money market securities, corporate obligations, marginable equities, loans and cash deposits not included in the GCLA. The fair value of these assets averaged US\$30.2 billion for the half-year ended 30 June 2015 (year ended 31 December 2014: US\$30.5 billion). GSI does not consider these assets liquid enough to be eligible for inclusion in its GCLA.

**Liquidity regulatory framework.** The Basel Committee's international framework for liquidity risk measurement, standards and monitoring has proposed the introduction of a liquidity coverage ratio ('LCR'), designed to ensure that banks maintain an adequate level of unencumbered high-quality liquid assets based on expected net cash outflows under an acute short-term liquidity stress scenario, and a net stable funding ratio ('NSFR'), designed to promote more medium- and long-term funding of the assets and off-balance-sheet activities of these entities over a one-year time horizon. The Basel Committee's NSFR framework requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities. These Basel standards have not yet been incorporated into CRD IV regulation or European Commission Delegated Act, and may differ from the Basel standards once implemented. The LCR will be effective in the EU on 1 October 2015, with a phase-in period whereby firms would have a 60% minimum in 2015 which would be raised each year until 2018. The NSFR is expected to be effective on 1 January 2018.

The implementation of these standards could impact the company's liquidity and funding requirements and practices in the future.

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MANAGEMENT REPORT (continued)

9. Risk management (continued)

**Credit ratings.** The table below presents the unsecured credit ratings and outlook of GSI and Group Inc. as at 30 June 2015. During the period, Moody's Investors Service upgraded the long-term debt rating of the company from A2 to A1 and Fitch Ratings, Inc. changed the outlook of the company from stable to positive.

	<b>Standard &amp; Poor's Rating Services</b>	<b>Moody's Investors Service</b>	<b>Fitch Ratings, Inc.</b>
<b>GSI</b>			
Short-term debt	A-1	P-1	F1
Long-term debt	A	A1	A
Ratings outlook	Stable <sup>1</sup>	Stable	Positive
<b>Group Inc.</b>			
Short-term debt	A-2	P-2	F1
Long-term debt	A-	A3	A
Subordinated debt	BBB+	Baa2	A-
Trust preferred	BB	Baa3	BBB-
Preferred stock	BB	Ba1	BB+
Ratings outlook	Negative	Stable	Stable

1. On 23 July 2015, Standard & Poor's Rating Services changed the outlook of the company from stable to positive.

Certain of the company's derivatives have been transacted under bilateral agreements with counterparties who may require GSI to post collateral or terminate the transactions based on changes in the credit ratings of either GSI and / or Group Inc. The company assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies of both Group Inc. and GSI simultaneously and of each entity individually. A downgrade by any one rating agency, depending on the agency's relative ratings of Group Inc. and GSI at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies.

The company attributes a portion of its GCLA to ensure that it would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in Group Inc. and / or GSI's long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. The table below presents the additional collateral or termination payments related to the company's net derivative liabilities under bilateral agreements that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in Group Inc. and / or GSI's credit ratings.

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$m</b>	<b>US\$m</b>
Additional collateral or termination payments for a one-notch downgrade	185	294
Additional collateral or termination payments for a two-notch downgrade	1,522	1,295

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**MANAGEMENT REPORT (continued)**

**9. Risk management (continued)**

**Market risk management**

**Overview.** Market risk is the risk of loss in the value of inventory, as well as certain other financial assets and financial liabilities, due to changes in market conditions. The company employs a variety of risk measures, each described in the respective sections below, to monitor market risk. The company holds inventory primarily for market making for clients. Inventory therefore changes based on client demands. The company's inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in net revenue. Categories of market risk include the following:

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

**Market risk management process.** The company manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This includes:

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

GSI's framework for managing market risk is consistent with, and part of, the GS Group framework, and results are analysed by business and in aggregate, at both the GS Group and GSI level.

Market Risk Management, which is independent of the revenue-producing units and reports to the GS Group chief risk officer, has primary responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the global businesses.

Managers in revenue-producing units are accountable for managing risk within prescribed limits, both at the GS Group and GSI level. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

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

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MANAGEMENT REPORT (continued)

9. Risk management (continued)

**Metrics.** The tables below present, by risk category, average daily Value-at-Risk ('VaR') and period-end VaR, as well as the high and low VaR for the period. Diversification effect in the tables below represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

	Average daily VaR	
	Half-year Ended 30 June 2015 US\$m	Half-year Ended 30 June 2014 US\$m
<b>Risk categories:</b>		
Interest rates	22	19
Equity prices	16	20
Currency rates	7	5
Commodity prices	-	-
Diversification effect	(15)	(11)
<b>Total</b>	<b>30</b>	<b>33</b>

The company's average daily VaR decreased to US\$30 million for the half-year ended 30 June 2015 from US\$33 million for the half-year ended 30 June 2014, primarily reflecting a decrease in the equity price category, due to decreased exposures, and an increase in the diversification effect. This was partially offset by an increase in the interest rates category due to increased exposures and higher levels of volatility.

**Period-end VaR and high and low VaR**

	30 June 2015 US\$m	31 December 2014 US\$m	High	Low
			Half-year Ended 30 June 2015 US\$m	Half-year Ended 30 June 2015 US\$m
<b>Risk categories:</b>				
Interest rates	21	27	28	17
Equity prices	25	11	28	10
Currency rates	14	4	19	3
Commodity prices	1	1	1	-
Diversification effect	(23)	(15)		
<b>Total</b>	<b>38</b>	<b>28</b>	<b>43</b>	<b>22</b>

The company's daily VaR increased to US\$38 million as at 30 June 2015 from US\$28 million as at 31 December 2014, primarily reflecting an increase in the equity price category due to increased exposures.

During 2015, the company's VaR risk limit was reduced, reflecting lower risk utilisation over the last year. During 2014, the company's VaR risk limit was not raised or reduced. The VaR limit was not exceeded throughout 2014 and 2015.

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**MANAGEMENT REPORT (continued)**

**9. Risk management (continued)**

**Sensitivity measures.** Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure for these positions. The market risk of these positions is determined by estimating the potential reduction in net revenue of a 10% decline in the underlying asset value.

**10% sensitivity measures**

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$m</b>	<b>US\$m</b>
<b>Asset categories:</b>		
Equity	19.2	16.0
Debt	0.3	0.3
<b>Total</b>	<b>19.5</b>	<b>16.3</b>

The company's 10% sensitivity measures increased to US\$19.5 million as at 30 June 2015 from US\$16.3 million as at 31 December 2014, primarily reflecting an increase in the equity asset category due to an increase in private and restricted public equity securities.

**Credit risk management**

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

Credit Risk Management, which is independent of the revenue-producing units and reports to GS Group's chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk. GSI's framework for managing credit risk is consistent with the framework of GS Group. GS Group's Credit Policy Committee and Firmwide Risk Committee establish and review credit policies and parameters for GS Group as a whole. In addition, the company holds other positions that give rise to credit risk, (e.g. bonds held in inventory). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions. The company also enters into derivatives to manage market risk exposures. Such derivatives also give rise to credit risk which is monitored and managed by Credit Risk Management.

Policies authorised by GS Group's Firmwide Risk Committee and Credit Policy Committee prescribe the level of formal approval required for GS Group to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants. These policies are complemented by specific policies for GSI, which are approved by GSI governance bodies, including the GSI Risk Committee.

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

- Approving transactions and setting and communicating credit exposure limits;
- Monitoring compliance with established credit exposure limits;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring the company's current and potential credit exposure and losses resulting from counterparty default;

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**MANAGEMENT REPORT (continued)**

**9. Risk management (continued)**

- Reporting of credit exposures to senior management, the GSI board of directors and regulators;
- Use of credit risk mitigants, including collateral and hedging; and
- Communication and collaboration with other independent control and support functions such as operations, legal and compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of the company's counterparties. For substantially all of the company's credit exposures, the core of the process is an annual counterparty credit review. A credit review is an independent analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the counterparty's industry and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

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

**Credit exposures.** GSI's credit exposures are described further below.

***Financial instruments owned***

Financial instruments owned includes cash instruments and derivatives. In the table below cash instruments are included in the gross exposure; however, to the extent that they have been captured by market risk they are removed to arrive at net credit exposure. Derivatives are reported at fair value on a gross by counterparty basis in the company's financial statements unless it has current legal right of set off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described in Item 12 "Credit risk management" of the Annual Report for the year ended 31 December 2014.

***Collateralised agreements***

The company bears credit risk related to resale agreements and securities borrowed only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. The company's credit exposure on these transactions is therefore significantly lower than the amounts recorded on the balance sheet, which represent fair values or contractual value before consideration of collateral received. The company also has credit exposure on repurchase agreements and securities loaned, which are liabilities on its balance sheet, to the extent that the value of collateral pledged to the counterparty for these transactions exceeds the amount of cash or collateral received.

***Debtors***

The company is exposed to credit risk from its debtors through its amounts due from brokers / dealers and customers and amounts due from group undertakings. These primarily comprise receivables related to cash collateral paid to counterparties in respect of derivative financial instruments. In addition, these balances also include initial margin placed with clearing organisations, collateralised receivables related to customer securities transactions and receivables related to sales of securities which have traded, but not yet settled. These receivables generally have minimal credit risk due to the low probability of clearing organisation default and the short-term nature of receivables related to securities settlements.

***Cash at bank and in hand***

Cash at bank and in hand include both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, the company places substantially all of its deposits with highly-rated banks and central banks.

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MANAGEMENT REPORT (continued)

9. Risk management (continued)

The table below presents the company's gross credit exposure to financial assets and net credit exposure after taking account of assets captured by market risk in the company's risk management process, counterparty netting (i.e. the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting agreement), and cash and security collateral received and cash collateral posted under credit support agreements, which management considers when determining credit risk.

During the period, the company revised its approach for the disclosure of credit risk mitigants for the current and previous periods to align it more closely with management's view of the company's credit risk on financial assets, giving consideration to the expected enforceability of collateral arrangements.

In the table below, cash collateral and security collateral received differ to the amounts disclosed in Note 19i to the financial statements as the below disclosure includes additional cash and security collateral that management considers when determining credit risk.

**Credit exposure by financial asset class**

	<b>30 June 2015</b>					
	<b>Gross exposure</b>	<b>Assets captured by market risk</b>	<b>Counterparty netting</b>	<b>Cash collateral</b>	<b>Security collateral received</b>	<b>Net credit exposure</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Financial asset class:</b>						
Financial instruments owned	578,430	(39,649)	(463,226)	(39,734)	(10,656)	25,165
Financial instruments owned pledged as collateral	23,375	(23,375)	-	-	-	-
Collateralised agreements	164,650	-	(57,267)	-	(101,900)	5,483
Debtors	93,809	-	(557)	(29,266)	(10,270)	53,716
Cash at bank and in hand	8,080	-	-	-	-	8,080
<b>Total</b>	<b>868,344</b>	<b>(63,024)</b>	<b>(521,050)</b>	<b>(69,000)</b>	<b>(122,826)</b>	<b>92,444</b>
	<b>31 December 2014</b>					
	<b>Gross exposure</b>	<b>Assets captured by market risk</b>	<b>Counterparty netting</b>	<b>Cash collateral</b>	<b>Security collateral received</b>	<b>Net credit exposure</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Financial asset class:</b>						
Financial instruments owned	667,823	(37,099)	(549,166)	(43,040)	(10,970)	27,548
Financial instruments owned pledged as collateral	24,404	(24,404)	-	-	-	-
Collateralised agreements	203,516	-	(88,761)	-	(109,490)	5,265
Debtors	77,142	-	(602)	(28,928)	(8,903)	38,709
Cash at bank and in hand	3,586	-	-	-	-	3,586
<b>Total</b>	<b>976,471</b>	<b>(61,503)</b>	<b>(638,529)</b>	<b>(71,968)</b>	<b>(129,363)</b>	<b>75,108</b>



**GOLDMAN SACHS INTERNATIONAL**  
(unlimited company)

MANAGEMENT REPORT (continued)

9. Risk management (continued)

The table below presents the company's gross and net credit exposure to financial assets based on internally determined public rating agency equivalents. The unrated net credit exposure of US\$14.7 billion (31 December 2014: US\$6.8 billion) primarily relates to debtors balances of US\$13.4 billion (31 December 2014: US\$4.3 billion), for which the company has not assigned an internally determined public rating agency equivalent. This balance primarily comprises receivables related to the sale of securities which have traded, but not yet settled which generally have minimal credit risk due to the low probability of clearing organisation default and their short-term nature.

Credit exposure by credit rating equivalent

	30 June 2015					
	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>Credit rating equivalent:</b>						
AAA/Aaa	11,307	-	(3,257)	(2,373)	(947)	4,730
AA/Aa	124,203	-	(53,911)	(16,380)	(36,398)	17,514
A/A	533,349	-	(413,128)	(29,378)	(55,646)	35,197
BBB/Baa2	81,795	-	(40,358)	(13,137)	(15,314)	12,986
BB/Ba2 or lower	38,039	-	(10,278)	(7,627)	(12,769)	7,365
Unrated	79,651	(63,024)	(118)	(105)	(1,752)	14,652
<b>Total</b>	<b>868,344</b>	<b>(63,024)</b>	<b>(521,050)</b>	<b>(69,000)</b>	<b>(122,826)</b>	<b>92,444</b>

  

	31 December 2014					
	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>Credit rating equivalent:</b>						
AAA/Aaa	7,693	-	(3,392)	(1,790)	(287)	2,224
AA/Aa	123,555	-	(57,999)	(17,350)	(33,321)	14,885
A/A	642,118	-	(514,027)	(28,606)	(67,402)	32,083
BBB/Baa2	91,796	-	(50,961)	(15,706)	(13,050)	12,079
BB/Ba2 or lower	41,347	-	(12,045)	(8,407)	(13,830)	7,065
Unrated	69,962	(61,503)	(105)	(109)	(1,473)	6,772
<b>Total</b>	<b>976,471</b>	<b>(61,503)</b>	<b>(638,529)</b>	<b>(71,968)</b>	<b>(129,363)</b>	<b>75,108</b>

In addition to credit risk on financial assets, the company also has credit exposure in respect of contingent and forward starting resale and securities borrowing agreements. The company's gross credit exposure related to these activities is US\$46.7 billion as at 30 June 2015 (31 December 2014: US\$34.6 billion); however, this will be mitigated by collateral of approximately US\$46.2 billion (31 December 2014: US\$33.8 billion) if these commitments are fulfilled. As a result, the company's net credit exposure to these commitments was US\$0.5 billion (31 December 2014: US\$0.8 billion).

As at the current and prior period ends, financial assets past due or impaired were insignificant.

**GOLDMAN SACHS INTERNATIONAL**  
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**MANAGEMENT REPORT (continued)**

**9. Risk management (continued)**

**Operational risk management**

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

Potential types of loss events related to internal and external operational risk include:

- Clients, products and business practices;
- Execution, delivery and process management;
- Business disruption and system failures;
- Employment practices and workplace safety;
- Damage to physical assets;
- Internal fraud; and
- External fraud.

GSI's framework for managing operational risk is fully integrated in GS Group's comprehensive control framework designed to provide a well-controlled environment to minimise operational risks. In GSI, the EMEA Operational Risk Committee provides regional oversight for ongoing development and implementation of the operational risk framework and promotion of a robust overall control environment. Operational Risk Management is a risk management function independent of revenue-producing units, reports to GS Group's chief risk officer and is responsible for developing and implementing policies, methodologies and a formalised framework for operational risk management with the goal of minimising exposure to operational risk.

**Operational risk management process.** Managing operational risk requires timely and accurate information as well as a strong control culture. Operational risk is managed through:

- Training, supervision and development of people;
- Active participation of senior management in identifying and mitigating key operational risks;
- Independent control and support functions that monitor operational risk on a daily basis, and implementation of extensive policies and procedures, and controls designed to prevent the occurrence of operational risk events;
- Proactive communication between revenue-producing units and independent control and support functions; and
- A network of systems throughout GS Group, including GSI, to facilitate the collection of data used to analyse and assess operational risk exposure.

**GOLDMAN SACHS INTERNATIONAL**  
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**MANAGEMENT REPORT (continued)**

**9. Risk management (continued)**

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

The operational risk framework is in part designed to comply with the operational risk measurement rules under Basel III and has evolved based on the changing needs of the company's businesses and regulatory guidance. The framework comprises the following practices:

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

Internal audit performs an independent review of the operational risk framework, including key controls, processes and applications, on an annual basis to assess the effectiveness of the framework.

**10. Directors**

Lord Grabiner QC was appointed to the board of directors on 24 June 2015 and P.D. Sutherland resigned from the board of directors on 30 June 2015.

**11. 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.



**R. A. Vince**  
**Director**

**14 August 2015**

**Part 2: Unaudited financial statements**

**GOLDMAN SACHS INTERNATIONAL**  
**(unlimited company)**

**PROFIT AND LOSS ACCOUNT (UNAUDITED)**

for the half-year ended 30 June 2015

	Note	Half-year Ended 30 June 2015 US\$'000	Half-year Ended 30 June 2014 US\$'000
Net revenue		4,000,740	3,547,136
Administrative expenses	5	(2,654,336)	(2,313,995)
<b>OPERATING PROFIT</b>		1,346,404	1,233,141
Interest payable and similar charges		(124,963)	(113,541)
Net finance income		4,280	3,857
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,225,721	1,123,457
Tax on profit on ordinary activities	6	(233,918)	(217,973)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL PERIOD</b>		991,803	905,484

Net revenue and operating profit of the company are derived from continuing operations in the current and prior periods.

**STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

for the half-year ended 30 June 2015

	Half-year Ended 30 June 2015 US\$'000	Half-year Ended 30 June 2014 US\$'000
Profit for the financial period	991,803	905,484
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>		
Actuarial loss relating to the pension scheme	(91,111)	(28,509)
U.K. deferred tax attributable to the actuarial loss	18,222	5,702
<b>OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD, NET OF TAX</b>	(72,889)	(22,807)
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD</b>	918,914	882,677

The notes on pages 32 to 59 form an integral part of these financial statements.

**GOLDMAN SACHS INTERNATIONAL**  
**(unlimited company)**

**BALANCE SHEET (UNAUDITED)**

as at 30 June 2015

	Note	30 June 2015 US\$'000	31 December 2014 US\$'000
<b>FIXED ASSETS</b>			
Tangible assets		10,796	12,216
Investments		1,333	1,660
		<u>12,129</u>	<u>13,876</u>
<b>CURRENT ASSETS</b>			
Financial instruments owned	7	578,430,089	667,823,041
Financial instruments owned pledged as collateral	7	23,375,053	24,404,391
Collateralised agreements	8	164,650,107	203,515,741
Debtors	9	94,314,946	77,642,208
Cash at bank and in hand		8,080,230	3,586,142
		<u>868,850,425</u>	<u>976,971,523</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Financial instruments sold, but not yet purchased	7	(545,583,106)	(641,404,313)
Collateralised financing	10	(128,243,405)	(141,650,534)
Other creditors	11	(151,059,658)	(155,474,005)
		<u>(824,886,169)</u>	<u>(938,528,852)</u>
<b>NET CURRENT ASSETS</b>		<u>43,964,256</u>	<u>38,442,671</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		43,976,385	38,456,547
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
	12	(19,195,136)	(16,700,042)
<b>PROVISIONS FOR LIABILITIES</b>	13	(6,256)	(16,792)
<b>NET ASSETS EXCLUDING PENSION SURPLUS</b>		24,774,993	21,739,713
Pension surplus		191,001	257,367
<b>NET ASSETS INCLUDING PENSION SURPLUS</b>		<u>24,965,994</u>	<u>21,997,080</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	581,964	533,447
Share premium account		4,864,419	2,862,936
Capital reserve (non-distributable)		17,286	17,286
Profit and loss account		19,502,325	18,583,411
<b>TOTAL SHAREHOLDER'S FUNDS</b>		<u>24,965,994</u>	<u>21,997,080</u>

The notes on pages 32 to 59 form an integral part of these financial statements.

**GOLDMAN SACHS INTERNATIONAL**  
**(unlimited company)**

**STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

for the half-year ended 30 June 2015

	<b>Called up share capital US\$'000</b>	<b>Share premium account US\$'000</b>	<b>Capital reserve (non- distributable) US\$'000</b>	<b>Profit and loss account US\$'000</b>	<b>Total US\$'000</b>
<b>At 1 January 2015</b>	<b>533,447</b>	<b>2,862,936</b>	<b>17,286</b>	<b>18,583,411</b>	<b>21,997,080</b>
Profit for the financial period	-	-	-	991,803	991,803
Other comprehensive income	-	-	-	(72,889)	(72,889)
<b>Total comprehensive income for the financial period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>918,914</b>	<b>918,914</b>
Share-based payments	-	-	-	558,174	558,174
Management recharge related to share-based payments	-	-	-	(558,174)	(558,174)
Shares issued	48,517	2,001,483	-	-	2,050,000
<b>At 30 June 2015</b>	<b>581,964</b>	<b>4,864,419</b>	<b>17,286</b>	<b>19,502,325</b>	<b>24,965,994</b>

	<b>Called up share capital US\$'000</b>	<b>Share premium account US\$'000</b>	<b>Capital reserve (non- distributable) US\$'000</b>	<b>Profit and loss account US\$'000</b>	<b>Total US\$'000</b>
<b>At 1 January 2014</b>	<b>533,447</b>	<b>2,862,936</b>	<b>17,286</b>	<b>16,886,802</b>	<b>20,300,471</b>
Profit for the financial period	-	-	-	905,484	905,484
Other comprehensive income	-	-	-	(22,807)	(22,807)
<b>Total comprehensive income for the financial period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>882,677</b>	<b>882,677</b>
Share-based payments	-	-	-	445,609	445,609
Management recharge related to share-based payments	-	-	-	(445,609)	(445,609)
<b>At 30 June 2014</b>	<b>533,447</b>	<b>2,862,936</b>	<b>17,286</b>	<b>17,769,479</b>	<b>21,183,148</b>

The directors do not recommend the payment of an ordinary dividend in respect of the period (30 June 2014: US\$nil).

The notes on pages 32 to 59 form an integral part of these financial statements.

**GOLDMAN SACHS INTERNATIONAL**  
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**STATEMENT OF CASH FLOWS (UNAUDITED)**

for the half-year ended 30 June 2015

	Note	<b>Half-year Ended 30 June 2015 US\$'000</b>	<b>Half-year Ended 30 June 2014 US\$'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	16	367,890	199,673
Taxation received		1,055	13,955
Taxation paid		(255,308)	(136,150)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>113,637</b>	<b>77,478</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments to acquire tangible fixed assets		(663)	(2,044)
Proceeds from disposal of tangible fixed assets		332	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(331)</b>	<b>(2,044)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts from issuing ordinary share capital		2,050,000	-
Interest paid on long-term subordinated loans		(178,172)	(125,469)
Receipts from issuing long-term subordinated loans		2,500,000	-
<b>NET CASH FROM / (USED IN) FINANCING ACTIVITIES</b>		<b>4,371,828</b>	<b>(125,469)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>4,485,134</b>	<b>(50,035)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD</b>			
		3,577,505	4,003,837
Foreign exchange (losses) / gains on cash and cash equivalents		(68,767)	34,759
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	15	<b>7,993,872</b>	<b>3,988,561</b>

The notes on pages 32 to 59 form an integral part of these financial statements.



**GOLDMAN SACHS INTERNATIONAL**  
**(unlimited company)**

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**1. GENERAL INFORMATION**

The company 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 company's immediate parent undertaking is Goldman Sachs Group UK Limited, a company incorporated and registered 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 Report on Form 10-Q and Annual Report on Form 10-K, that provide additional information on the GS Group and its business activities, can be obtained from Investor Relations, 200 West Street, New York, NY 10282, United States of America, the GS Group's principal place of business, or at [www.goldmansachs.com/shareholders/](http://www.goldmansachs.com/shareholders/).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Basis of preparation**

For all periods up to and including the year ended 31 December 2014, the company prepared its financial statements in accordance with the previous U.K. GAAP. These financial statements are for an interim period that is part of the first annual period covered by FRS 101 'Reduced Disclosure Framework'.

These financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the FCA and FRS 104 'Interim Financial Reporting' ('FRS 104'). FRS 104 replaced the Accounting Standards Board statement on 'half-yearly financial reports' and is effective for interim periods commencing on or after 1 January 2015.

These financial statements should be read in conjunction with the financial statements for the year ended 31 December 2014, which were prepared under the previous U.K. GAAP.

The impact on the company's financial statements as a result of adopting FRS 101 is described in Note 4.

The following exemptions from the requirements of IFRS as adopted by the EU have been applied in the preparation of these financial statements in accordance with FRS 101:

- IFRS 2 'Share-based Payment' paragraph 45(b) and 46 to 52;
- IAS 1 'Presentation of Financial Statements' paragraph 38 to present comparative information in respect of:
  - IAS 1 'Presentation of Financial Statements' paragraph 79(a)(iv); and
  - IAS 16 'Property, Plant and Equipment' paragraph 73(e).
- IAS 1 'Presentation of Financial Statements' paragraphs 10(f), 16, and 40A-D;
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31;
- IAS 24 'Related Party Disclosures' paragraph 17; and
- IAS 24 'Related Party Disclosures' requirements to disclose transactions with companies also wholly owned within the group.

As permitted by FRS 104, the company has not disclosed segmental total assets and total liabilities required by paragraph 16A(g) of FRS 104 as the company did not present this information in its most recent annual financial statements, prepared under the previous U.K. GAAP. The company has disclosed its segmental net revenue in Item 5 "Results of operations – Segment reporting" in Part 1 of this financial report.

**GOLDMAN SACHS INTERNATIONAL**  
**(unlimited company)**

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b. Accounting policies**

The accounting policies adopted are consistent with those described in the Annual Report for the year ended 31 December 2014 apart from where noted below.

**i. Revenue recognition**

The company has revised its presentation of market-making related costs (i.e. brokerage, clearing, exchange and distribution fees) to include them within administrative expenses as permitted by IAS 1 'Presentation of Financial Statements' ('IAS 1') and IAS 18 'Revenue' ('IAS 18'), which better reflects the inherent nature of these balances. Previously, the company included market-making related costs within net revenue. This resulted in net revenue and administrative expenses each increasing by US\$279 million for the half-year ended 30 June 2014 with no change to the operating profit of the company.

**ii. Financial instruments: offsetting financial assets and financial liabilities**

The company has adopted IAS 32 'Financial Instruments: Presentation' ('IAS 32'), which includes 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)'. This amendment included additional guidance not brought into the previous U.K. GAAP, which clarifies the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. Refer to Note 4 for further details on the impact of this change.

**iii. Financial instruments: Fair value measurement**

The company has adopted IFRS 13 'Fair Value Measurement', which impacts the classification of its level 3 financial assets and financial liabilities. The company now classifies certain financial assets and financial liabilities as level 2 (as opposed to level 3) in the fair value hierarchy if it has no significant net risk to the level 3 inputs. This has resulted in the company reclassifying US\$5.4 billion of financial assets and financial liabilities from level 3 to level 2 as at 1 January 2014 and reclassifying US\$7.4 billion of financial assets and financial liabilities from level 3 to level 2 as at 31 December 2014.

**iv. Pension cost**

The company has adopted IAS 19 'Employee Benefits (amended 2011)' ('IAS 19'), which impacts the classification of pension costs related to the defined benefit section ('the Plan') of the company's hybrid pension plan between the profit and loss account and other comprehensive income. Under IAS 19, the company is now required to calculate the net finance income by multiplying both Plan assets and Plan liabilities by the discount rate. Under the previous U.K. GAAP, the net finance income was calculated by multiplying Plan assets by the expected rate of return on Plan assets and the Plan liabilities by the discount rate. Under both IAS 19 and the previous U.K. GAAP, the discount rate is a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the Plan liabilities. This adoption had no impact on the value of the company's pension surplus. Refer to Note 4 for further details on the impact of this change.

**GOLDMAN SACHS INTERNATIONAL**  
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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in these financial statements. The nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

**a. Fair value measurement**

Certain of the company's financial instruments include significant unobservable inputs (i.e. level 3). Note 19 describes the carrying value, valuation techniques and significant inputs of these instruments.

**b. Provisions for losses**

The company estimates and provides for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be reasonably estimated. Significant judgement is required in making these estimates and the company's final liabilities may ultimately be materially different. Refer to Notes 13 and 17c for further information on the company's provisions for liabilities and legal proceedings that the company is involved in, for which it is not practicable to estimate an impact, respectively.

**c. Estimated year-end discretionary compensation**

A substantial portion of the company's compensation and benefits represents discretionary compensation, which is finalised at year-end. The company believes the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the net revenue earned in such periods.

**d. Defined benefit pension**

The cost of the Plan and the value of the Plan liabilities are determined using actuarial valuations. This involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, such estimates are subject to significant uncertainty.

**4. FIRST-TIME ADOPTION OF FRS 101**

As set out in Note 2a, these financial statements are for an interim period that is part of the first annual period covered by FRS 101. The accounting policies used to prepare these financial statements are consistent with those described in the Annual Report for the year ended 31 December 2014, apart from where noted in Note 2b.

The following note sets out the impact to the company's balance sheet and total comprehensive income as a result of adopting FRS 101. The company did not present a statement of cash flows for the half-year ended 30 June 2014.

**Reconciliation of equity**

There was no impact on the company's equity as a result of adopting FRS 101. The only impact on the company's balance sheet on transition to FRS 101 was as a result of the company adopting IAS 32. The company has offset US\$14.4 billion, US\$16.6 billion and US\$15.7 billion of collateralised agreements against collateralised financing as at 1 January 2014 (the company's opening balance sheet), 30 June 2014 and 31 December 2014, respectively.

**GOLDMAN SACHS INTERNATIONAL**  
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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**4. FIRST-TIME ADOPTION OF FRS 101 (continued)**

**Reconciliation of total comprehensive income**

**Reconciliation of total comprehensive income for the period ended 30 June 2014**

	Note	Previous U.K. GAAP US\$'000	Adjustments on transition US\$'000	FRS 101 US\$'000
Net revenue	a	3,267,881	279,255	3,547,136
Administrative expenses	a	(2,034,740)	(279,255)	(2,313,995)
<b>OPERATING PROFIT</b>		1,233,141	-	1,233,141
Interest payable and similar charges		(113,541)	-	(113,541)
Net finance income	b	14,590	(10,733)	3,857
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,134,190	(10,733)	1,123,457
Tax on profit on ordinary activities	b	(220,119)	2,146	(217,973)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL PERIOD</b>		914,071	(8,587)	905,484

**OTHER COMPREHENSIVE INCOME**

**ITEMS THAT WILL NOT BE RECLASSIFIED  
SUBSEQUENTLY TO PROFIT OR LOSS**

Actuarial loss relating to the pension scheme	b	(39,242)	10,733	(28,509)
U.K. deferred tax attributable to the actuarial loss	b	7,848	(2,146)	5,702

**OTHER COMPREHENSIVE INCOME FOR  
THE FINANCIAL PERIOD, NET OF TAX**

**TOTAL COMPREHENSIVE INCOME FOR  
THE FINANCIAL PERIOD**

		(31,394)	8,587	(22,807)
		882,677	-	882,677

- a.** Market-making related costs (i.e. brokerage, clearing, exchange and distribution fees) have been reclassified from net revenue to administrative expenses as permitted by IAS 1 and IAS 18. As a result, net revenue and administrative expenses each increased by US\$279 million for the half-year ended 30 June 2014. Refer to Note 2b(i) for further details.
- b.** As a result of adopting IAS 19, the company's net finance income and tax on profit on ordinary activities decreased by US\$11 million and US\$2 million, respectively, for the half-year ended 30 June 2014. This was offset by an increase in the company's other comprehensive income. As a result, there was no impact to total comprehensive income. Refer to Note 2b(iv) for further details.

**GOLDMAN SACHS INTERNATIONAL**  
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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**5. ADMINISTRATIVE EXPENSES**

	<b>Half-year Ended 30 June 2015 US\$'000</b>	<b>Half-year Ended 30 June 2014 US\$'000</b>
Direct costs of employment (see note a)	2,061,723	1,798,122
Brokerage, clearing, exchange and distribution fees	292,790	279,255
Market development	51,381	52,991
Communications and technology	45,213	40,244
Depreciation of tangible fixed assets	1,921	1,810
Occupancy	85,905	90,376
Professional fees	62,516	57,448
Other expenses (see note b)	52,887	(6,251)
	<b>2,654,336</b>	<b>2,313,995</b>

- a.** Total direct costs of employment include a charge of US\$194 million (30 June 2014: credit of US\$163 million) relating to the mark-to-market of share-based compensation.
- b.** Other expenses include miscellaneous taxes and management fees. Management fees include fee expense and income relating to operational and administrative support, and management services, received from and provided to parent and group undertakings.

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**Analysis of tax charge for the period:**

	<b>Half-year Ended 30 June 2015 US\$'000</b>	<b>Half-year Ended 30 June 2014 US\$'000</b>
<b>Current tax:</b>		
U.K. corporation tax	184,023	51,447
Adjustments in respect of previous periods	-	522
Overseas taxation	36,628	17,811
<b>Total current tax</b>	<b>220,651</b>	<b>69,780</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	13,267	149,074
Adjustments in respect of previous periods	-	(881)
<b>Total deferred tax</b>	<b>13,267</b>	<b>148,193</b>
<b>Tax on profit on ordinary activities</b>	<b>233,918</b>	<b>217,973</b>

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**7. 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 company. Financial instruments owned pledged as collateral represents financial instruments owned and pledged to counterparties that have the right to deliver or repledge.

Financial instruments owned, including financial instruments owned pledged as collateral, comprises:

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Cash instruments:</b>		
Commercial paper, certificates of deposit, time deposits and other money market instruments	676,370	1,225,282
Government and agency obligations	16,382,808	16,920,118
Mortgage and other asset-backed loans and securities	1,557,668	1,998,385
Bank loans and bridge loans	1,747,147	1,693,905
Corporate and other debt obligations	9,385,144	12,217,297
Equities and convertible debentures	36,027,581	30,675,005
	<b>65,776,718</b>	<b>64,729,992</b>
<b>Derivative instruments:</b>		
Interest rates	308,707,095	367,155,116
Credit	50,595,270	64,636,465
Currencies	105,178,134	112,717,413
Commodities	9,101,156	15,964,183
Equities	62,446,769	67,024,263
	<b>536,028,424</b>	<b>627,497,440</b>
	<b>601,805,142</b>	<b>692,227,432</b>
Financial instruments owned	578,430,089	667,823,041
Financial instruments owned pledged as collateral	23,375,053	24,404,391
	<b>601,805,142</b>	<b>692,227,432</b>

Financial instruments sold, but not yet purchased comprises:

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Cash instruments:</b>		
Government and agency obligations	8,896,473	10,735,033
Corporate and other debt obligations	1,929,953	2,279,658
Equities and convertible debentures	14,802,875	14,626,885
	<b>25,629,301</b>	<b>27,641,576</b>
<b>Derivative instruments:</b>		
Interest rates	300,060,326	359,427,770
Credit	46,399,129	59,747,636
Currencies	106,183,983	113,264,254
Commodities	8,938,682	15,892,208
Equities	58,371,685	65,430,869
	<b>519,953,805</b>	<b>613,762,737</b>
	<b>545,583,106</b>	<b>641,404,313</b>

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**8. COLLATERALISED AGREEMENTS**

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Resale agreements	107,183,355	116,139,746
Securities borrowed	57,466,752	87,375,995
	<b>164,650,107</b>	<b>203,515,741</b>

Of collateralised agreements, US\$92.7 billion (31 December 2014: US\$134.9 billion) relates to group undertakings.

**9. DEBTORS**

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Amounts due from broker / dealers and customers	76,307,235	63,403,728
Amounts due from parent and group undertakings	17,458,606	13,710,892
Deferred tax	458,347	453,676
Other debtors	22,656	34,529
Prepayments and accrued income	68,102	39,383
	<b>94,314,946</b>	<b>77,642,208</b>

Debtors includes US\$93.8 billion (31 December 2014: US\$77.1 billion) of financial assets and US\$506 million (31 December 2014: US\$500 million) of non-financial assets.

Of the amounts due from broker / dealers and customers, US\$913 million (31 December 2014: US\$981 million) is due in more than one year. These balances relate to secured lending and prepaid commodity contracts.

The remaining debtors are all due within one year of the balance sheet date.

**10. COLLATERALISED FINANCING**

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Repurchase agreements	54,481,298	46,800,843
Securities loaned	73,762,107	94,849,691
	<b>128,243,405</b>	<b>141,650,534</b>

Of collateralised financing, US\$83.1 billion (31 December 2014: US\$103.1 billion) relates to group undertakings.

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**11. OTHER CREDITORS**

Other creditors, all of which are payable within one year of the balance sheet date, comprise:

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Bank loans	-	110,509
Overdrafts	86,358	8,637
Debt securities issued (see note a)	14,924,314	15,544,508
Amounts due to broker / dealers and customers	69,735,892	67,073,244
Amounts due to parent and group undertakings – unsecured borrowings (see note b)	35,423,599	49,463,853
Amounts due to parent and group undertakings – other unsecured creditors	27,997,987	20,992,555
Accrual for management charges payable to parent and group undertakings (see note 12d)	1,032,947	1,076,675
Corporation tax payable	125,917	78,033
Other taxes and social security costs	219,212	250,466
Other creditors and accruals	1,513,432	875,525
	<b>151,059,658</b>	<b>155,474,005</b>

Other creditors includes US\$150.7 billion (31 December 2014: US\$155.1 billion) of financial liabilities and US\$345 million (31 December 2014: US\$328 million) of non-financial liabilities.

a. The classification of short-term debt securities is as follows:

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Unsecured debt securities with affiliates	2,598,534	3,807,021
Unsecured debt securities with external counterparties	10,918,237	9,135,409
Secured debt securities with affiliates	344,650	671,961
Secured debt securities with external counterparties	1,062,893	1,930,117
	<b>14,924,314</b>	<b>15,544,508</b>

Secured debt securities are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within financial instruments owned or sourced through collateralised agreements.

b. During the period, the company's unsecured borrowings from parent and group undertakings reduced by US\$14.0 billion, comprising repayments made of US\$24.9 billion, partially offset by new proceeds received of US\$10.9 billion.



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**12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Bank loans	100,000	-
Long-term subordinated loans (see note a)	8,958,000	6,458,000
Debt securities issued (see note b)	7,846,528	6,386,954
Amounts due to parent and group undertakings – unsecured borrowings (see note c)	1,500,000	2,702,345
Amounts due to parent and group undertakings – other unsecured creditors	356,537	378,547
Accrual for management charges payable to parent and group undertakings (see note d)	434,071	774,196
	<b>19,195,136</b>	<b>16,700,042</b>

As at 30 June 2015 and 31 December 2014, all “creditors: amounts falling due after more than one year” are financial liabilities.

a. During the period, the company issued US\$2.5 billion of long-term subordinated loans to its parent undertaking. As at 30 June 2015 and 31 December 2014, long-term subordinated loans comprise long-term subordinated loans from parent and group undertakings, which are unsecured and carry interest at a margin over the U.S. Federal Reserve’s federal funds rate. The margin is reset on a periodic basis to reflect changes in GS Group’s weighted average cost of debt. Long-term subordinated loans of US\$9.0 billion (31 December 2014: US\$6.5 billion) constitute regulatory capital as approved by the PRA and are repayable subject to PRA approval and upon giving or receiving at least 5 years’ notice to or from the parent or group undertaking.

b. The classification of long-term debt securities is as follows:

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Unsecured debt securities with affiliates	781,482	471,317
Unsecured debt securities with external counterparties	4,406,602	3,076,081
Secured debt securities with affiliates	1,032,232	1,189,828
Secured debt securities with external counterparties	1,626,212	1,649,728
	<b>7,846,528</b>	<b>6,386,954</b>

Secured debt securities are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within financial instruments owned or sourced through collateralised agreements.

The maturity of debt securities issued due after more than one year is as follows:

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
In more than one year, but not more than two years	2,642,762	1,636,681
In more than two years, but not more than five years	2,051,022	3,058,997
In more than five years	3,152,744	1,691,276
	<b>7,846,528</b>	<b>6,386,954</b>

Amounts due in more than five years predominantly relate to structured debt securities with maturities falling due between 2021 and 2045. Payments on these securities are typically referenced to underlying financial assets, which are predominately interest rate and equities-related.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)**

- c. During the period, the company's unsecured borrowings from parent and group undertakings reduced by US\$1.2 billion, comprising repayments of US\$2.7 billion, partially offset by new proceeds received of US\$1.5 billion. As at 30 June 2015, the company had no unsecured borrowings from parent and group undertakings with a maturity of greater than five years (31 December 2014: US\$400 million).
- d. The accrual for management charges (per above and note 11) is in respect of share-based compensation.

**13. PROVISIONS FOR LIABILITIES**

	<b>US\$'000</b>
At 1 January 2015	16,792
Charge to the profit and loss account	5,798
Utilised during the period	(14,899)
Foreign exchange gain	(1,435)
At 30 June 2015	<b>6,256</b>

The remaining provisions of US\$6 million are in respect of legal claims made against the company. Further details relating to the provisions have not been disclosed as permitted by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', on the grounds that it would be seriously prejudicial to do so.

**14. SHARE CAPITAL**

At 30 June 2015 and 31 December 2014, share capital comprised:

	<b>30 June 2015</b>		<b>31 December 2014</b>	
	<b>No.</b>	<b>US\$'000</b>	<b>No.</b>	<b>US\$'000</b>
<b><u>Allotted, called up and fully paid</u></b>				
Ordinary shares of US\$1 each	581,964,161	581,964	533,447,150	533,447
		<b>581,964</b>		<b>533,447</b>

During the period, the directors and shareholder of the company reviewed GSI's capital requirements and new ordinary shares were issued in order to increase the company's regulatory capital and further support ongoing business activities.

On 10 June 2015, 36,088,475 ordinary shares of US\$1 each were allotted at US\$42.95 to Goldman Sachs Group UK Limited. The total consideration received was US\$1,550,000,000 in cash incorporating a share premium of US\$1,513,911,525.

On 29 June 2015, 12,428,536 ordinary shares of US\$1 each were allotted at US\$40.23 to Goldman Sachs Group UK Limited. The total consideration received was US\$500,000,000 in cash incorporating a share premium of US\$487,571,464.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**15. CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances.

	<b>30 June 2015</b>	<b>30 June 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Cash at bank and in hand	8,080,230	4,054,633
Overdraft (see note 11)	(86,358)	(66,072)
	<b>7,993,872</b>	<b>3,988,561</b>

**16. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

	<b>Note</b>	<b>30 June 2015</b>	<b>30 June 2014</b>
		<b>US\$'000</b>	<b>US\$'000</b>
Profit on ordinary activities before taxation		1,225,721	1,123,457
<b>Adjustments for:</b>			
Depreciation of tangible fixed assets	5	1,921	1,810
Loss on sale of fixed assets		48	465
(Credit) / charge for defined benefit plan		(4,891)	19,453
Foreign exchange losses / (gains)		68,221	(40,826)
Share-based compensation expense / (credit)		279,117	(9,118)
Provision for liabilities	13	5,798	(10,000)
Interest payable and similar charges		124,963	113,541
<b>Cash generated before changes in operating assets and liabilities</b>		<b>1,700,898</b>	<b>1,198,782</b>
<b>Changes in operating assets:</b>			
Decrease / (increase) in financial instruments owned, including financial instruments owned pledged as collateral		90,422,290	(50,394,837)
Decrease in collateralised agreements		38,865,634	10,879,943
Increase in debtors		(16,666,976)	(25,566,972)
		112,620,948	(65,081,866)
<b>Changes in operating liabilities:</b>			
(Decrease) / increase in financial instruments sold, but not yet purchased		(95,821,207)	56,820,135
Decrease in collateralised financing		(13,407,129)	(28,936,121)
(Decrease) / increase in other creditors		(4,346,448)	36,325,456
(Decrease) / increase in creditors: amounts falling due after more than one year		(345,011)	(103,570)
Decrease in provisions for liabilities		(14,899)	-
		(113,934,694)	64,105,900
Contributions paid to defined benefit plan		(19,262)	(23,143)
<b>Cash generated from operations</b>		<b>367,890</b>	<b>199,673</b>

Cash generated from operations include interest paid and received of US\$1.1 billion and US\$0.9 billion, respectively for 30 June 2015 (30 June 2014: interest paid of US\$1.0 billion and interest received of US\$1.3 billion).

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**17. FINANCIAL COMMITMENTS AND CONTINGENCIES**

- a. The table below presents the company's commitments and contingencies.

	<b>30 June 2015</b>	<b>31 December 2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Contingent and forward starting resale and securities borrowing agreements	46,650,997	34,571,820
Forward starting repurchase and secured lending agreements	11,958,047	14,760,347
Other	3,783,031	4,000,528
	<b>62,392,075</b>	<b>53,332,695</b>

The company enters into resale and securities borrowing agreements and repurchase and secured lending agreements that settle at a future date, generally within three business days. The company also enters into commitments to provide contingent financing to its clients and counterparties through resale agreements. The company's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

Other commitments primarily relate to collateral commitments.

In addition, there are registered charges on the company's assets which have arisen in the ordinary course of business.

- b. The company leases certain buildings on long-term leases. Under these leases, which are subject to renegotiation at various intervals specified in the leases, the company pays all insurance, maintenance and repairs of these properties.
- c. The company is involved in the below legal proceedings, however it is not practicable to estimate an impact, if any, of these proceedings.
- i. The European Commission announced in April 2011 that it was initiating proceedings to investigate further numerous financial services companies, including GSI, in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anticompetitive practices. On 1 July 2013, the European Commission issued to those financial services companies a Statement of Objections alleging that they colluded to limit competition in the trading of exchange-traded unfunded credit derivatives and exchange trading of credit default swaps more generally, and setting out its process for determining fines and other remedies. GSI's current understanding is that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely.
  - ii. Various alleged purchasers of, and counterparties involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including Aozora Bank, Ltd., Basis Yield Alpha Fund (Master), Deutsche Zentral-Genossenschaftsbank and IKB Deutsche Industriebank AG) have filed complaints in the United States against the company and certain of its affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material fact and material omissions and generally seeking rescission and / or damages. Certain of these complaints allege fraud and seek punitive damages.
  - iii. GSI is the defendant in an action filed on 21 January 2014 with the High Court of Justice in London by the Libyan Investment Authority, relating to nine derivative transactions between the plaintiff and GSI and seeking, among other things, rescission of the transactions and unspecified equitable compensation and damages exceeding US\$1 billion. On 4 August 2014, GSI withdrew its 10 April 2014 motion for summary judgment, and on 4 December 2014, the Libyan Investment Authority filed an amended statement of claim.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**17. FINANCIAL COMMITMENTS AND CONTINGENCIES (continued)**

- iv. As previously reported by Group Inc., several GS Group entities are named as defendants in a number of putative class actions filed beginning on 1 August 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege violation of federal antitrust laws and other federal and state laws in connection with the management of aluminium storage facilities. The complaints seek declaratory, injunctive and other equitable relief as well as unspecified monetary damages, including treble damages. On 29 August 2014, the court granted the Goldman Sachs defendants' motion to dismiss. Certain plaintiffs appealed on 24 September 2014, and the remaining plaintiffs filed proposed amended complaints on 9 and 10 October 2014. On 26 March 2015, the court granted in part and denied in part plaintiffs' motions for leave to amend their complaints, rejecting their monopolisation claims and most state law claims but permitting their antitrust conspiracy claims and certain parallel state law and unjust enrichment claims to proceed, and the remaining plaintiffs filed amended complaints on 9 April 2015, which named GSI as a defendant.
- v. GSI is among the defendants in putative class actions, filed beginning 23 May 2014 in the U.S. District Court for the Southern District of New York, based on alleged violations of the federal antitrust laws in connection with the management of zinc storage facilities. The complaints seek declaratory, injunctive and other equitable relief as well as unspecified monetary damages, including treble damages. On 17 June 2015, the plaintiffs filed a consolidated amended complaint.
- vi. GSI is among the defendants named in putative class actions relating to trading in platinum and palladium, filed beginning on 25 November 2014, in the U.S. District Court for the Southern District of New York. The complaints generally allege that the defendants violated federal antitrust laws and the Commodity Exchange Act in connection with an alleged conspiracy to manipulate a benchmark for physical platinum and palladium prices and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On 22 June 2015, the defendants moved to dismiss. On 27 July 2015, the plaintiffs filed a second amended consolidated complaint.

**18. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT**

Certain disclosures in relation to the company's financial risk management and capital management have been presented alongside other risk management and regulatory information in Part 1 of this financial report.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS**

**a. Financial instrument by category**

The table below presents the carrying value of the company's financial assets and financial liabilities by category.

	<b>30 June 2015</b>				
	<b>Held for trading</b>	<b>Designated at fair value</b>	<b>Loans and receivables</b>	<b>Amortised cost</b>	<b>Total carrying value</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Financial assets:</b>					
Financial instruments owned	578,430	-	-	-	578,430
Financial instruments owned pledged as collateral	23,375	-	-	-	23,375
Collateralised agreements	-	133,117	31,533	-	164,650
Debtors	-	1,539	92,270	-	93,809
Cash at bank and in hand	-	-	8,080	-	8,080
<b>Total financial assets</b>	<b>601,805</b>	<b>134,656</b>	<b>131,883</b>	<b>-</b>	<b>868,344</b>

<b>Financial liabilities:</b>					
Financial instruments sold, but not yet purchased	545,583	-	-	-	545,583
Collateralised financing	-	84,738	-	43,505	128,243
Other creditors	-	15,458	-	135,257	150,715
Creditors: amounts falling due after more than one year	-	7,283	-	11,912	19,195
<b>Total financial liabilities</b>	<b>545,583</b>	<b>107,479</b>	<b>-</b>	<b>190,674</b>	<b>843,736</b>

	<b>31 December 2014</b>				
	<b>Held for trading</b>	<b>Designated at fair value</b>	<b>Loans and receivables</b>	<b>Amortised cost</b>	<b>Total carrying value</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Financial assets:</b>					
Financial instruments owned	667,823	-	-	-	667,823
Financial instruments owned pledged as collateral	24,404	-	-	-	24,404
Collateralised agreements	-	158,809	44,707	-	203,516
Debtors	-	1,780	75,362	-	77,142
Cash at bank and in hand	-	-	3,586	-	3,586
<b>Total financial assets</b>	<b>692,227</b>	<b>160,589</b>	<b>123,655</b>	<b>-</b>	<b>976,471</b>

<b>Financial liabilities:</b>					
Financial instruments sold, but not yet purchased	641,404	-	-	-	641,404
Collateralised financing	-	87,774	-	53,877	141,651
Other creditors	-	16,149	-	138,997	155,146
Creditors: amounts falling due after more than one year	-	5,899	-	10,801	16,700
<b>Total financial liabilities</b>	<b>641,404</b>	<b>109,822</b>	<b>-</b>	<b>203,675</b>	<b>954,901</b>

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**19. FINANCIAL INSTRUMENTS (continued)**

**b. Fair value hierarchy**

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 instrument'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 company 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 company's financial assets and financial liabilities 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.

The table below presents, by level within the fair value hierarchy, financial assets and financial liabilities measured at fair value on a recurring basis.

	<b>30 June 2015</b>			
	<b>Level 1 US\$m</b>	<b>Level 2 US\$m</b>	<b>Level 3 US\$m</b>	<b>Total US\$m</b>
<b>Financial assets at fair value:</b>				
Cash instruments	47,334	17,030	1,413	65,777
Derivative instruments	8	530,918	5,102	536,028
Financial instruments owned, including financial instruments owned pledged as collateral	47,342	547,948	6,515	601,805
Collateralised agreements	-	133,117	-	133,117
Debtors	-	1,539	-	1,539
<b>Total financial assets at fair value</b>	<b>47,342</b>	<b>682,604</b>	<b>6,515</b>	<b>736,461</b>
<b>Financial liabilities at fair value:</b>				
Cash instruments	22,304	3,300	25	25,629
Derivative instruments	13	517,367	2,574	519,954
Financial instruments sold, but not yet purchased	22,317	520,667	2,599	545,583
Collateralised financing	-	84,656	82	84,738
Other creditors	-	12,653	2,805	15,458
Creditors: amounts falling due after more than one year	-	5,354	1,929	7,283
<b>Total financial liabilities at fair value</b>	<b>22,317</b>	<b>623,330</b>	<b>7,415</b>	<b>653,062</b>
<b>Net derivative instruments</b>	<b>(5)</b>	<b>13,551</b>	<b>2,528</b>	<b>16,074</b>

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**b. Fair value hierarchy (continued)**

	31 December 2014			
	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
<b>Financial assets at fair value:</b>				
Cash instruments	38,819	23,935	1,976	64,730
Derivative instruments	17	621,663	5,817	627,497
Financial instruments owned, including financial instruments owned pledged as collateral	38,836	645,598	7,793	692,227
Collateralised agreements	-	158,809	-	158,809
Debtors	-	1,780	-	1,780
<b>Total financial assets at fair value</b>	<b>38,836</b>	<b>806,187</b>	<b>7,793</b>	<b>852,816</b>
<b>Financial liabilities at fair value:</b>				
Cash instruments	22,751	4,869	21	27,641
Derivative instruments	34	611,032	2,697	613,763
Financial instruments sold, but not yet purchased	22,785	615,901	2,718	641,404
Collateralised financing	-	87,650	124	87,774
Other creditors	-	13,412	2,737	16,149
Creditors: amounts falling due after more than one year	-	5,056	843	5,899
<b>Total financial liabilities at fair value</b>	<b>22,785</b>	<b>722,019</b>	<b>6,422</b>	<b>751,226</b>
<b>Net derivative instruments</b>	<b>(17)</b>	<b>10,631</b>	<b>3,120</b>	<b>13,734</b>

**c. Transfers of financial assets and financial liabilities measured at fair value on a recurring basis between level 1 and level 2**

During 2015 and 2014, there were no significant transfers between level 1 and level 2 financial assets and financial liabilities.

**d. Changes in level 3 financial assets and financial liabilities measured at fair value on a recurring basis**

The following tables present 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 net revenue in the profit and loss account.

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. 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 instruments are frequently economically hedged with level 1, level 2 and level 3 financial instruments. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1, level 2 or level 3 instruments. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the company's results of operations, liquidity or capital resources.



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**19. FINANCIAL INSTRUMENTS (continued)**

**d. Changes in level 3 financial assets and financial liabilities measured at fair value on a recurring basis (continued)**

<b>Reconciliation of level 3 financial assets at fair value:</b>	<b>Financial instruments owned, including financial instruments owned pledged as collateral</b>	<b>Debtors</b>	<b>Total financial assets at fair value</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
At 1 January 2015	7,793	-	7,793
Profit for the period	200	-	200
Purchases	248	-	248
Sales	(306)	-	(306)
Settlements	(1,295)	-	(1,295)
Transfers into level 3	604	-	604
Transfers out of level 3	(729)	-	(729)
<b>At 30 June 2015</b>	<b>6,515</b>	<b>-</b>	<b>6,515</b>

<b>Reconciliation of level 3 financial liabilities at fair value:</b>	<b>Financial instruments sold, but not yet purchased</b>	<b>Collateralised financing</b>	<b>Other creditors and creditors: amounts falling due after more than one year</b>	<b>Total financial liabilities at fair value</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
At 1 January 2015	2,718	124	3,580	6,422
Profit / (loss) for the period	41	1	(48)	(6)
Purchases	(9)	-	-	(9)
Sales	193	-	2,711	2,904
Settlements	(368)	(43)	(1,896)	(2,307)
Transfers into level 3	272	-	486	758
Transfers out of level 3	(248)	-	(99)	(347)
<b>At 30 June 2015</b>	<b>2,599</b>	<b>82</b>	<b>4,734</b>	<b>7,415</b>

During 2015, level 3 transfers into financial assets of US\$604 million and financial liabilities of US\$758 million primarily reflect transfers of certain credit derivatives from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these instruments.

During 2015, level 3 transfers out of financial assets of US\$729 million and financial liabilities of US\$347 million primarily reflect transfers of certain credit derivatives to level 2, principally due to unobservable credit spread inputs no longer being significant to the valuation of these derivatives and the transfers of certain equity derivatives to level 2, principally due to unobservable volatility inputs no longer being significant to the valuation of these derivatives.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**d. Changes in level 3 financial assets and financial liabilities measured at fair value on a recurring basis (continued)**

<b>Reconciliation of level 3 financial assets at fair value:</b>	<b>Financial instruments owned, including financial instruments owned pledged as collateral</b>	<b>Debtors</b>	<b>Total financial assets at fair value</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
At 1 January 2014	8,055	180	8,235
Profit for the year	2,509	-	2,509
Purchases	1,700	-	1,700
Sales	(765)	-	(765)
Settlements	(3,089)	-	(3,089)
Transfers into level 3	712	-	712
Transfers out of level 3	(1,329)	(180)	(1,509)
<b>At 31 December 2014</b>	<b>7,793</b>	<b>-</b>	<b>7,793</b>

<b>Reconciliation of level 3 financial liabilities at fair value:</b>	<b>Financial instruments sold, but not yet purchased</b>	<b>Collateralised financing</b>	<b>Other creditors and creditors: amounts falling due after more than one year</b>	<b>Total financial liabilities at fair value</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
At 1 January 2014	3,835	1,010	2,668	7,513
Profit / (loss) for the year	423	-	(132)	291
Purchases	1	-	2	3
Sales	655	-	2,954	3,609
Settlements	(1,173)	(886)	(1,773)	(3,832)
Transfers into level 3	245	-	447	692
Transfers out of level 3	(1,268)	-	(586)	(1,854)
<b>At 31 December 2014</b>	<b>2,718</b>	<b>124</b>	<b>3,580</b>	<b>6,422</b>

During 2014, level 3 transfers into financial assets of US\$712 million and financial liabilities of US\$692 million primarily reflect transfers of certain credit derivatives from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these instruments or a reduction in market data available for the instrument.

During 2014, level 3 transfers out of financial assets of US\$1.5 billion and financial liabilities of US\$1.9 billion primarily reflect transfers of certain credit derivatives to level 2, principally due to unobservable credit spread inputs no longer being significant to the net risk of certain portfolios and the transfers of certain equity derivatives to level 2, due to unobservable correlations no longer being significant to the valuation of the instrument.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**e. Valuation techniques and significant inputs**

**Cash instruments**

Cash instruments include government and agency obligations, bank loans and bridge loans, corporate and other debt obligations, equities and convertible debentures, and other non-derivative financial instruments owned and financial instruments sold, but not yet purchased. Valuation techniques and significant inputs for each level of the fair value hierarchy include:

- Level 1 cash instruments are valued using quoted prices for identical unrestricted instruments in active markets.
- 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 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 company 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.

The table below presents the valuation techniques and the nature of significant inputs. These valuation techniques and significant inputs are generally used to determine the fair values of each type of level 3 cash instrument.

<b>Level 3 cash instruments</b>	<b>Valuation techniques and significant inputs</b>
Mortgages and other asset-backed loans and securities  Bank loans and bridge loans	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses and include: <ul style="list-style-type: none"> <li>• Market yields implied by transactions of similar or related assets.</li> <li>• 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).</li> <li>• Current performance of the borrower or loan collateral and recovery assumptions if a default occurs.</li> <li>• Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g. prepayment speeds).</li> </ul>
Corporate and other debt securities	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: <ul style="list-style-type: none"> <li>• Market yields implied by transactions of similar or related assets.</li> <li>• 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).</li> <li>• Current performance of the borrower or loan collateral and recovery assumptions if a default occurs.</li> <li>• Maturity and coupon profile of the instrument.</li> </ul>
Equities and convertible debentures (including private equity investments and investments in real estate entities)	Recent third-party completed or pending transactions (e.g. merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate: <ul style="list-style-type: none"> <li>• Industry multiples (primarily EBITDA multiples) and public comparables.</li> <li>• Transactions in similar instruments.</li> <li>• Discounted cash flow techniques.</li> </ul>

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**e. Valuation techniques and significant inputs (continued)**

**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 company's OTC derivatives are cleared and settled through central clearing counterparties ('OTC-cleared'), while others are bilateral contracts between two counterparties ('bilateral OTC'). Valuation techniques and significant inputs for each level of the fair value hierarchy include:

- 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 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 company 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 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, equity volatility inputs, commodity prices and commodity volatilities.

Subsequent to the initial valuation of a level 3 derivative, the company 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 company 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 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 company also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the firm to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**e. Valuation techniques and significant inputs (continued)**

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

The company'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.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**e. Valuation techniques and significant inputs (continued)**

**Collateralised agreements and collateralised financing**

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

**Debtors**

Debtors measured at fair value are primarily comprised of secured lending and prepaid commodity contracts. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads.

**Other creditors and creditors: amounts falling due after more than one year**

Other creditors and creditors: amounts falling due after more than one year primarily comprise hybrid financial instruments and prepaid commodity contracts.

The significant inputs to the valuation of secured other creditors and creditors: amounts falling due after more than one year measured at fair value are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the company (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls.

The significant inputs to the valuation of unsecured other creditors and creditors: amounts falling due after more than one year measured at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of GS Group, as well as commodity prices in the case of prepaid commodity contracts. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the company's other derivative instruments.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**f. Significant unobservable inputs used in level 3 fair value measurement**

**Cash instruments**

As at 30 June 2015, the company had US\$1.4 billion of level 3 asset cash instruments (31 December 2014: US\$2.0 billion). The table below presents the ranges of significant unobservable inputs used to value these level 3 asset cash instruments, as well as the related weighted averages. In the table below:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument.
- Weighted averages are calculated by weighting each input by the relative fair value of the financial instruments.
- 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 cash instrument. For example, the highest multiple presented in the tables below for private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the company's level 3 cash instruments.
- Increases in yield, discount rate or duration used in the valuation of the company's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis or multiples would result in a higher fair value measurement. Due to the distinctive nature of each of the company's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.
- 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.

Level 3 cash instruments	Valuation techniques and significant unobservable inputs	Range of significant unobservable inputs (weighted average)	
		As at 30 June 2015	As at 31 December 2014
Mortgages and other asset-backed loans and securities  Bank loans and bridge loans  <i>(US\$799 million and US\$758 million of level 3 assets as at 30 June and 31 December 2014, respectively)</i>	Discounted cash flows: <ul style="list-style-type: none"> <li>• Yield</li> <li>• Recovery rate</li> <li>• Duration (years)</li> </ul>	2.8% to 10.0% (3.9%) 22.7% to 57.1% (40.4%) 2.0 to 11.5 (5.2)	1.9% to 17.0% (3.8%) 57.1% to 57.1% (57.1%) 1.3 to 12.7 (3.7)
Corporate and other debt obligations  Commercial paper, certificates of deposit, time deposits and other money market instruments  Government and agency obligations  <i>(US\$400 million and US\$1.0 billion of level 3 assets as at 30 June and 31 December 2014, respectively)</i>	Discounted cash flows: <ul style="list-style-type: none"> <li>• Yield</li> <li>• Recovery rate</li> <li>• Duration (years)</li> </ul>	2.0% to 12.4% (5.0%) 0.0% to 70.0% (59.9%) 0.6 to 6.2 (3.0)	1.6% to 24.4% (5.5%) 0.0% to 70.0% (37.4%) 0.7 to 6.4 (3.0)
Equities and convertible debentures (including private equity investments and investments in real estate entities)  <i>(US\$214 million and US\$187 million of level 3 assets as at 30 June and 31 December 2014, respectively)</i>	Market comparables and discounted cash flows: <ul style="list-style-type: none"> <li>• Multiples</li> <li>• Discount rate / yield</li> </ul>	0.9x to 14.5x (3.8x) 9.3% to 13.5% (11.2%)	0.9x to 6.3x (1.5x) 15.8% to 15.8% (15.8%)

Level 3 liability cash instruments as at both 30 June 2015 and 31 December 2014 were not material.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**f. Significant unobservable inputs used in level 3 fair value measurement (continued)**

**Derivative instruments**

As at 30 June 2015, the company had US\$2.5 billion of net level 3 derivative instruments (31 December 2014: US\$3.1 billion). The table below presents the ranges of significant unobservable inputs used to value the company's credit and equity derivative instruments as well as averages and medians of these inputs. As at 30 June 2015, the company also has US\$121 million (31 December 2014: US\$242 million) of net level 3 assets relating to interest rate, currencies and commodities derivatives for which the range of significant unobservable inputs has not been disclosed as the amounts are not material. In the table below:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative.
- Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments.
- The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation presented in the tables below for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the company's level 3 derivatives.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Level 3 derivative product type	Valuation techniques and significant unobservable inputs	Range of significant unobservable inputs (average / median)	
		As at 30 June 2015	As at 31 December 2014
<b>Credit</b> (consists of US\$2.8 billion and US\$3.4 billion of net level 3 derivative instruments as at 30 June 2015 and 31 December 2014, respectively)	Option pricing models, correlation models and discounted cash flows models: <ul style="list-style-type: none"> <li>• Correlation</li> <li>• Credit spreads</li> <li>• Upfront credit points</li> <li>• Recovery rates</li> </ul>	49% to 97% (71% / 71%) 1 basis points (bps) to 525bps (143bps / 111bps) 0 points to 64 points (28 points / 40 points) 10% to 60% (31% / 20%)	57% to 99% (77% / 75%) 1 basis points (bps) to 700 bps (143 bps / 107 bps) 1 points to 84 points (35 points / 16 points) 14% to 60% (30% / 25%)
<b>Equities</b> (consists of US\$(424) million and US\$(484) million of net level 3 derivative instruments as at 30 June 2015 and 31 December 2014, respectively)	Option pricing models: <ul style="list-style-type: none"> <li>• Correlation</li> <li>• Volatility</li> </ul>	28% to 93% (73% / 75%) 5% to 73% (23% / 23%)	30% to 91% (74% / 76%) 5% to 68% (21% / 21%)

**Range of significant unobservable inputs for derivatives.** The following provides further information about the ranges of significant unobservable inputs used to value the company's level 3 derivative instruments.

***Correlation***

Ranges for correlation cover a variety of underliers both within one market (e.g. equity index and equity single stock names) and across markets (e.g. correlation of an equity index and a foreign exchange rate), as well as across regions.

***Volatility***

Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.



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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**f. Significant unobservable inputs used in level 3 fair value measurement (continued)**

***Credit spreads, upfront credit points and recovery rates.***

The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

**Sensitivity of fair value measurement to changes in significant unobservable inputs for derivatives.** The following provides a description of the directional sensitivity of the company's level 3 fair value measurements to changes in significant unobservable inputs, in isolation. Due to the distinctive nature of each of the company's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

***Correlation***

In general, for contracts where the holder benefits from the consistent directional performance of the underlying asset or index prices (e.g. interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation results in a higher fair value measurement.

***Volatility***

In general, for purchased options an increase in volatility results in a higher fair value measurement.

***Credit spreads, upfront credit points and recovery rates***

In general, the fair value of purchased credit protection increases as credit spreads or upfront credit points increase or recovery rates decrease. Credit spreads, upfront credit points and recovery rates are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation, and macroeconomic conditions.

**Collateralised agreements and collateralised financing**

As at both 30 June 2015 and 31 December 2014, there were no level 3 resale agreements, securities borrowed or securities loaned. As at both 30 June 2015 and 31 December 2014, the company's level 3 repurchase agreements were not material.

**Debtors**

As at both 30 June 2015 and 31 December 2014, the company's level 3 debtors were US\$nil.

**Other creditors and creditors: amounts falling due after more than one year**

As at both 30 June 2015 and 31 December 2014, the significant unobservable inputs used to value the company's secured level 3 other creditors and creditors: amounts falling due after more than one year have been incorporated in the company's cash instruments disclosures related to unobservable inputs. Refer to "Cash instruments" above.

As at both 30 June 2015 and 31 December 2014, substantially all of the company's unsecured level 3 other creditors and creditors: amounts falling due after more than one year are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these borrowings, these inputs are incorporated in the company's derivative disclosures related to unobservable inputs. Refer to "Derivative instruments" above.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**g. Fair value financial instruments valued using techniques that incorporate unobservable inputs**

The fair value of financial instruments 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 as at 30 June 2015 of using reasonable possible alternative assumptions for the valuations including significant unobservable inputs has been quantified as approximately US\$192 million (31 December 2014: US\$179 million) for favourable changes and US\$162 million (31 December 2014: US\$146 million) for unfavourable changes. In determining reasonably possible alternative unfavourable assumptions a detailed business and position level review has been performed to identify and quantify instances where potential uncertainty exists. This has taken into account the positions' fair value as compared to the range of available market information.

The amounts not recognised in the profit and loss account relating to the difference between the fair value of financial instruments held for trading at initial recognition (the transaction price) and the amounts determined at initial recognition using the valuation techniques ('Day 1 P&L') are as follows:

	<b>2015</b>	<b>2014</b>
	<b>US\$m</b>	<b>US\$m</b>
At 1 January	136	80
New transactions	59	118
Amounts recognised in the profit and loss account during the period	(59)	(62)
At 30 June / 31 December	<b>136</b>	<b>136</b>

**h. Fair value of financial instruments not measured at fair value**

The company has US\$131.9 billion (31 December 2014: US\$123.7 billion) of current financial assets and US\$178.8 billion (31 December 2014: US\$192.9 billion) of current 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.

The company has US\$11.9 billion (31 December 2014: US\$10.8 billion) of financial liabilities that are due after more than one year that are not measured at fair value which predominantly relate to long-term intercompany borrowings. The interest rates of these borrowings are variable in nature and approximate prevailing market interest rates for instruments with similar terms and characteristics. As such, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**i. Offsetting of financial assets and financial liabilities**

The following table shows the company's financial assets and financial liabilities that are subject to enforceable netting agreements and offsetting. Gross amounts exclude the effects of both counterparty netting and collateral, and therefore are not representative of the company's exposure. Amounts are only offset in the balance sheet when the company currently has a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The table below also presents amounts not offset in the balance sheet in respect of counterparty netting (i.e. the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting agreement), and cash and security collateral received and posted under enforceable credit support agreements, that do not meet the criteria for offsetting under U.K. GAAP. Where the company has received or posted collateral under credit support agreements, but has not yet determined whether such agreements are enforceable, the related collateral has not been included in the amounts not offset in the balance sheet, in the table below.

	30 June 2015						
	Amounts not offset in the balance sheet						Net amount
	Gross amounts <sup>1,2</sup>	Amounts offset in the balance sheet	Net amount presented in the balance sheet	Counterparty netting	Cash collateral	Security collateral	
US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>Financial assets:</b>							
Cash instruments	12,308	(9,657)	2,651	(112)	-	-	2,539
Derivative instruments	596,121	(60,093)	536,028	(463,114)	(39,521)	(9,884)	23,509
Financial instruments owned	608,429	(69,750)	538,679	(463,226)	(39,521)	(9,884)	26,048
Collateralised agreements	187,225	(22,575)	164,650	(57,267)	-	(101,688)	5,695
Debtors	60,162	(10,921)	49,241	(557)	(29,267)	(10,270)	9,147
<b>Financial assets subject to enforceable netting agreements</b>	<b>855,816</b>	<b>(103,246)</b>	<b>752,570</b>	<b>(521,050)</b>	<b>(68,788)</b>	<b>(121,842)</b>	<b>40,890</b>
<b>Financial assets not subject to enforceable netting agreements</b>	<b>115,774</b>	<b>-</b>	<b>115,774</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115,774</b>
<b>Total financial assets</b>	<b>971,590</b>	<b>(103,246)</b>	<b>868,344</b>	<b>(521,050)</b>	<b>(68,788)</b>	<b>(121,842)</b>	<b>156,664</b>
<b>Financial liabilities:</b>							
Derivative instruments	578,368	(58,414)	519,954	(463,114)	(29,267)	(10,471)	17,102
Financial instruments sold, but not yet purchased	578,368	(58,414)	519,954	(463,114)	(29,267)	(10,471)	17,102
Collateralised financing	161,739	(33,496)	128,243	(57,267)	-	(54,901)	16,075
Other creditors	66,959	(6,194)	60,765	(112)	(39,521)	-	21,132
Creditors: amounts falling due after more than one year	7,276	(5,142)	2,134	(557)	-	-	1,577
<b>Financial liabilities subject to enforceable netting agreements</b>	<b>814,342</b>	<b>(103,246)</b>	<b>711,096</b>	<b>(521,050)</b>	<b>(68,788)</b>	<b>(65,372)</b>	<b>55,886</b>
<b>Financial liabilities not subject to enforceable netting agreements</b>	<b>132,640</b>	<b>-</b>	<b>132,640</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>132,640</b>
<b>Total financial liabilities</b>	<b>946,982</b>	<b>(103,246)</b>	<b>843,736</b>	<b>(521,050)</b>	<b>(68,788)</b>	<b>(65,372)</b>	<b>188,526</b>

- Derivative assets and derivative liabilities include amounts that are not subject to an enforceable netting agreement or are subject to a netting agreement that the company has not yet determined to be enforceable of US\$9.6 billion and US\$8.7 billion, respectively.
- Substantially all collateralised agreements and collateralised financing are subject to enforceable netting agreements.

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**NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2015**

**19. FINANCIAL INSTRUMENTS (continued)**

**i. Offsetting of financial assets and financial liabilities (continued)**

	31 December 2014						
	Amounts not offset in the balance sheet						
	Gross amounts <sup>1,2</sup> US\$m	Amounts offset in the balance sheet US\$m	Net amount presented in the balance sheet US\$m	Counterparty netting US\$m	Cash collateral US\$m	Security collateral US\$m	Net amount US\$m
<b>Financial assets:</b>							
Cash instruments	17,460	(14,453)	3,007	(161)	-	-	2,846
Derivative instruments	759,612	(132,115)	627,497	(549,005)	(42,710)	(10,215)	25,567
Financial instruments owned	777,072	(146,568)	630,504	(549,166)	(42,710)	(10,215)	28,413
Collateralised agreements	219,234	(15,718)	203,516	(88,761)	-	(109,488)	5,267
Debtors	58,046	(9,975)	48,071	(602)	(28,928)	(8,903)	9,638
<b>Financial assets subject to enforceable netting agreements</b>	<b>1,054,352</b>	<b>(172,261)</b>	<b>882,091</b>	<b>(638,529)</b>	<b>(71,638)</b>	<b>(128,606)</b>	<b>43,318</b>
<b>Financial assets not subject to enforceable netting agreements</b>	<b>94,380</b>	<b>-</b>	<b>94,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,380</b>
<b>Total financial assets</b>	<b>1,148,732</b>	<b>(172,261)</b>	<b>976,471</b>	<b>(638,529)</b>	<b>(71,638)</b>	<b>(128,606)</b>	<b>137,698</b>
<b>Financial liabilities:</b>							
Derivative instruments	744,162	(130,399)	613,763	(549,005)	(28,928)	(16,091)	19,739
Financial instruments sold, but not yet purchased	744,162	(130,399)	613,763	(549,005)	(28,928)	(16,091)	19,739
Collateralised financing	167,344	(25,693)	141,651	(88,761)	-	(38,351)	14,539
Other creditors	72,453	(8,601)	63,852	(161)	(42,710)	-	20,981
Creditors: amounts falling due after more than one year	9,603	(7,568)	2,035	(602)	-	-	1,433
<b>Financial liabilities subject to enforceable netting agreements</b>	<b>993,562</b>	<b>(172,261)</b>	<b>821,301</b>	<b>(638,529)</b>	<b>(71,638)</b>	<b>(54,442)</b>	<b>56,692</b>
<b>Financial liabilities not subject to enforceable netting agreements</b>	<b>133,600</b>	<b>-</b>	<b>133,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>133,600</b>
<b>Total financial liabilities</b>	<b>1,127,162</b>	<b>(172,261)</b>	<b>954,901</b>	<b>(638,529)</b>	<b>(71,638)</b>	<b>(54,442)</b>	<b>190,292</b>

- Derivative assets and derivative liabilities include amounts that are not subject to an enforceable netting agreement or are subject to a netting agreement that the company has not yet determined to be enforceable of US\$12.5 billion and US\$10.5 billion, respectively.
- Substantially all collateralised agreements and collateralised financing are subject to enforceable netting agreements.