Unaudited Half-yearly Financial Report
June 30, 2017

Goldman Sachs International Bank (unlimited company)
Company Number: 01122503

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Introduction

Goldman Sachs International Bank (the bank) acts as a primary dealer for European government bonds and is involved in market making in European government bonds, lending and deposit-taking activities, and securities lending.

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

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

The bank's principal office is in the U.K., but the bank also operates branches in Germany (the Frankfurt branch), which is involved in lending activities, and Korea (the Seoul branch), which was involved in client execution activities, and has representative offices in China (the Beijing rep office) and Turkey (the Istanbul rep office). The client execution activities conducted by the Seoul branch were transferred to group undertakings during 2016.

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

References to "the financial statements" are to the unaudited financial statements as presented in Part II of this financial report. All references to June 2017 and June 2016 refer to the periods ended, or the dates, as the context requires, June 30, 2017 and June 30, 2016, respectively. All references to December 2016 refer to the date December 31, 2016. All references to "the 2016 Annual Report" are to the bank's Annual Report for the year ended December 31, 2016.

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

Executive Overview

Profit and Loss Account

The profit and loss account is set out on page 5 of this financial report. For the first half of 2017, the bank's profit for the financial period was $56 million, compared with $48 million for the first half of 2016.

Net interest income was $51 million for the first half of 2017, compared with $41 million for the first half of 2016. This increase reflects the bank's continued focus on the expansion of its lending activities and the diversification of funding sources and management of excess liquidity.

Trading profit was $61 million for the first half of 2017, compared with $68 million for the first half of 2016. This decrease reflects weaker performance in the bank's lending activities, partially offset by stronger performance in the bank's European government bond market-making business.

Administrative expenses were $36 million for the first half of 2017, compared with $41 million for the first half of 2016. This decrease reflects decreased management fees charged by group undertakings.

Balance Sheet

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

As of June 2017, total assets were $60.41 billion, an increase of $18.06 billion from December 2016, primarily reflecting increases in collateralised agreements with group undertakings of $11.06 billion, financial instruments owned of $3.02 billion and cash at bank and in hand of $2.83 billion. Collateralised agreements with group undertakings increased primarily to cover the settlement requirements in cash instruments sold, but not yet purchased, and due to an increase in deposit-taking activities which were reinvested on a secured basis. Financial instruments owned increased primarily due to an increase in cash instruments. Cash at bank and in hand increased primarily due to an increase in deposit-taking activities.

As of June 2017, total liabilities were $57.44 billion, an increase of $18.01 billion from December 2016, primarily reflecting increases in collateralised financings with group undertakings of $9.80 billion, customer accounts payable of $5.95 billion and deposits by banks of $1.35 billion. Collateralised financings with group undertakings increased primarily due to higher funding requirements in respect of cash instruments owned. Customer accounts payable and deposits by banks increased primarily due to an increase in deposit-taking activities.

Key Metrics

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

	As of	
	June	December
$ in thousands	**2017**	2016
Lending activities		
Included in customer accounts receivable:		
- Bank loans	**$ 1,886,039**	$ 1,985,713
- Mortgage-backed loans and securities	**633,417**	9,326
Included in financial instruments owned:		
- Bank loans	**45,974**	51,312
- Mortgage-backed loans and securities	**43,802**	2,601
Total lending activities	**$ 2,609,232**	$ 2,048,952
Deposit-taking activities		
Included in customer accounts payable:		
- Customer deposits	**$22,269,602**	$16,600,215
- Deposits from group undertakings	**1,145,645**	1,080,998
Included in deposits by banks	**2,512,780**	1,162,819
Total deposit-taking activities	**$25,928,027**	$18,844,032

The unfunded portion of bank loans held as principal risk was $5.57 billion and $5.15 billion as of June 2017 and December 2016, respectively.

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

Business Environment

Global

During the first half of 2017, global economic growth appeared mixed compared with the second half of 2016, as real gross domestic product (GDP) growth in the U.S. and U.K. appeared to slow, while growth in the Euro area increased and Japan appeared to increase. Growth in China was roughly unchanged from the second half of last year. Broadly, global macroeconomic data remained strong throughout the first half of 2017, and volatility in equity, currency and commodity markets was low. France held a presidential election in May 2017 and the U.K. held a general election in June 2017, but neither resulted in a significant increase in volatility across markets. Major central banks continued to gradually tighten their stance on monetary policy. The U.S. Federal Reserve followed an increase in the target federal funds rate in December 2016 with two further increases in March 2017 and June 2017. The People’s Bank of China tightened its stance of monetary policy slightly by raising certain interest rates, and the European Central Bank decreased the pace of its monthly asset purchases beginning in April 2017. The price of crude oil (WTI) ended June 2017 at approximately $46 per barrel, a decrease of 14% from the end of 2016.

Europe

In the Euro area, real GDP growth appeared to increase in the first half of 2017 compared with the second half of 2016, as did measures of inflation. The European Central Bank maintained its main refinancing operations rate at 0.00% and its deposit rate at (0.40)%. In addition, the European Central Bank reduced the pace of its monthly asset purchases from €80 billion to €60 billion beginning in April 2017. Measures of unemployment remained high, but continued to decline, and the Euro appreciated by 8% against the U.S. dollar compared with the end of 2016. The Bank of England maintained its official bank rate at 0.25%, and the British pound appreciated by 5% against the U.S. dollar. Yields on 10-year government bonds increased in Germany, France, Italy and the U.K. In equity markets, the DAX Index, CAC 40 Index, Euro Stoxx 50 Index and FTSE 100 Index increased by 7%, 5%, 5% and 2%, respectively, compared with the end of 2016.

Principal Risks and Uncertainties

The bank faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2016 Annual Report.

Credit Ratings

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

	As of June 2017		
	Fitch	**Moody's**	**S&P**
Short-term Bank Deposit	**F1**	**P-1**	**N/A**
Short-term Debt	**F1**	**P-1**	**A-1**
Long-term Bank Deposit	**A**	**A1**	**N/A**
Long-term Debt	**A**	**A1**	**A+**
Ratings Outlook	**Stable**	**Stable**	**Stable**

Directors

D. G. J. Paterson resigned from the board of directors on May 10, 2017.

There were no other changes in the directorship of the bank between the date of issue of this financial report and the 2016 Annual Report.

Responsibility Statement

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

D. W. McDonogh
Director
August 24, 2017

GOLDMAN SACHS INTERNATIONAL BANK (UNLIMITED COMPANY)

Profit and Loss Account (Unaudited)

		Six Months Ended June	
$ in thousands	**Note**	**2017**	2016
Interest receivable and similar income	6	**$160,086**	$111,107
Interest payable and similar charges	7	**(109,011)**	(70,258)
Net interest income		**51,075**	40,849
Trading profit	5	**61,405**	67,711
Total operating income	4	**112,480**	108,560
Administrative expenses	8	**(35,507)**	(41,089)
Profit on ordinary activities before taxation		**76,973**	67,471
Tax on profit on ordinary activities	9	**(20,588)**	(18,995)
Profit for the financial period		**$ 56,385**	$ 48,476

Total operating income and profit on ordinary activities before taxation of the bank are derived from continuing operations, with an exception as noted in note 4, in the current and prior periods.

Statements of Comprehensive Income (Unaudited)

	Six Months Ended June	
$ in thousands	**2017**	2016
Profit for the financial period	**$ 56,385**	$ 48,476
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss		
Debt valuation adjustment	**(1,979)**	2,493
U.K. deferred tax attributable to components of other comprehensive income/(loss)	**542**	(698)
Total items that will not be reclassified subsequently to profit or loss	**(1,437)**	1,795
Items that will be reclassified subsequently to profit or loss		
Translation gain	**471**	3,131
Loss on net investment hedge	**–**	(4,127)
Total items that will be reclassified subsequently to profit or loss	**471**	(996)
Other comprehensive income/(loss) for the financial period, net of tax	**(966)**	799
Total comprehensive income for the financial period	**$ 55,419**	$ 49,275

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

Balance Sheet
(Unaudited)

		As of	
$ in thousands	**Note**	**June 2017**	December 2016
Assets			
Cash at bank and in hand		**$ 3,610,404**	$ 783,184
Customer accounts receivable	10	**5,133,270**	4,027,753
Financial instruments owned (includes **$6,866,709** and $4,480,088 pledged as collateral)	11	**9,858,146**	6,842,824
Collateralised agreements with group undertakings	12	**40,951,580**	29,887,562
Tangible fixed assets		**591**	630
Other assets	13	**859,836**	808,194
Total assets		**60,413,827**	42,350,147
Liabilities and shareholder's funds			
Customer accounts payable	14	**25,355,298**	19,410,023
Deposits by banks	15	**2,512,780**	1,162,819
Financial instruments sold, but not yet purchased	11	**9,918,300**	9,116,783
Collateralised financings with group undertakings	16	**17,544,697**	7,746,979
Other liabilities	17	**1,281,342**	1,167,552
Long-term subordinated loan from group undertakings	18	**826,000**	826,000
Total liabilities		**57,438,417**	39,430,156
Called up share capital	19	**62,558**	62,558
Share premium account		**2,094,303**	2,094,303
Other comprehensive income		**724**	1,690
Profit and loss account		**817,825**	761,440
Total shareholder's funds		**2,975,410**	2,919,991
Total liabilities and shareholder's funds		**$60,413,827**	$42,350,147
Memorandum items			
Financial commitments	20	**$ 8,615,353**	$ 6,439,557
Contingent liabilities	20	**$ 1,520,911**	$ 1,384,776

The accompanying notes are an integral part of these financial statements.
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Statements of Changes in Equity (Unaudited)

	Six Months Ended June	
$ in thousands	**2017**	2016
Called up share capital		
Beginning balance	**$ 62,558**	$ 62,558
Ending balance	**62,558**	62,558
Share premium account		
Beginning balance	**2,094,303**	2,094,303
Ending balance	**2,094,303**	2,094,303
Other comprehensive income/(loss)		
Beginning balance	**1,690**	(21,884)
Other comprehensive income/(loss)	**(966)**	799
Ending balance	**724**	(21,085)
Profit and loss account		
Beginning balance	**761,440**	673,730
Profit for the financial period	**56,385**	48,476
Share-based payments	**29**	287
Management recharge related to share-based payments	**(29)**	(287)
Ending balance	**817,825**	722,206
Total shareholder's funds	**$2,975,410**	$2,857,982

No dividends were paid for the six months ended June 2017 and June 2016.

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

Note 1.

General Information

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

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

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

Note 2.

Summary of Significant Accounting Policies

Basis of Preparation

The bank prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting'. The financial statements should be read in conjunction with the 2016 Annual Report, which has been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

Accounting Policies

The accounting policies and applicable disclosure exemptions applied are consistent with those described in the 2016 Annual Report.

Following the endorsement of IFRS 9 'Financial Instruments' (IFRS 9) by the E.U. in November 2016, the bank adopted the provisions of IFRS 9 that require changes in the fair value of financial liabilities attributable to own credit spreads (debt valuation adjustment or DVA) to be presented in other comprehensive income/(loss), if it does not create or enlarge an accounting mismatch, in its financial statements for the year ended December 2016, effective from January 2016. As a result, comparatives for the six months ended June 2016, have been updated to reflect the adoption of these provisions of IFRS 9.

Similarly, the comparatives for other comprehensive income/(loss) for the six months ended June 2016 have been updated to reflect the decision to treat the cumulative translation reserve on closure of the Seoul branch as non-deductible for tax purposes, consistent to the approach followed in the financial statements for the year ended December 2016.

Note 3.

Critical Accounting Estimates and Judgements

The critical accounting estimates and judgements are consistent with those described in the 2016 Annual Report with the exception of the below.

Administrative Expenses

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

Note 4.

Segment Reporting

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

	Six Months Ended June	
$ in thousands	**2017**	2016
Investment Banking	**$ 13,353**	$ 13,211
Institutional Client Services	**114,484**	86,261
Investing & Lending	**(25,031)**	4,589
Investment Management	**9,674**	4,499
Total operating income	**$112,480**	$108,560

In the table above, Institutional Client Services includes a loss of $84,000 and an income of $2 million for six months ended June 2017 and June 2016, respectively, relating to discontinued operations.

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

Investment Banking

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

Institutional Client Services

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

Investing & Lending

Comprises lending activities which are typically longer-term in nature and includes impairments and losses on bank loans.

Investment Management

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

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

Note 5.

Trading Profit

Trading profit includes trading interest income of $75 million and $73 million for the six months ended June 2017 and June 2016, respectively, and trading interest expense of $107 million and $52 million for the six months ended June 2017 and June 2016, respectively.

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

Note 6.

Interest Receivable and Similar Income

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

	Six Months Ended June	
$ in thousands	**2017**	2016
Interest on loans to banks and customers	**$ 26,681**	$ 27,469
Interest on collateralised agreements with group undertakings	**103,143**	61,052
Interest on loans to group undertakings	**30,262**	22,586
Total interest receivable and similar income	**$160,086**	$111,107

Note 7.

Interest Payable and Similar Charges

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

	Six Months Ended June	
$ in thousands	**2017**	2016
Interest on loans from banks and customers	**$ 79,260**	$44,818
Interest on long-term subordinated loan from group undertakings (see Note 18)	**17,662**	15,752
Interest on loans from group undertakings	**7,156**	6,000
Negative interest on collateralised agreements with group undertakings	**4,933**	3,688
Total interest payable and similar charges	**$109,011**	$70,258

In the table above, interest on loans from banks and customers includes interest on customer deposits and deposits by banks.

Note 8.

Administrative Expenses

The table below presents the bank's administrative expenses.

	Six Months Ended June	
$ in thousands	**2017**	2016
Management fees charged by group undertakings	**$25,507**	$30,052
Direct costs of employment	**2,079**	5,305
Brokerage, clearing and exchange fees	**3,046**	2,667
Market development	**325**	59
Communications and technology	**91**	249
Depreciation of tangible fixed assets	**77**	103
Occupancy	**441**	517
Professional fees	**427**	442
Other expenses	**3,514**	1,695
Total administrative expenses	**$35,507**	$41,089

In the table above:

- Management fees charged by group undertakings relate to operational and administrative support, and management services received from group undertakings.
- Direct costs of employment are in relation to the Seoul branch and representative offices; and includes a credit of $33,000 and a credit of $150,000 for the six months ended June 2017 and June 2016, respectively, relating to the mark-to-market of share-based compensation.

Note 9.

Tax on Profit on Ordinary Activities

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

	Six Months Ended June	
$ in thousands	**2017**	2016
Current tax		
U.K. corporation tax	**$19,347**	$16,713
Overseas taxation	**1,740**	1,937
Adjustments in respect of previous periods	**(583)**	(528)
Total current tax	**20,504**	18,122
Deferred tax		
Origination and reversal of temporary differences	**84**	873
Total deferred tax	**84**	873
Total tax on profit on ordinary activities	**$20,588**	$18,995

Note 10.

Customer Accounts Receivable

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

	As of	
	June	December
$ in thousands	**2017**	2016
Bank loans	**$1,886,039**	$1,985,713
Mortgage-backed loans and securities	**633,417**	9,326
Amounts due from customers	**419,355**	97,325
Amounts due from group undertakings	**2,194,459**	1,935,389
Total customer accounts receivable	**$5,133,270**	$4,027,753

In the table above, bank loans and mortgage-backed loans and securities includes balances due in more than one year of $2.27 billion and $1.76 billion as of June 2017 and December 2016, respectively.

Note 11.

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

Financial instruments owned and financial instruments sold, but not yet purchased comprise financial instruments and investments within the operating activities of the bank. Financial instruments owned includes instruments pledged as collateral.

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

	As of	
$ in thousands	**June 2017**	December 2016
Cash instruments		
Government bonds	**$7,849,674**	$4,933,711
Bank loans	**45,974**	51,312
Mortgage-backed loans and securities	**43,802**	2,601
Total cash instruments	**7,939,450**	4,987,624
Derivative instruments		
Interest rates	**1,561,699**	1,739,000
Currencies	**330,691**	75,753
Equities	**6,399**	37,497
Commodities	**17,925**	2,149
Credit	**1,982**	801
Total derivative instruments	**1,918,696**	1,855,200
Total financial instruments owned	**$9,858,146**	$6,842,824

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

	As of	
$ in thousands	**June 2017**	December 2016
Cash instruments		
Government bonds	**$8,186,231**	$7,284,063
Bank loans	**798**	1,534
Total cash instruments	**8,187,029**	7,285,597
Derivative instruments		
Interest rates	**1,513,353**	1,701,377
Currencies	**162,570**	67,662
Equities	**9,056**	37,497
Commodities	**17,925**	2,149
Credit	**28,367**	22,501
Total derivative instruments	**1,731,271**	1,831,186
Total financial instruments sold, but not yet purchased	**$9,918,300**	$9,116,783

Note 12.

Collateralised Agreements with Group Undertakings

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

	As of	
$ in thousands	**June 2017**	December 2016
Resale agreements	**$39,188,295**	$29,887,562
Securities borrowed	**1,622,862**	–
Other secured lending arrangements	**140,423**	–
Total collateralised agreements with group undertakings	**$40,951,580**	$29,887,562

In the table above, resale agreements includes balances due in more than one year of $654 million and $322 million as of June 2017 and December 2016, respectively.

Note 13.

Other Assets

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

	As of	
$ in thousands	**June 2017**	December 2016
Other amounts due from group undertakings	**$794,608**	$745,066
Deferred tax	**49,906**	49,442
Other assets	**15,322**	13,686
Total other assets	**$859,836**	$808,194

In the table above:

- Other amounts due from group undertakings includes balances due in more than one year of $425 million and $304 million as of June 2017 and December 2016, respectively.
- Total other assets includes financial assets of $806 million and $755 million as of June 2017 and December 2016, respectively, and non-financial assets of $54 million as of both June 2017 and December 2016.

Note 14.

Customer Accounts Payable

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

	As of	
$ in thousands	**June 2017**	December 2016
Customer deposits	**$22,269,602**	$16,600,215
Amounts due to customers	**569,886**	224,807
Deposits from group undertakings	**1,145,645**	1,080,998
Amounts due to group undertakings	**1,370,165**	1,504,003
Total customer accounts payable	**$25,355,298**	$19,410,023

In the table above, customer deposits includes balances due in more than one year of $2.52 billion and $796 million as of June 2017 and December 2016, respectively.

Debt Valuation Adjustment

The fair value of customer deposits that are designated at fair value through profit or loss are calculated by discounting future cash flows at a rate which incorporates GS Group's credit spreads. The net DVA on such financial liabilities is a pre-tax loss of $2 million and a gain of $2 million for the six months ended June 2017 and June 2016, respectively, and has been included in "Debt valuation adjustment" in other comprehensive income/(loss).

Note 15.

Deposits by Banks

Deposits by banks of $2.51 billion and $1.16 billion as of June 2017 and December 2016, respectively, are due within one year of the balance sheet date.

Note 16.

Collateralised Financings with Group Undertakings

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

	As of	
$ in thousands	**June 2017**	December 2016
Repurchase agreements	**$17,544,697**	$7,746,979
Total collateralised financings with group undertakings	**$17,544,697**	$7,746,979

Note 17.

Other Liabilities

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

	As of	
$ in thousands	**June 2017**	December 2016
Accruals and deferred income	**$ 26,100**	$ 36,625
Other amounts due to group undertakings	**1,246,011**	1,119,299
Other liabilities	**9,231**	11,628
Total other liabilities	**$1,281,342**	$1,167,552

In the table above:

- Other amounts due to group undertakings includes balances due in more than one year of $476 million and $440 million as of June 2017 and December 2016, respectively. Other amounts due to group undertakings as of June 2017 increased $127 million compared with December 2016 due to new proceeds of $1.52 billion, partially offset by repayments of $1.39 billion.
- Other liabilities includes a provision for impairment in respect of unfunded bank loans held at amortised cost of $8 million as of both June 2017 and December 2016.
- Total other liabilities includes financial liabilities of $1.26 billion and $1.14 billion as of June 2017 and December 2016, respectively, and non-financial liabilities of $22 million and $30 million as of June 2017 and December 2016, respectively.

Note 18.

Long-term Subordinated Loan from Group Undertakings

Long-term subordinated loans from group undertakings are unsecured and carry interest at a margin over the U.S. Federal Reserve's federal funds rate and constitute regulatory capital as approved by the PRA. Long-term subordinated loans from group undertakings are repayable on September 8, 2025. Any repayment prior to this maturity date requires PRA approval.

Note 19.

Share Capital

The table below presents the bank's share capital.

Allotted, called up and fully paid	**Ordinary shares of £1 each**	***$ in thousands***
As of January 1, 2017	40,169,994	$62,558
As of June 30, 2017	**40,169,994**	**$62,558**

Note 20.

Financial Commitments and Contingencies

Financial Commitments

The table below presents the bank's financial commitments.

	As of	
	June	December
$ in thousands	**2017**	2016
Principal risk	**$5,566,360**	$5,154,200
Sub-participated	**2,529,882**	1,248,775
Unfunded bank loans	**8,096,242**	6,402,975
Forward starting resale agreements	**506,343**	26,506
Leases	**78**	156
Other	**12,690**	9,920
Total financial commitments	**$8,615,353**	$6,439,557

The bank originates a number of bank loans which are held as principal risk. The bank also holds bank loans which are sub-participated to group undertakings and third party institutions. The unfunded portion of these agreements, where cash has not been deposited with the bank to collateralise the undrawn commitment is presented above.

The bank enters into resale agreements that settle at a future date, generally within three business days. The bank's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

The bank leases certain buildings under long-term lease agreements. Under these lease agreements, which are subject to renegotiation at various intervals specified in the leases, the bank pays all insurance, maintenance and repairs of these properties.

Other commitments relate to collateral commitments.

Contingent Liabilities

The bank, in its capacity as an agent in securities lending, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities. The maximum exposure to loss under guarantees was $1.52 billion and $1.38 billion as of June 2017 and December 2016, respectively. The market value of the collateral held to cover the loss was $1.75 billion and $1.52 billion as of June 2017 and December 2016, respectively. These guarantees are covered by back-to-back guarantees with the bank's ultimate parent company, Group Inc.

Note 21.

Financial Assets and Financial Liabilities

Financial Assets and Financial Liabilities by Category

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

	Financial Assets			
$ in thousands	Held for trading	Designated at fair value	Loans and receivables	Total
As of June 2017				
Cash at bank and in hand	**$ –**	**$ –**	**$3,610,404**	**$ 3,610,404**
Customer accounts receivable	**–**	**53,149**	**5,080,121**	**5,133,270**
Financial instruments owned	**9,858,146**	**–**	**–**	**9,858,146**
Collateralised agreements with group undertakings	**–**	**40,951,580**	**–**	**40,951,580**
Other assets	**–**	**–**	**805,716**	**805,716**
Total financial assets	**$9,858,146**	**$41,004,729**	**$9,496,241**	**$60,359,116**
As of December 2016				
Cash at bank and in hand	$ –	$ –	$ 783,184	$ 783,184
Customer accounts receivable	–	159,024	3,868,729	4,027,753
Financial instruments owned	6,842,824	–	–	6,842,824
Collateralised agreements with group undertakings	–	29,887,562	–	29,887,562
Other assets	–	–	754,614	754,614
Total financial assets	$6,842,824	$30,046,586	$5,406,527	$42,295,937

	Financial Liabilities			
$ in thousands	Held for trading	Designated at fair value	Amortised cost	Total
As of June 2017				
Customer accounts payable	**$ –**	**$13,694,967**	**$11,660,331**	**$25,355,298**
Deposits by banks	**–**	**2,512,780**	**–**	**2,512,780**
Financial instruments sold, but not yet purchased	**9,918,300**	**–**	**–**	**9,918,300**
Collateralised financings with group undertakings	**–**	**17,544,697**	**–**	**17,544,697**
Other liabilities	**–**	**476,223**	**782,797**	**1,259,020**
Long-term subordinated loan from group undertakings	**–**	**–**	**826,000**	**826,000**
Total financial liabilities	**$9,918,300**	**$34,228,667**	**$13,269,128**	**$57,416,095**
As of December 2016				
Customer accounts payable	$ –	$ 7,643,739	$11,766,284	$19,410,023
Deposits by banks	–	1,162,819	–	1,162,819
Financial instruments sold, but not yet purchased	9,116,783	–	–	9,116,783
Collateralised financings with group undertakings	–	7,746,979	–	7,746,979
Other liabilities	–	439,926	697,128	1,137,054
Long-term subordinated loan from group undertakings	–	–	826,000	826,000
Total financial liabilities	$9,116,783	$16,993,463	$13,289,412	$39,399,658

In the table above, financial instruments owned held for trading include $4 million and $5 million as of June 2017 and December 2016, respectively, and financial instruments sold but not yet purchased include $3 million and $1 million as of June 2017 and December 2016, respectively, of derivative instruments designated as hedges.

Fair Value Hierarchy

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The bank measures certain financial assets and financial liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks).

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

The fair value hierarchy is as follows:

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

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

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

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

Valuation Techniques and Significant Inputs

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

Level 1 Cash Instruments

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

Level 2 Cash Instruments

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

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

Level 3 Cash Instruments

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

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

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

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

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

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialised nations are characterised by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.
- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.
- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialised nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.
- **Equity.** Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

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

Level 1 Derivatives

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

Level 2 Derivatives

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

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

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

Level 3 Derivatives

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

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

Valuation Adjustments

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

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

Other Financial Assets and Financial Liabilities. Valuation techniques and significant inputs of financial assets and financial liabilities include:

- **Customer Accounts Receivable.** Customer accounts receivable measured at fair value comprises certain bank loans and mortgages. The significant inputs to the valuation of bank loans and mortgages are consistent with those described above as part of cash instruments.
- **Collateralised Agreements With Group Undertakings and Collateralised Financings With Group Undertakings.** The significant inputs to the valuation of resale and repurchase agreements and securities borrowed are funding spreads, the amount and timing of expected future cash flows and interest rates.
- **Customer Accounts Payable and Deposits by Banks.** Customer accounts payable and deposits by banks measured at fair value comprise certain balances related to deposit-taking activities. The significant inputs to the valuation of these balances are interest rates and the amount and timing of future cash flows.

Fair Value of Financial Assets and Financial Liabilities by Level

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

	Financial Assets and Financial Liabilities at Fair Value as of June 2017			
$ in thousands	Level 1	Level 2	Level 3	Total
Financial Assets				
Customer accounts receivable	**$ –**	**$ 26,634**	**$26,515**	**$ 53,149**
Cash instruments	**7,654,866**	**233,485**	**51,099**	**7,939,450**
Derivative instruments	**53,206**	**1,865,490**	**–**	**1,918,696**
Financial instruments owned	**7,708,072**	**2,098,975**	**51,099**	**9,858,146**
Collateralised agreements with group undertakings	**–**	**40,951,580**	**–**	**40,951,580**
Total financial assets	**$7,708,072**	**$43,077,189**	**$77,614**	**$50,862,875**
Financial Liabilities				
Customer accounts payable	**$ –**	**$13,694,967**	**$ –**	**$13,694,967**
Deposits by banks	**–**	**2,512,780**	**–**	**2,512,780**
Cash instruments	**8,100,675**	**85,562**	**792**	**8,187,029**
Derivative instruments	**55,534**	**1,675,737**	**–**	**1,731,271**
Financial instruments sold, but not yet purchased	**8,156,209**	**1,761,299**	**792**	**9,918,300**
Collateralised financings with group undertakings	**–**	**17,544,697**	**–**	**17,544,697**
Other liabilities	**–**	**476,223**	**–**	**476,223**
Total financial liabilities	**$8,156,209**	**$35,989,966**	**$ 792**	**$44,146,967**
Net derivative instruments	**$ (2,328)**	**$ 189,753**	**$ –**	**$ 187,425**

	Financial Assets and Financial Liabilities at Fair Value as of December 2016			
$ in thousands	Level 1	Level 2	Level 3	Total
Financial Assets				
Customer accounts receivable	$ –	$ 805	$158,219	$ 159,024
Cash instruments	4,769,733	208,553	9,338	4,987,624
Derivative instruments	3,495	1,851,705	–	1,855,200
Financial instruments owned	4,773,228	2,060,258	9,338	6,842,824
Collateralised agreements with group undertakings	–	29,887,562	–	29,887,562
Total financial assets	$4,773,228	$31,948,625	$167,557	$36,889,410
Financial Liabilities				
Customer accounts payable	$ –	$ 7,643,739	$ –	$ 7,643,739
Deposits by banks	–	1,162,819	–	1,162,819
Cash instruments	7,168,618	115,451	1,528	7,285,597
Derivative instruments	3,280	1,827,906	–	1,831,186
Financial instruments sold, but not yet purchased	7,171,898	1,943,357	1,528	9,116,783
Collateralised financings with group undertakings	–	7,746,979	–	7,746,979
Other liabilities	–	439,926	–	439,926
Total financial liabilities	$7,171,898	$18,936,820	$ 1,528	$26,110,246
Net derivative instruments	$ 215	$ 23,799	$ –	$ 24,014

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

As of June 2017 and December 2016, the bank had level 3 bank loans and mortgages assets of $78 million (comprising cash instruments of $51 million and customer accounts receivable of $27 million), and $168 million (comprising customer accounts receivable of $158 million and cash instruments of $9 million), respectively. Level 3 cash instruments liabilities were not material. The table below presents the amount of level 3 bank loans and mortgages assets, and ranges and weighted averages of significant unobservable inputs used to value the bank's level 3 bank loans and mortgages assets.

	Level 3 Bank Loans and Mortgages Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
$ in thousands	**June 2017**	December 2016
Bank loans and mortgages	**$77,614**	$167,557
Yield	**1.8% to 2.5% (2.1%)**	1.3% to 11.0% (4.5%)
Recovery rate	**13.0% to 56.5% (39.2%)**	40.0% to 85.0% (50.5%)
Duration (years)	**1.6 to 3.0 (2.4)**	1.0 to 4.8 (2.5)

In the table above:

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

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

During the six months ended June 2017 and June 2016, respectively, there were no significant transfers between level 1 and level 2 financial assets and financial liabilities measured at fair value on a recurring basis.

Level 3 Rollforward

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

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

	Level 3 Financial Assets and Financial Liabilities at Fair Value							
$ in thousands	Balance, beginning of period	Gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Six Months Ended June 2017								
Customer accounts receivable	**$158,219**	**$(17,501)**	**$ 233**	**$ (28,422)**	**$(86,014)**	**$ –**	**$ –**	**$ 26,515**
Financial instruments owned	**9,338**	**35,563**	**6,702**	**–**	**(2,604)**	**2,100**	**–**	**51,099**
Total level 3 financial assets	**$167,557**	**$ 18,062**	**$ 6,935**	**$ (28,422)**	**$(88,618)**	**$2,100**	**$ –**	**$ 77,614**
Financial instruments sold, but not yet purchased	**$ (1,528)**	**$ 555**	**$ 255**	**$ (74)**	**$ –**	**$ –**	**$ –**	**$ (792)**
Total level 3 financial liabilities	**$ (1,528)**	**$ 555**	**$ 255**	**$ (74)**	**$ –**	**$ –**	**$ –**	**$ (792)**
Six Months Ended June 2016								
Customer accounts receivable	$160,458	$ (7,211)	$336,119	$(138,995)	$(17,519)	$ –	$(1,004)	$331,848
Financial instruments owned	21,243	1,485	4,914	(12)	(7,138)	155	–	20,647
Total level 3 financial assets	$181,701	$ (5,726)	$341,033	$(139,007)	$(24,657)	$ 155	$(1,004)	$352,495
Financial instruments sold, but not yet purchased	$(11,074)	$ (2,146)	$ 412	$ (21)	$ 7,026	$ –	$ 372	$ (5,431)
Total level 3 financial liabilities	$(11,074)	$ (2,146)	$ 412	$ (21)	$ 7,026	$ –	$ 372	$ (5,431)

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

During the six months ended June 2017 and June 2016, respectively, there were no significant transfers between level 2 and level 3 financial assets and financial liabilities measured at fair value on a recurring basis.

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

The fair value of financial assets and financial liabilities may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. The potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs was not material as of both June 2017 and June 2016.

Notes to the Financial Statements (Unaudited)

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

As of June 2017 and December 2016, the bank had $9.50 billion and $5.41 billion, respectively, of financial assets and $13.27 billion and $13.29 billion, respectively, of financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value with the exception of a liability which would be recognised in respect of unfunded bank loans held at amortised cost of $75 million and $98 million as of June 2017 and December 2016, respectively. The interest rate associated with long-term subordinated loans from group undertakings is variable in nature and approximates prevailing market interest rates for instruments with similar terms and characteristics. As such, the carrying amount in the balance sheet is a reasonable approximation of fair value.