

GOLDMAN SACHS INTERNATIONAL BANK

(unlimited company)

ANNUAL REPORT

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GOLDMAN SACHS INTERNATIONAL BANK
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Part I: Strategic Report

GOLDMAN SACHS INTERNATIONAL BANK

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STRATEGIC REPORT

1. Introduction

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

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

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

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

References to "the financial statements" are to the directors' report and audited financial statements as presented in Part II of this annual report. All references to 2015 and 2014 refer to the years ended, or the dates, as the context requires, December 31, 2015 and December 31, 2014, respectively.

Unless otherwise stated, all amounts in this annual report are prepared in accordance with the new FRS 101 framework (FRS 101), and the terms FRS 101 and United Kingdom Generally Accepted Accounting Practices (UK GAAP) are used interchangeably. See "Adoption of FRS 101" below for further information about the bank's transition from the previous UK GAAP to FRS 101.

2 Executive Overview

Profit and Loss Account

The profit and loss account is set out on page 21 of this annual report.

Net interest income was \$24 million for 2015, compared with net interest expense of \$10 million for 2014. This increase reflects the bank's continued focus on the diversification of funding sources and management of excess liquidity as the bank continues to expand its lending activities.

Trading profit was \$257 million for 2015, compared with \$98 million for 2014. This increase reflects stronger performance in the bank's European government bond market-making business as higher levels of volatility led to improved market-making conditions.

Administrative expenses were \$93 million for 2015, compared with \$76 million for 2014. This increase reflects increased management fees charged by group undertakings.

Profit on ordinary activities before taxation was \$188 million for 2015, compared with \$12 million for 2014.

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STRATEGIC REPORT (continued)

2. Executive Overview (continued)

Balance Sheet

The balance sheet is set out on page 22 of this annual report

As of December 2015, total assets were \$40.93 billion, a decrease of \$852 million from December 2014. This decrease reflected a reduction in financial instruments owned of \$4.13 billion, partially offset by an increase in collateralised agreements with group undertakings of \$2.12 billion. Financial instruments owned decreased primarily due to a reduction in the fair value of derivative instruments. Collateralised agreements with group undertakings increased primarily due to an increase in deposit taking activities.

As of December 2015, total liabilities were \$38.12 billion, a decrease of \$993 million from December 2014. This decrease reflected a reduction in financial instruments sold, but not yet purchased of \$4.18 billion, partially offset by an increase in customer accounts payable of \$4.03 billion. Financial instruments sold, but not yet purchased decreased primarily due to a reduction in the fair value of derivative instruments. Customer accounts payable increased primarily due to an increase in deposit taking activities.

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

	December 2015 \$'000	December 2014 \$'000
Lending activities		
Bank loans included in customer accounts receivable	1,866,017	428,724
Bank loans included in financial instruments owned	70,065	204,629
Total lending activities	1,936,082	633,353
Deposit taking activities		
Customer deposits included in customer accounts payable	13,492,360	9,497,616
Deposits from group undertakings included in customer accounts payable	1,387,190	1,168,272
Included in deposits by banks	1,955,165	3,292,680
Total deposit taking activities	16,834,715	13,958,568

The unfunded portion of bank loans held as principal risk was \$3.96 billion and \$1.68 billion as of December 2015 and December 2014, 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.

Post Balance Sheet Events

In January 2016, following the conclusion of an ongoing review of the group's operations in Korea, it was determined that the client execution activities conducted by the Seoul branch would be transferred to group undertakings, and that the bank's Seoul branch would subsequently be closed. The bank is currently assessing the financial impact of the closure.

Future Outlook

The directors consider that the year-end financial position of the bank was satisfactory. Other than the closure of the Seoul branch as disclosed in the post balance sheet events above, no significant change in the bank's principal business activities is currently expected.

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STRATEGIC REPORT (continued)

3 Business Environment

Global

During 2015, real gross domestic product (GDP) growth appeared stable but subdued in most advanced economies and weaker in emerging market economies compared with 2014. In developed markets, growth was higher in the Euro area and Japan, while growth in the United Kingdom was lower and growth in the United States remained stable. In emerging markets, many economies suffered from lower commodity prices, and Latin America was particularly weak with negative aggregate growth in 2015. Monetary policy diverged in 2015, as the U.S. Federal Reserve increased its target interest rate, while policy remained accommodative in the Euro area and Japan. In addition, oil prices declined by 30%, and there were concerns about the debt situation in Greece earlier in the year and China's growth outlook later in the year. In investment banking, industry-wide mergers and acquisitions activity remained strong, while industry-wide activity in both debt and equity underwriting declined compared with 2014.

Europe

In the Euro area, real GDP increased by 1.5% in 2015, compared to an increase of 0.9% in 2014, as fixed investment, consumer spending and government consumption all grew. Measures of inflation remained subdued, prompting the European Central Bank (ECB) to announce quantitative easing in the form of an expanded asset purchase programme in January 2015. The central bank continued its asset purchase programme through the second and third quarters and announced further easing measures in the fourth quarter, cutting the deposit rate by 10 basis points to (0.30)% and extending purchases to March 2017. The ECB maintained its main refinancing operations rate at 0.05% during 2015. The Euro depreciated by 10% against the U.S. dollar. In the United Kingdom, real GDP increased by 2.2% in 2015, compared with an increase of 2.9% in 2014. The Bank of England maintained its official bank rate at 0.50% and the British pound depreciated by 5% against the U.S. dollar. Yields on 10-year government bonds in the region generally increased slightly during the year. In equity markets, the DAX Index, CAC 40 Index and the Euro Stoxx 50 Index increased by 10%, 9%, and 4%, respectively, while the FTSE 100 Index decreased by 5% during 2015.

Korea

In Korea, real GDP increased by 2.6% in 2015, compared to an increase of 3.3% in 2014, the slower growth rate reflecting regional trade stagnation from structural headwinds including Chinese rebalancing and technological changes. The Korean government cut the policy rate on two occasions by 25 basis points each to 1.50%. The Korean won depreciated by 7% against the U.S. dollar.

4. Adoption of FRS 101

The Financial Reporting Council revised financial reporting standards in the U.K. and Republic of Ireland for accounting periods beginning on or after January 1, 2015. The revisions fundamentally reform U.K. GAAP, replacing the previous standards (previous U.K. GAAP). From January 1, 2015, the bank has transitioned from the previous U.K. GAAP to FRS 101, which applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). All periods presented in this annual report are prepared in accordance with FRS 101. The impact of adopting FRS 101 and consequential changes in accounting policy have been described in Notes 2 and 4 to the financial statements and summarised below.

- Other assets and retained earnings increased by \$65 million as of December 2014, and tax on profit on ordinary activities increased by \$712,000 for 2014 due to the adoption of IAS 12 'Income Taxes'.
- Collateralised agreements and collateralised financings reduced by \$11 million as of December 2014 due to the adoption of IAS 32 'Financial Instruments: Presentation'.

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STRATEGIC REPORT (continued)

4. Adoption of FRS 101 (continued)

- Customer accounts receivable, financial instruments owned and customer accounts payable decreased by \$1 50 billion, \$843 million and \$2 37 billion, respectively, as of December 2014 and financial instruments sold, but not yet purchased increased by \$31 million as of December 2014 due to the adoption of settlement date accounting for regular-way purchases and sales of cash instruments, as permitted by IAS 39 'Financial Instruments Recognition and Measurement'
- Level 3 financial assets and financial liabilities decreased by \$128 million as of December 2014 due to the adoption of IFRS 13 'Fair Value Measurement'
- Commitments increased by \$680,000 as of December 2014 due to the adoption of IAS 17 'Leases' Under the previous UK GAAP, only the rentals the bank was committed to pay in the following year in respect of its operating leases were disclosed These were categorised by the maturity date of the lease Upon adoption of IAS 17 'Leases', the bank is now required to disclose the total future minimum lease payments payable by year instead

In addition, FRS 101 has resulted in the bank providing additional disclosures relating to financial assets and financial liabilities due to the adoption of IFRS 7 'Financial Instruments Disclosures' and IFRS 13 'Fair Value Measurement'

5 Principal Risks and Uncertainties

The bank faces a variety of risks and uncertainties that are substantial and inherent in its businesses including market, liquidity, credit, operational, legal, regulatory and reputational risks and uncertainties The following are some of the more important factors that could affect the bank's businesses

Economic and Market Conditions

The bank's businesses, by their nature, do not produce predictable earnings and are materially affected by conditions in the global financial markets and economic conditions generally, both directly and through their impact on client activity levels These conditions can change suddenly and negatively

A determination by the UK to exit or otherwise significantly change its relationship with the EU could affect the manner in which the bank conducts its businesses

Regulation

As a participant in the financial services industry and a subsidiary of a systemically important financial institution, the bank is subject to extensive regulation principally in the United Kingdom and the European Union more generally but also in the United States as a subsidiary of GS Group and in certain other jurisdictions The bank faces the risk of significant intervention by regulatory and tax authorities in all jurisdictions in which it conducts its businesses In many cases, the bank's activities may be subject to overlapping and divergent regulation in different jurisdictions Among other things, as a result of regulators or private parties challenging the bank's compliance with laws and regulations, it could be fined, prohibited from engaging in certain business activities, subject to limitations or conditions on its business activities or subjected to new or substantially higher taxes or other governmental charges in connection with the conduct of its businesses or with respect to its employees Such limitations or conditions may negatively impact the bank's profitability

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STRATEGIC REPORT (continued)

5. Principal Risks and Uncertainties (continued)

If there are new laws or regulations or changes in the enforcement of existing laws or regulations applicable to the bank's businesses or those of the bank's clients, including capital, liquidity, leverage, long-term debt, loss absorbing capacity and margin requirements, restrictions on other business practices, reporting requirements, requirements relating to the implementation of the EU Bank Recovery and Resolution Directive (BRRD), tax burdens and compensation restrictions, that are imposed on a limited subset of financial institutions (either based on size, activities, geography or other criteria) which may include the bank or Group Inc, compliance with these new laws and regulations, or changes in the enforcement of existing laws or regulations, could adversely affect the bank's ability to compete effectively with other institutions that are not affected in the same way. In addition, regulation imposed on financial institutions or market participants generally, such as taxes on financial transactions, could adversely impact levels of market activity more broadly, and thus impact the bank's businesses.

These developments could impact the bank's profitability in the affected jurisdictions, or even make it uneconomic to continue to conduct all or certain businesses in such jurisdictions, or could result in the bank incurring significant costs associated with changing business practices, restructuring businesses, moving certain businesses and employees to other locations or complying with applicable capital requirements, including liquidating assets or raising capital in a manner that adversely increases the bank's funding costs or otherwise adversely affects its shareholder and creditors.

Regulatory developments, in particular the Markets in Financial Instruments Regulation and a revision of the Markets in Financial Instruments Directive (collectively, MiFID II), the Basel Committee's final capital framework for strengthening international capital standards (Basel III) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) have significantly altered the regulatory framework within which the bank operates and may adversely affect the bank's competitive position and profitability.

The EU and national financial legislators and regulators have proposed or adopted numerous market reforms that have impacted and may continue to impact the bank's businesses. These include stricter capital and liquidity requirements, including legislation (in the form of the fourth EU Capital Requirements Directive and EU Capital Requirements Regulation, collectively known as "CRD IV") to implement Basel III capital requirements for the bank. In addition, the EU has finalised MiFID II, which is scheduled to become effective in January 2018.

The European Commission has also published a draft proposal for structural reform of EU banks, which would prohibit certain banks from proprietary trading and would require separating certain trading activities from deposit taking entities.

Additional market reforms also include rules on the recovery and resolution of EU institutions, rules on the separation of certain trading activities from deposit taking and rules on the cross-border provision of services from countries outside the European Economic Area. The implementation of these reforms may adversely affect the bank's profitability and competitive position, particularly if these requirements do not apply, or do not apply equally, to the bank's competitors or are not implemented uniformly across jurisdictions.

The implementation of higher capital requirements, the liquidity coverage ratio, the net stable funding ratio, requirements relating to long-term debt and total loss-absorbing capacity and the prohibition on proprietary trading by the provisions of the Dodd-Frank Act referred to as the "Volcker Rule" may adversely affect the bank's profitability and competitive position, particularly if these requirements do not apply, or do not apply equally, to the bank's competitors or are not implemented uniformly across jurisdictions.

The circumstances in which a resolution authority would exercise its "bail-in" powers to recapitalise a failing entity by writing down its unsecured debt or converting it into equity are uncertain. If these powers were to be exercised (or if there was a suggestion that they could be exercised) in respect of the bank, such exercise would likely have a material adverse effect on the value of debt investments in the bank, including a potential loss of some or all of such investment. Furthermore, the suggestion that such powers were to be exercised could also have an adverse impact on the value of such investments.

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STRATEGIC REPORT (continued)

5. Principal Risks and Uncertainties (continued)

The bank is also subject to laws and regulations relating to the privacy of the information of clients, employees or others, and any failure to comply with these regulations could expose the bank to liability and/or reputational damage. In addition, the bank's businesses are increasingly subject to laws and regulations relating to surveillance, encryption and data on-shoring in the jurisdictions in which the bank operates. Compliance with these laws and regulations may require the bank to change its policies, procedures and technology for information security, which could, among other things, make the bank more vulnerable to cyber attacks and misappropriation, corruption or loss of information or technology.

Increasingly, regulators and courts have sought to hold financial institutions liable for the misconduct of their clients where such regulators and courts have determined that the financial institution should have detected that the client was engaged in wrongdoing, even though the financial institution had no direct knowledge of the activities engaged in by its client. Regulators and courts have also increasingly found liability as a "control person" for activities of entities in which financial institutions or funds controlled by financial institutions have an investment, but which they do not actively manage. In addition, regulators and courts continue to seek to establish "fiduciary" obligations to counterparties to which no such duty had been assumed to exist. To the extent that such efforts are successful, the cost of, and liabilities associated with, engaging in brokerage, clearing, market-making, prime brokerage, investing and other similar activities could increase significantly.

Market Volatility

Certain market-making activities depend on market volatility to provide trading and arbitrage opportunities to clients and decreases in volatility may reduce these opportunities and adversely affect the results of these activities. In contrast, increased volatility, whilst it can increase trading volumes and spreads, also increases risk as measured by Value-at-Risk (VaR) and may expose the bank to increased risks in connection with market-making activities or cause the bank to reduce its market-making positions to avoid increasing VaR. Limiting the size of such market-making positions can adversely affect the bank's profitability. In periods when volatility is increasing, but asset values are declining significantly, it may not be possible to sell assets at all or it may only be possible to do so at steep discounts. In such circumstances, the bank may be forced to either take on additional risk or to realise losses in order to decrease its VaR. In addition, increases in volatility increase the level of the bank's risk-weighted assets (RWAs), which increases the bank's capital requirements.

Liquidity

Liquidity is essential to the bank's businesses. The bank's liquidity could be impaired by an inability to access secured and/or unsecured debt markets, an inability to access funds from Group Inc. or other affiliates, an inability to sell assets or redeem investments or unforeseen outflows of cash or collateral. This situation may arise due to circumstances that the bank may be unable to control, such as a general market disruption or an operational problem that affects third parties or the bank or its affiliates or even by the perception amongst market participants that the bank, or other market participants, are experiencing greater liquidity risk.

Further, the bank's ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis or in response to changes to rules or regulations. In addition, financial institutions with which the bank interacts may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair the bank's access to liquidity.

Concentration of Risk

Concentration of risk increases the potential for significant losses in market-making, underwriting, and investing activities. The number and size of such transactions may affect the bank's results of operations in a given period. Moreover, because of concentration of risk, the bank may suffer losses even when economic and market conditions are generally favourable for competitors. Disruptions in the credit markets can make it difficult to hedge these credit exposures effectively or economically.

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STRATEGIC REPORT (continued)

5. Principal Risks and Uncertainties (continued)

Credit Quality

The bank is exposed to the risk that third parties who owe money, securities or other assets will not perform their obligations. These parties may default on their obligations to the bank due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect the bank.

The bank is also subject to the risk that its rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations are held by the bank, including a deterioration in the value of collateral posted by third parties to secure their obligations to the bank under derivatives contracts and loan agreements, could result in losses and/or adversely affect the bank's ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes.

A significant downgrade in the credit ratings of the bank's counterparties could also have a negative impact on the bank's results. While in many cases the bank is permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral the bank is entitled to receive and the value of pledged assets. The termination of contracts and the foreclosure on collateral may subject the bank to claims for the improper exercise of its rights. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

Derivative Transactions

The bank is party to a number of derivative transactions, including credit derivatives. Many of these derivative instruments are individually negotiated and non-standardised, which can make exiting, transferring or settling positions difficult. Many credit derivatives require that the bank deliver to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, the bank does not hold the underlying security, loan or other obligation and may not be able to obtain the underlying security, loan or other obligation. This could cause the bank to forfeit the payments due under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to the bank.

Derivative transactions may also involve the risk that documentation has not been properly executed, that executed agreements may not be enforceable against the counterparty, or that obligations under such agreements may not be able to be netted against other obligations with such counterparty. In addition, counterparties may claim that such transactions were not appropriate or authorised.

Derivative contracts and other transactions entered into with third parties are not always confirmed by the counterparties or settled on a timely basis. While the transaction remains unconfirmed or during any delay in settlement, the bank is subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce its rights. In addition, as new complex derivative products are created, covering a wider array of underlying credit and other instruments, disputes about the terms of the underlying contracts could arise, which could impair the bank's ability to effectively manage its risk exposures from these products and subject it to increased costs. The provisions of legislation requiring central clearing of credit derivatives and other over-the-counter (OTC) derivatives, or a market shift toward standardised derivatives, could reduce the risk associated with such transactions, but under certain circumstances could also limit the bank's ability to develop derivatives that best suit the needs of clients and to hedge its own risks, and could adversely affect the bank's profitability and increase credit exposure to such a platform.

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STRATEGIC REPORT (continued)

5 Principal Risks and Uncertainties (continued)

Operational Infrastructure

The bank's businesses are highly dependent on its ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, and occur at high volumes and frequencies, across numerous and diverse markets in many currencies. These transactions, as well as information technology services provided to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards.

Many rules and regulations worldwide govern the bank's obligations to report transactions to regulators, exchanges and investors. Compliance with these legal and reporting requirements can be challenging, and the bank and other financial institutions have been subject to regulatory fines and penalties for failing to report timely, accurate and complete information. As reporting requirements expand, compliance with these rules and regulations has become more challenging.

As the bank's client base and geographical reach expands, and the volume, speed, frequency and complexity of transactions, especially electronic transactions (as well as the requirements to report such transactions on a real-time basis to clients, regulators and exchanges) increases, developing and maintaining operational systems and infrastructure becomes more challenging, and the risk of systems or human error in connection with such transactions increases, as well as the potential consequences of such errors due to the speed and volume of transactions involved and the potential difficulty associated with discovering such errors quickly enough to limit the resulting consequences.

Financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the bank's control, such as a spike in transaction volume, adversely affecting the bank's ability to process these transactions or provide these services. The bank must continuously update these systems to support its operations and growth and to respond to changes in regulations and markets, and invest heavily in systemic controls and training to ensure that such transactions do not violate applicable rules and regulations or, due to errors in processing such transactions, adversely affect markets, clients and counterparties or the bank itself.

Systems enhancements and updates, as well as the requisite training, including in connection with the integration of new businesses, entail significant costs and create risks associated with implementing new systems and integrating them with existing ones.

Notwithstanding the proliferation of technology and technology-based risk and control systems, the bank's businesses ultimately rely on human beings as their greatest resource, and from time-to-time, mistakes are made that are not always caught immediately by technological processes or by other procedures which are intended to prevent and detect such errors. These can include calculation errors, mistakes in addressing emails, errors in software development or implementation, or simple errors in judgement. The bank strives to eliminate such human errors through training, supervision, technology and by duplicate or overlapping processes and controls. Human errors, even if promptly discovered and remediated, can result in material losses and liabilities for the bank.

In addition, the bank faces the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries that it uses to facilitate securities and derivatives transactions, and as interconnectivity with clients grows, the bank will increasingly face the risk of operational failure with respect to clients' systems.

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STRATEGIC REPORT (continued)

5. Principal Risks and Uncertainties (continued)

Despite the resiliency plans and facilities that are in place, the bank's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports its businesses and the communities in which the bank is located. This may include a disruption involving electrical, satellite, undersea or other communications, internet, transportation or other services facilities used by the bank or third parties with which the bank conducts business, including cloud service providers. These disruptions may occur as a result of events that affect only the bank's buildings or systems or those of such third parties, or as a result of events with a broader impact globally, regionally or in the cities where those buildings or systems are located, including, but not limited to, natural disasters, war, civil unrest, terrorism, economic or political developments, pandemics and weather events.

Technology

Technology is fundamental to the bank's businesses and industry. The growth of electronic trading and the introduction of new technologies is changing these businesses and presenting the bank with new challenges. Securities, futures and options transactions are increasingly occurring electronically, both on the bank's own systems and through other alternative trading systems, and it appears that the trend toward alternative trading systems will continue. Some of these alternative trading systems compete with the bank's businesses, particularly the bank's exchange-based market-making activities, and the bank may experience continued competitive pressures in these and other areas. In addition, the increased use by clients of low-cost electronic trading systems and direct electronic access to trading markets could cause a reduction in commissions and spreads. As clients increasingly use the bank's systems to trade directly in the markets, the bank may incur liabilities as a result of their use of the bank's order routing and execution infrastructure. Significant resources have been invested into the development of electronic trading systems and the bank expects to continue to do so, but there is no assurance that the revenues generated by these systems will yield an adequate return on this investment, particularly given the generally lower commissions arising from electronic trades.

Cyber Security

The bank's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. There have been several recent highly publicised cases involving financial services and consumer-based companies reporting the unauthorised disclosure of client or customer information in recent years, as well as cyber attacks involving the dissemination, theft and destruction of corporate information or other assets, as a result of failure to follow procedures by employees or contractors or as a result of actions by third-parties, including actions by foreign governments.

The bank is regularly the target of attempted cyber attacks, including denial-of-service attacks, and must continuously monitor and develop its systems to protect its technology infrastructure and data from misappropriation or corruption. In addition, due to the interconnectivity with third-party vendors, central agents, exchanges, clearing houses and other financial institutions, the bank could be adversely impacted if any of them is subject to a successful cyber attack or other information security event.

Despite the bank's efforts to ensure the integrity of its systems and information, it may not be able to anticipate, detect or implement effective preventive measures against all cyber threats, especially because the techniques used are increasingly sophisticated, change frequently and are often not recognised until launched. Cyber attacks can originate from a variety of sources, including third parties who are affiliated with foreign governments or are involved with organised crime or terrorist organisations. Third parties may also attempt to place individuals within the bank or induce employees, clients or other users of the bank's systems to disclose sensitive information or provide access to the bank's data or that of its clients, and these types of risks may be difficult to detect or prevent.

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STRATEGIC REPORT (continued)

5. Principal Risks and Uncertainties (continued)

Although the bank takes protective measures and endeavours to modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorised access, misuse, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardise the bank or its clients' or counterparties' confidential and other information processed and stored in, and transmitted through, the bank's computer systems and networks, or otherwise cause interruptions or malfunctions in the bank's, its clients', its counterparties' or third parties' operations, which could impact their ability to transact with the bank or otherwise result in significant losses or reputational damage.

The increased use of mobile and cloud technologies can heighten these and other operational risks. The bank expects to expend significant additional resources on an ongoing basis to modify protective measures and to investigate and remediate vulnerabilities or other exposures, but these measures may be ineffective and the bank may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance it maintains. Certain aspects of the security of such technologies are unpredictable or beyond the bank's control, and the failure by mobile technology and cloud service providers to adequately safeguard their systems and prevent cyber attacks could disrupt the bank's operations and result in misappropriation, corruption or loss of confidential and other information. In addition, there is a risk that encryption and other protective measures, despite their sophistication, may be defeated, particularly to the extent that new computing technologies vastly increase the speed and computing power available.

The bank routinely transmits and receives personal, confidential and proprietary information by email and other electronic means. The bank has discussed and worked with clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against cyber attacks, but does not have, and may be unable to put in place, secure capabilities with all of its clients, vendors, service providers, counterparties and other third parties and it may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a client, vendor, service provider, counterparty or other third party could result in legal liability, regulatory action and reputational harm.

Risk Management

The bank seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate, but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. The bank's risk management process seeks to balance its ability to profit from market-making positions with its exposure to potential losses. Whilst the bank employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, the bank may, in the course of its activities, incur losses. Market conditions in recent years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

New Business Initiatives

The bank faces enhanced risks as new business initiatives lead it to transact with a broader array of clients and counterparties and expose it to new asset classes and new markets. A number of the bank's recent and planned business initiatives and expansions of existing businesses may bring it into contact, directly or indirectly, with individuals and entities that are not within the bank's traditional client and counterparty base and expose it to new asset classes and new markets. For example, the bank continues to transact business and invest in new regions, including a wide range of emerging and growth markets.

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

STRATEGIC REPORT (continued)

5 Principal Risks and Uncertainties (continued)

New business initiatives expose the bank to new and enhanced risks, including risks associated with dealing with governmental entities, reputational concerns arising from dealing with less sophisticated counterparties and investors, greater regulatory scrutiny of these activities, increased credit-related, market, sovereign and operational risks, risks arising from accidents or acts of terrorism, and reputational concerns with the manner in which these assets are being operated or held or in which the bank interacts with these counterparties

Conflicts of Interest

A failure to appropriately identify and address potential conflicts of interest could adversely affect the bank's businesses. Due to the broad scope of GS Group's businesses and client base, the bank regularly addresses potential conflicts of interest, including situations where services to a particular client or GS Group's own investments or other interests conflict, or are perceived to conflict, with the interests of another client, as well as situations where one or more of its businesses have access to material non-public information that may not be shared with other businesses within GS Group and situations where it may be a creditor of an entity with which GS Group also has an advisory or other relationship.

Extensive procedures and controls are in place that are designed to identify and address conflicts of interest, including those designed to prevent the improper sharing of information among businesses. However, appropriately identifying and dealing with conflicts of interest is complex and difficult, and the bank's reputation, which is one of its most important assets, could be damaged and the willingness of clients to enter into transactions with the bank may be affected if it fails, or appears to fail, to identify, disclose and deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions.

Unforeseen or Catastrophic Events

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic, such as the Ebola or Zika viruses, or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, could create economic and financial disruptions, and could lead to operational difficulties (including travel limitations) that could impair the bank's ability to manage its businesses and result in losses.

6. 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 December 2015		
	Fitch	Moody's	S&P
Short-term Debt	F1	P-1	A-1
Long-term Debt	A	A1	A
Short-term Bank Deposits	F1	P-1	N/A
Long-term Bank Deposits	A	A1	N/A
Ratings Outlook	Positive	Stable	Watch Positive

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

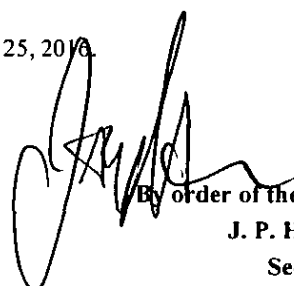
STRATEGIC REPORT (continued)

7 Leverage Ratio

CRD IV, as amended by the European Commission Delegated Act (the Delegated Act), introduced a new leverage ratio, which compares CRD IV's definition of Tier 1 capital to a measure of leverage exposure, defined as the sum of assets less Tier 1 capital deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures, securities financing transactions and commitments. The Delegated Act does not currently include a minimum leverage ratio requirement, however, the Basel Committee has proposed a minimum requirement of 3%. Any required minimum ratio is expected to become effective for the bank on January 1, 2018. As of December 2015, the bank had a leverage ratio of 12.9%. This leverage ratio is based on the bank's current interpretation and understanding of this rule and may evolve as its interpretation and application is discussed with the bank's regulators.

8. Date of Authorisation of Issue

The strategic report was authorised for issue by the Board of Directors on April 25, 2016.


By order of the board
J. P. Herman
Secretary
April 25, 2016

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

Part II: Directors' Report and Audited Financial Statements

GOLDMAN SACHS INTERNATIONAL BANK

(unlimited company)

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended December 2015

1 Introduction

In accordance with section 414A of the Companies Act 2006, the directors have prepared a strategic report, which is included in Part I of this annual report and which contains a review of the bank's businesses and a description of the principal risks and uncertainties facing the bank. The directors have chosen to make reference to the future outlook of the bank in the strategic report in accordance with section 414C(11) of the Companies Act 2006. The bank's risk management objectives and policies, including exposures to market risk, credit risk and liquidity risk, are described in Note 25 to the financial statements.

2 Dividends

The directors do not recommend the payment of an ordinary dividend for 2015. No dividends were paid in 2014.

3 Exchange Rate

The British pound/U.S. dollar exchange rate was £/\$1.4732 and £/\$1.5579 as of December 2015 and December 2014, respectively. The average rate for the year was £/\$1.5252 and £/\$1.6455 for 2015 and 2014, respectively.

4. Employment of Disabled Persons

Applications for employment by disabled persons are fully and fairly considered with regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within GS Group. Training, career development and promotion of disabled persons are, to the extent possible, identical to that of other employees who are not disabled.

5 Employee Involvement

It is GS Group policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be consulted on and involved in decisions that affect their current jobs or future prospects. Employees share in performance-based incentive schemes.

6. Disclosure of Information to Auditors

In the case of each of the persons who are directors of the bank at the date when this report was approved:

- So far as each of the directors is aware, there is no relevant audit information of which the bank's auditors are unaware, and
- Each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the bank's auditors are aware of that information.

7. Independent Auditors

Prior to 1 October 2007, the bank passed an elective resolution under section 386 of the Companies Act 1985 to dispense with the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the bank pursuant to section 487(2) of the Companies Act 2006 and paragraph 44 of Schedule 3 to the Companies Act 2006 (Commencement No. 3 Consequential Amendment, Transitional Provisions and Savings) Order 2007.

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

DIRECTORS' REPORT (continued)

8 Statement of Directors' Responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the bank as at the end of the financial period and of the profit or loss of the bank for that period. In preparing those accounts, the directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements, and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the bank will continue in business

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the bank and to enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the bank and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the bank's financial statements on the Goldman Sachs website. Legislation in the U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

9 Directors

The directors of the bank who served throughout the year and to the date of this report, except where noted, were

Name	Appointed	Resigned
E. G. Corrigan, Chairman		
Lord Grabiner	March 3, 2016	
Lord Griffiths of Fforestfach		
E. H. Leouzon		
D. W. McDonogh		
T. L. Miller	August 4, 2015	
D. G. J. Paterson		
E. E. Stecher		
R. A. Vince		October 1, 2015
D. D. Wildermuth		

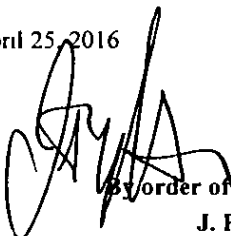
No director had, at the year end, any interest requiring note herein.

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

DIRECTORS' REPORT (continued)

10. Date of Authorisation of Issue

The financial statements were authorised for issue by the Board of Directors on April 25, 2016



By order of the board
J. P. Herman
Secretary
April 25, 2016

**Independent Auditor's Report to the Members of
GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)**

Report on the financial statements

Our opinion

In our opinion, Goldman Sachs International Bank's financial statements (the "financial statements")

- give a true and fair view of the state of the bank's affairs as of December 31, 2015 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

What we have audited

The financial statements, included within the Annual Report, comprise

- the Balance Sheet as of December 31, 2015,
- the Profit and Loss Account and Statements of Comprehensive Income for the year then ended,
- the Statements of Changes in Equity for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice)

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility.

Independent Auditor's Report to the Members of GOLDMAN SACHS INTERNATIONAL BANK (unlimited company)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the bank's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Duncan McNab (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT
April 25, 2016

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

PROFIT AND LOSS ACCOUNT

year ended December 2015

		Year Ended December 2015	Year Ended December 2014
	Note	\$'000	\$'000
Interest receivable and similar income	7	114,580	77,953
Interest payable and similar charges	8	(90,951)	(88,378)
Net interest income/(expense)		23,629	(10,425)
Trading profit	6	256,728	98,315
TOTAL OPERATING INCOME	5	280,357	87,890
Administrative expenses	9	(92,823)	(75,636)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		187,534	12,254
Tax on profit on ordinary activities	13	(44,126)	(1,022)
PROFIT FOR THE FINANCIAL YEAR		143,408	11,232

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

STATEMENTS OF COMPREHENSIVE INCOME

year ended December 2015

	Year Ended December 2015	Year Ended December 2014
	\$'000	\$'000
Profit for the financial year	143,408	11,232
OTHER COMPREHENSIVE LOSS		
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		
Translation loss	(12,774)	(8,674)
Gain on net investment hedge	10,467	4,246
OTHER COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR	(2,307)	(4,428)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	141,101	6,804

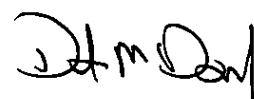
The accompanying notes are an integral part of these financial statements

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

BALANCE SHEET
as of December 2015

	Note	December 2015 \$'000	December 2014 \$'000
ASSETS			
Cash at bank and in hand		289,437	115,919
Customer accounts receivable	14	2,748,390	1,813,812
Financial instruments owned (includes \$7,124,105 and \$7,234,608 pledged as collateral as of December 2015 and December 2014, respectively)	15	12,216,567	16,349,676
Collateralised agreements with group undertakings	16	24,818,466	22,697,712
Tangible fixed assets	17	795	727
Other assets	18	859,264	806,779
TOTAL ASSETS		40,932,919	41,784,625
LIABILITIES AND SHAREHOLDER'S FUNDS			
Customer accounts payable	20	15,515,407	11,482,379
Deposits by banks		1,955,165	3,292,680
Financial instruments sold, but not yet purchased	15	8,822,978	13,005,360
Collateralised financings with group undertakings		9,588,216	8,965,595
Other liabilities	21	1,416,446	1,544,823
Long-term subordinated loans from group undertakings	22	826,000	826,182
TOTAL LIABILITIES		38,124,212	39,117,019
Called up share capital	23	62,558	62,558
Share premium account		2,094,303	2,094,303
Cumulative translation reserve		(21,884)	(19,577)
Profit and loss account		673,730	530,322
TOTAL SHAREHOLDER'S FUNDS		2,808,707	2,667,606
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		40,932,919	41,784,625
MEMORANDUM ITEMS			
Commitments	24	4,846,104	4,681,295
Contingent liabilities	24	1,215,544	2,415,156

The financial statements were approved by the Board of Directors on April 25, 2016 and signed on its behalf by



D. W. McDonogh
Director

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

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

STATEMENTS OF CHANGES IN EQUITY
year ended December 2015

	Called up share capital \$'000	Share premium account \$'000	Cumulative translation reserve \$'000	Profit and loss account \$'000	Total shareholder's funds \$'000
Balance, beginning of 2015	62,558	2,094,303	(19,577)	530,322	2,667,606
Profit for the financial year	-	-	-	143,408	143,408
Other comprehensive loss	-	-	(2,307)	-	(2,307)
Total comprehensive income for the financial year	62,558	2,094,303	(21,884)	673,730	2,808,707
Share-based payments	-	-	-	859	859
Management recharge related to share-based payments	-	-	-	(859)	(859)
Balance, end of 2015	62,558	2,094,303	(21,884)	673,730	2,808,707

	Called up share capital \$'000	Share premium account \$'000	Cumulative translation reserve \$'000	Profit and loss account \$'000	Total shareholder's funds \$'000
Balance, beginning of 2014	62,558	2,094,303	(15,149)	519,090	2,660,802
Profit for the financial year	-	-	-	11,232	11,232
Other comprehensive loss	-	-	(4,428)	-	(4,428)
Total comprehensive income for the financial year	62,558	2,094,303	(19,577)	530,322	2,667,606
Share-based payments	-	-	-	229	229
Management recharge related to share-based payments	-	-	-	(229)	(229)
Balance, end of 2014	62,558	2,094,303	(19,577)	530,322	2,667,606

No dividends were paid in 2015 and 2014.

The accompanying notes are an integral part of these financial statements

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

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 Report on Form 10-Q and 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/.

Basel III Pillar 3 Disclosures

The bank is included in the consolidated Pillar 3 disclosures of GSGUK, which are required by the EU Capital Requirements Regulation. GSGUK's 2015 Pillar 3 disclosures will be made available in conjunction with the publication of its financial statements at www.goldmansachs.com/disclosures/.

Country-by-Country Reporting

The bank is included in the consolidated country-by-country reporting disclosures of GSGUK, which are required by the Capital Requirements (Country-by-Country Reporting) Regulations 2013. GSGUK's 2015 country-by-country disclosures will be made available by December 31, 2016 at www.goldmansachs.com/disclosures/.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

For all periods up to and including the year ended December 2014, the bank prepared its financial statements in accordance with the previous UK GAAP. From January 1, 2015, the bank transitioned from the previous UK GAAP to FRS 101 'Reduced Disclosure Framework' (FRS 101). These financial statements are for the first full annual period covered by FRS 101. All periods presented in these financial statements have been prepared in accordance with FRS 101. The impact on the bank's financial statements as a result of adopting FRS 101 is described in Note 4.

These financial statements have been prepared on the going concern basis, under the historical cost convention (modified as explained in "Financial Assets and Financial Liabilities" below), and in accordance with the Companies Act 2006.

The following exemptions from the disclosure 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. These disclosures are provided in the consolidated financial statements of Group Inc.
- 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)

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a Basis of Presentation (continued)

- IAS 1 'Presentation of Financial Statements' paragraphs 10(f), 16, and 40A-D,
- IAS 7 'Statement of Cash Flows',
- 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 GS Group

b. Accounting Policies

Revenue Recognition. Total operating income, comprises revenues from market making in European government bonds, client execution activities, lending and deposit taking activities, and securities lending

Financial assets and financial liabilities held for trading or designated at fair value through profit or loss are recognised at fair value with realised and unrealised gains and losses as well as associated interest and expenses included in total operating income. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

Non-derivative financial instruments owned and financial instruments sold, but not yet purchased (i.e., cash instruments) are recognised using settlement date accounting. See "Financial Assets and Financial Liabilities – Recognition and Derecognition" below for further details. Unrealised gains and losses related to the change in the fair value of these instruments between trade date and settlement date are recognised within trading profit.

Loans and receivables, and financial liabilities measured at amortised cost are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. Finance revenue is recorded in interest receivable and similar income. Finance costs, including discounts allowed on issue, are recorded in interest payable and similar charges.

Commission revenues from securities lending are recognised on the day the trade is executed.

Operating Leases. The bank has entered into operating lease arrangements as the lessee. Leased assets are not recognised on the balance sheet. Costs in respect of operating leases, adjusted for any incentives granted by the lessor, are charged on a straight-line basis over the lease term and included within administrative expenses in the profit and loss account.

Short-Term Employee Benefits. Short-term employee benefits, such as wages and salaries, are measured on an undiscounted basis and accrued as an expense over the period in which the employee renders the service to the bank. Provision is made for discretionary year-end compensation whether to be paid in cash or share-based awards where, as a result of bank policy and past practice, a constructive obligation exists at the balance sheet date.

Share-Based Payments. Group Inc. issues awards in the form of restricted stock units (RSUs) to the bank's employees for services rendered to the bank. Awards are classified as equity settled and hence the cost of share-based transactions with employees is measured based on the grant-date fair value of the award. Share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement eligible employees) are expensed immediately. Share-based awards that require future service are amortised over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense.

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Accounting Policies (continued)

Group Inc settles equity awards through the delivery of its ordinary shares. Group Inc pays cash dividend equivalents on outstanding RSUs. The bank has also entered into a chargeback agreement with Group Inc under which it is committed to pay to Group Inc the grant-date fair value as well as subsequent movements in fair value of those awards to Group Inc at the time of delivery to its employees.

Dividends. Final equity dividends are recognised as a liability and deducted from equity in the period in which the dividends are approved by the bank's shareholder. Interim equity dividends are recognised and deducted from equity when paid.

Pension Arrangements. The bank is a sponsor of a defined contribution pension plan. The contributions payable for the year are charged to administrative expenses. Differences between contributions payable for the year and contributions actually paid are shown as either accruals or prepayments on the balance sheet.

Tangible Fixed Assets. Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. Fixtures, fittings and equipment are depreciated on a straight-line basis over their estimated useful lives, which is between 3 to 7 years. Depreciation is included in administrative expenses.

Leasehold improvements are depreciated over the shorter of the useful economic life of the asset or the remaining life of the lease when the asset is brought into use. Depreciation policies are reviewed on an annual basis.

Cash at Bank and In Hand. Cash at bank and in hand is highly liquid overnight deposits held in the ordinary course of business.

Foreign Currencies. The bank's financial statements are presented in U.S. dollars, which is also the bank's functional currency.

Transactions denominated in foreign currencies are translated into U.S. dollars at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at rates of exchange ruling at the balance sheet date. Foreign exchange gains and losses are recognised in trading profit.

The results of branches and representative offices with non-U.S. dollar functional currencies are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising from the retranslation of their balance sheet and results are reported in the statements of changes in equity.

Net Investment Hedging. Where net investment hedging is employed, all gains and losses on the effective portion of the hedging instrument, together with any gains and losses on the foreign currency translation of the hedge investment, are taken directly to the statements of changes in equity. Any gains or losses on the ineffective portion are recognised immediately in the profit and loss account. The cumulative gains and losses on the hedging instrument and gains and losses on the translation of the hedged investment are recognised in the profit and loss account only on liquidation of the investment.

Financial Assets and Financial Liabilities.

Recognition and Derecognition

Non-derivative financial instruments owned and financial instruments sold, but not yet purchased (i.e., cash instruments) purchased or sold in regular way transactions are recognised and derecognised using settlement date accounting.

GOLDMAN SACHS INTERNATIONAL BANK
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b Accounting Policies (continued)

Other financial assets and financial liabilities are recognised when the bank becomes party to the contractual provisions of the instrument. They are de-recognised when the contractual rights to the cash flows from the financial asset expire or if the bank transfers the financial asset and substantially all the risk and rewards of ownership of that financial asset. A financial liability is derecognised only when it is extinguished (i.e., when the obligation specified in the contract is discharged or cancelled or expires).

Classification and Measurement

The bank classifies its financial assets and financial liabilities into the below categories. The classification, which is determined at initial recognition, depends on the purpose for which they were acquired or originated.

- **Financial assets and financial liabilities classified as held for trading.** Financial assets and financial liabilities classified as held for trading include financial instruments owned and financial instruments sold, but not yet purchased. Financial instruments owned and financial instruments sold, but not yet purchased include cash instruments and derivative instruments. Both are initially recognised at fair value with transaction costs expensed in profit or loss. Such financial instruments are carried in the balance sheet at fair value and all subsequent gains or losses are recognised in trading profit.

The directors are of the opinion that it would not be appropriate to classify them as current asset investments or to provide an analysis of such securities between those listed and unlisted.

- **Financial assets and financial liabilities designated at fair value through profit or loss.** The bank designates certain of its other financial assets and financial liabilities at fair value through profit or loss. Financial assets and financial liabilities designated at fair value through profit or loss are initially recognised at fair value with transaction costs expensed in profit or loss. They are measured in the balance sheet at fair value and all subsequent gains or losses are recognised in trading profit. The primary reasons for designating such financial assets and financial liabilities at fair value through profit or loss are:
 - The group of financial assets, financial liabilities or both is managed and its performance evaluated on a fair value basis, and
 - To eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets and financial liabilities designated at fair value through profit or loss include

- Securities purchased under agreements to resell (resale agreements), other secured lending arrangements and securities sold under agreements to repurchase (repurchase agreements),
- Certain balances related to lending activities included in customer accounts receivable,
- Certain balances related to deposit taking activities included in customer accounts payable and deposits by banks, and
- Certain unsecured debt securities issued, including certain hybrid financial instruments.

Hybrid financial instruments are instruments that contain bifurcable embedded derivatives. If the bank elects to bifurcate the embedded derivative from the associated debt, the derivative is accounted for at fair value and the host contract is accounted for at amortised cost, adjusted for the effective portion of any fair value hedges. If the bank does not elect to bifurcate, the entire hybrid financial instrument is designated at fair value through profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Accounting Policies (continued)

These financial assets and financial liabilities at fair value are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified as level 2 because the inputs are observable. Valuation adjustments may be made for liquidity and for counterparty and GS Group's credit quality.

- **Loans and receivables; and financial liabilities measured at amortised cost.** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include all cash at bank and in hand, certain customer accounts receivable and substantially all other assets. Such financial assets are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method (see below). Finance revenue is recorded in interest receivable and similar income.

Financial liabilities measured at amortised cost include certain customer accounts payable, certain other liabilities and all long-term subordinated loans from group undertakings. Such financial liabilities are initially recognised at fair value plus transactions costs and subsequently measured at amortised cost using the effective interest method (see below). Finance costs, including discounts allowed on issue, are recorded in interest payable and similar charges.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial asset or financial liability but does not consider future credit losses. The calculation includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The bank assesses its loans and receivables at each balance sheet date for any objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is included within trading profit, if trading related, or in administrative expenses if non-trading related.

Classification of Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet where there is

- Currently a legally enforceable right to set-off the recognised amounts, and
- Intent to settle on a net basis or to realise the asset and settle the liability simultaneously.

Where these conditions are not met, financial assets and financial liabilities are presented on a gross basis on the balance sheet.

GOLDMAN SACHS INTERNATIONAL BANK
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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b Accounting Policies (continued)

Fair Value Measurement

See Note 26 for details regarding the fair value measurement of the bank's financial assets and financial liabilities

Hedge Accounting

The bank applies fair value hedge accounting for certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate customer deposits. To qualify for hedge accounting, the derivative hedge must be highly effective at reducing the risk from the exposure being hedged. Additionally, the bank must formally document the hedging relationship at inception and test the hedging relationship to ensure the derivative hedge continues to be highly effective over the life of the hedging relationship.

Collateralised Agreements and Collateralised Financings. Collateralised agreements include resale agreements and other secured lending arrangements. Collateralised financings include repurchase agreements. See "Classification and Measurement" above about the classification and measurement of these instruments. Collateral received or posted can be in the form of cash or securities. Cash collateral is recognised/derecognised when received/paid. Collateral posted by the bank in the form of securities is not derecognised from the balance sheet, whilst collateral received in the form of securities is not recognised on the balance sheet. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet.

Current and Deferred Taxation. The tax expense for the period comprises current and deferred taxation. Tax is recognised in the profit and loss account.

Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the bank operates and generates taxable income. Deferred tax is recognised in respect of all temporary differences that have originated, but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax or a right to pay less tax in the future with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.
- Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Provisions, Contingent Liabilities and Contingent Assets. Provisions are recognised in the financial statements when it is probable that an outflow of economic benefits will be required to settle a present (legal or constructive) obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Legal obligations that may arise as a result of proposed new laws are recognised as obligations only when the legislation is virtually certain to be enacted as drafted.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the bank or a present obligation that arises from past events but is not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the bank. Contingent assets are not recognised in the financial statements. However, disclosure is made unless the probability of settlement is remote.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 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.

Deferred Tax

The bank has recognised a deferred tax asset (see Note 19) which requires judgement for determining the extent of its recoverability at each reporting date. The bank assesses recoverability with reference to forecasts of future taxable profits. These forecasts require the use of assumptions and estimates. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

Fair Value Measurement

Certain of the bank's financial assets and financial liabilities include significant unobservable inputs (i.e., level 3). See Note 26 for information about the carrying value, valuation techniques and significant inputs of these instruments.

Provision for Impairment of Bank Loans Held at Amortised Cost

The provision for impairment of bank loans held at amortised cost (see Note 21) is determined using various inputs, including industry default and loss data, current macroeconomic indicators, borrower's capacity to meet its financial obligations, borrower's country of risk, loan seniority, and collateral type. Management's estimate of losses entails judgements about loan collectability based on information at the reporting dates, and there are uncertainties inherent in those judgements.

4. FIRST-TIME ADOPTION OF FRS 101

As set out in Note 2, these financial statements are for the first full annual period covered by FRS 101.

The accounting policies set out in Note 2 have been used in the preparation of all periods in these financial statements.

The following describes the impact to the bank's financial statements as a result of adopting FRS 101 and consequential changes to accounting policies.

Reconciliation of Equity

The table below presents a comparison of the bank's balance sheet under the previous U.K. GAAP and FRS 101 as of January 1, 2014 (the bank's opening balance sheet) and December 2014. See "FRS 101 Reconciliation Notes" below for an explanation of each transition adjustment.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

4 FIRST-TIME ADOPTION OF FRS 101 (continued)

		As of January 1, 2014			As of December 31, 2014		
		Previous U.K. GAAP \$'000	Adjustments on transition \$'000	FRS 101 \$'000	Previous U.K. GAAP \$'000	Adjustments on transition \$'000	FRS 101 \$'000
Note							
ASSETS							
		128,808	-	128,808	115,919	-	115,919
		5,302,257	(2,641,811)	2,660,446	3,309,526	(1,495,714)	1,813,812
		16,249,215	308,724	16,557,939	17,192,602	(842,926)	16,349,676
		25,929,110	(225,985)	25,703,125	22,709,036	(11,324)	22,697,712
		641	-	641	727	-	727
		17,464	65,487	82,951	742,004	64,775	806,779
		47,627,495	(2,493,585)	45,133,910	44,069,814	(2,285,189)	41,784,625
LIABILITIES AND SHAREHOLDER'S FUNDS							
		11,903,565	(2,293,617)	9,609,948	13,851,605	(2,369,226)	11,482,379
		2,528,745	-	2,528,745	3,292,680	-	3,292,680
		16,368,273	(39,585)	16,328,688	12,974,774	30,586	13,005,360
		11,926,181	(225,985)	11,700,196	8,976,919	(11,324)	8,965,595
		1,479,234	115	1,479,349	1,544,823	-	1,544,823
		826,182	-	826,182	826,182	-	826,182
		45,032,180	(2,559,072)	42,473,108	41,466,983	(2,349,964)	39,117,019
		62,558	-	62,558	62,558	-	62,558
		2,094,303	-	2,094,303	2,094,303	-	2,094,303
		(15,149)	-	(15,149)	(19,577)	-	(19,577)
		453,603	65,487	519,090	465,547	64,775	530,322
		2,595,315	65,487	2,660,802	2,602,831	64,775	2,667,606
		47,627,495	(2,493,585)	45,133,910	44,069,814	(2,285,189)	41,784,625
MEMORANDUM ITEMS							
		1,634,053	1,218	1,635,271	4,680,615	680	4,681,295
		1,898,801	-	1,898,801	2,415,156	-	2,415,156

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

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

Reconciliation of Total Comprehensive Income

The bank's tax on profit on ordinary activities increased by \$712,000 for 2014 as a result of adopting FRS 101. This resulted in profit for the financial year and total comprehensive income for the financial year decreasing by \$712,000 for 2014. See Note C for further details.

FRS 101 Reconciliation Notes

A. Change From Trade Date to Settlement Date Accounting. Following a detailed review of its accounting policies on transition to FRS 101, the bank has changed its accounting policy for regular-way purchases and sales of held for trading non-derivative financial instruments from trade date to settlement date accounting. Under the previous U.K. GAAP and financial statements prepared for interim periods in 2015, regular-way purchases and sales of held for trading non-derivative financial instruments were recorded on a trade date basis.

The bank believes that recognising and derecognising held for trading non-derivative financial instruments on settlement date results in a more relevant and reliable presentation of its financial position. In particular:

- It eliminates the recognition of unsettled receivable and payable balances. This results in a more appropriate representation of the settlement risk inherent in these balances which is minimal due to the delivery vs payment settlement mechanics, which substantially eliminate credit risk for the majority of regular-way trades, and
- This is more consistent with the way these balances are viewed by management and results in more similar balance sheet presentation to the GS Group's U.S. GAAP financial statements for significant subsidiaries.

The change in accounting policy to recognise and derecognise these financial instruments on a settlement date basis did not change the amount or timing of gains and losses recognised in the profit or loss account for these instruments because movements in fair value are still recorded between the trade date and settlement date. The impact of this change is:

- As of January 1, 2014, financial instruments owned and other liabilities increased by \$309 million and \$115,000, respectively. Customer accounts receivable, customer accounts payable and financial instruments sold, but not yet purchased decreased by \$2.64 billion, \$2.29 billion and \$40 million, respectively.
- As of December 31, 2014, financial instruments sold, but not yet purchased increased by \$31 million. Customer accounts receivable, financial instruments owned and customer accounts payable decreased by \$1.50 billion, \$843 million and \$2.37 billion, respectively.

B. Adoption of IAS 32 'Financial Instruments: Presentation'. The bank 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. This resulted in the bank offsetting collateralised agreements with collateralised financings under FRS 101, which were previously presented as gross under the previous U.K. GAAP. The impact of this change is:

- As of January 1, 2014, collateralised agreements and collateralised financings decreased by \$226 million.
- As of December 31, 2014, collateralised agreements and collateralised financings decreased by \$11 million.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

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

C. Adoption of IAS 12 ‘Income Taxes’. Under IAS 12 ‘Income Taxes’, subject to certain exceptions, the bank is required to recognise a deferred tax asset in relation to all deductible temporary differences to the extent that it is probable that future taxable profit will be available to utilise the difference. The bank has recognised a deferred tax asset for unused tax losses as set out below

- As of January 1, 2014, other assets and retained earnings increased by \$65 million
- As of December 31, 2014, other assets and retained earnings increased by \$65 million
- Tax on profit on ordinary activities increased by \$712,000 for 2014

D. Adoption of IAS 17 ‘Leases’. Commitments increased by \$1 million and \$680,000 as of January 1, 2014 and December 2014, respectively, due to the adoption of IAS 17 ‘Leases’. Under the previous U.K. GAAP, only the rentals the bank was committed to pay in the following year in respect of its operating leases were disclosed. These were categorised by the maturity date of the lease. Upon adoption of IAS 17 ‘Leases’, the bank is now required to disclose the total future minimum lease payments payable by year instead.

Disclosures

The adoption of FRS 101 resulted in the bank revising certain disclosures in the notes to the financial statements. These include

- **Level 3 Financial Assets and Financial Liabilities.** The bank has adopted IFRS 13 ‘Fair Value Measurement’, which impacts the classification of its level 3 financial assets and financial liabilities. The bank now classifies certain financial assets and financial liabilities as level 2 (as opposed to level 3) in the fair value hierarchy if the bank has no significant net risk to the level 3 inputs. The impact of this change is:
 - As of January 1, 2014, level 3 financial assets and financial liabilities decreased by \$92 million, with a corresponding increase in level 2
 - As of December 31, 2014, level 3 financial assets and financial liabilities decreased by \$128 million, with a corresponding increase in level 2
- **Tax on Profit on Ordinary Activities.** Under the previous U.K. GAAP, a reconciliation between current tax and the product of profit before taxation multiplied by the applicable tax rate was required. Upon adoption of IAS 12 ‘Income Taxes’ the bank is now required to present a reconciliation between the total tax expense and the product of profit before taxation multiplied by the applicable tax rate.

In addition, FRS 101 has resulted in the bank providing additional disclosures relating to financial assets and financial liabilities due to the adoption of IFRS 7 ‘Financial Instruments Disclosures’ and IFRS 13 ‘Fair Value Measurement’.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

5 SEGMENT REPORTING

The table below categorises the bank's total operating income into business segments

	Year Ended December 2015	Year Ended December 2014
	\$'000	\$'000
Investment Banking	7,712	7,186
Institutional Client Services	259,770	75,272
Investing & Lending	6,122	3,175
Investment Management	6,753	2,257
	280,357	87,890

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 investment activities across various asset classes, primarily bank loans, which are typically longer-term in nature

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

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

The bank operates in two geographically distinct regions, EMEA, the location of the head office, the Frankfurt branch and the Istanbul rep office, and Asia, the location of the Seoul branch and the Beijing rep office. The table below categorises the bank's total operating income into geographic segments. Geographic results have been allocated between EMEA and Asia based on the location of the business

	Year Ended December 2015	Year Ended December 2014
	\$'000	\$'000
EMEA	252,043	75,821
Asia	28,314	12,069
	280,357	87,890

The Seoul branch had total assets of \$3.52 billion (₩4,130.29 billion) and \$4.94 billion (₩5,409.31 billion) as of December 2015 and December 2014, respectively

The Frankfurt branch had total assets of \$100 million (€92 million) and \$nil (€nil) as of December 2015 and December 2014, respectively

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

6 TRADING PROFIT

Trading profit includes trading interest income of \$171 million and \$249 million for 2015 and 2014, respectively, and trading interest expense of \$146 million and \$234 million for 2015 and 2014, 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

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended December 2015 \$'000	Year Ended December 2014 \$'000
Interest on loans to banks and customers	23,101	3,979
Interest on collateralised agreements with group undertakings	73,321	65,144
Interest on loans to group undertakings	18,158	8,830
	114,580	77,953

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended December 2015 \$'000	Year Ended December 2014 \$'000
Interest on loans from banks and customers	50,142	40,614
Interest on long-term subordinated loans from group undertakings (see Note 22)	26,211	24,226
Interest on loans from group undertakings	14,598	23,538
	90,951	88,378

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

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

9. ADMINISTRATIVE EXPENSES

	Year Ended December 2015	Year Ended December 2014
	\$'000	\$'000
Management fees charged by group undertakings (see Note a)	70,978	56,721
Direct costs of employment (see Notes b and 11)	8,635	7,243
Brokerage, clearing and exchange fees	6,945	5,144
Market development	301	776
Communications and technology	498	682
Depreciation of tangible fixed assets (see Note 17)	165	190
Occupancy	963	764
Professional fees (see Note c)	1,706	1,310
Other expenses	2,632	2,806
	92,823	75,636

- a. Management fees charged by group undertakings relate to operational and administrative support, and management services received from group undertakings
- b. Direct costs of employment are in relation to the Seoul branch and representative offices
- c. Professional fees include fees payable to the bank's auditor for the audit of the bank's annual financial statements of \$369,000 and \$290,000 for 2015 and 2014, respectively

10. DIRECTORS' EMOLUMENTS

The table below presents the bank's directors' emoluments

	Year Ended December 2015	Year Ended December 2014
	\$'000	\$'000
Aggregate emoluments	772	662
Company pension contributions to money purchase schemes	2	2
	774	664

The table below presents emoluments for the highest paid director

	Year Ended December 2015	Year Ended December 2014
	\$'000	\$'000
Aggregate emoluments	372	238
Company pension contributions to money purchase schemes	1	1

In accordance with the Companies Act 2006, directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only. This total only includes the value of cash and benefits in kind, and does not include the value of equity awards in accordance with the provisions of Schedule 5 of SI 2008/410. Directors also receive emoluments for non-qualifying services which are not required to be disclosed.

GOLDMAN SACHS INTERNATIONAL BANK
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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

10. DIRECTORS' EMOLUMENTS (continued)

Six directors are members of a defined contribution pension plan and four directors are members of a defined benefit pension plan. Six directors, including the highest paid director, have been granted Group Inc shares in respect of long term incentive schemes during the year. Three directors, including the highest paid director, have exercised options during the year.

11. STAFF COSTS

All persons involved in the bank's operations, other than the Seoul branch and representative offices, are employed by group undertakings. The charges made by these group undertakings, including share-based payments, for all the services provided (personnel and other) to the bank are included in the management fees charged by group undertakings (see Note 9).

The table below presents the Seoul branch and representative offices' average number of employees

	Year Ended December 2015 Average Number	Year Ended December 2014 Average Number
Employees		
Investment Banking	2	-
Institutional Client Services	6	8
Support Functions	23	25
	31	33

Total headcount was 31 and 32 as of December 2015 and December 2014, respectively.

The table below presents employment costs incurred by the bank

	Year Ended December 2015 \$'000	Year Ended December 2014 \$'000
Aggregate gross wages and salaries	7,740	6,385
Employer's National Insurance Contributions	394	335
Pension costs, employer contributions to defined contribution plan	501	523
	8,635	7,243

Direct costs of employment include a charge of \$155,000 and \$81,000 for 2015 and 2014, respectively, relating to the mark-to-market of share-based compensation.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

12 SHARE-BASED PAYMENTS

Stock Incentive Plan

Group Inc sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2015) (2015 SIP), which provides for, amongst others, grants of RSUs and incentive stock options

The Seoul branch and representative offices recorded share-based compensation in respect of the amortisation of granted equity awards, net of forfeitures, of \$859,000 and \$229,000 for 2015 and 2014, respectively. The corresponding credit to equity has been transferred to liabilities as a result of the terms of the chargeback agreement with Group Inc under which the bank is committed to pay to Group Inc the grant-date fair value as well as subsequent movements in fair value of those awards to Group Inc at the time of delivery to its employees

Restricted Stock Units

Group Inc grants RSUs to the Seoul branch and representative offices' employees under the 2015 SIP, which are valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting and delivery transfer restrictions. RSUs generally vest and underlying shares of common stock deliver as outlined in the applicable RSU agreements. Employee RSU agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements.

13. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	Year Ended December 2015	Year Ended December 2014
	\$'000	\$'000
Current tax		
U K corporation tax	33,953	1,378
Adjustments in respect of prior periods	944	(1,968)
Overseas taxation	176	1,094
Total current tax	35,073	504
Deferred tax		
Origination and reversal of temporary differences	4,462	518
Effect of change in U K corporate tax rates	4,591	-
Total deferred tax	9,053	518
Total tax on profit on ordinary activities	44,126	1,022

The Finance (No. 2) Act 2015 was enacted in the fourth quarter of 2015, which introduced (i) an 8 percentage point surcharge on banking profits effective in 2016, (ii) a 1 percentage point reduction in corporate tax rates effective in 2017, and (iii) a further 1 percentage point reduction in corporate tax rates effective in 2020.

The future reductions in corporate tax described in (ii) and (iii) above resulted in the bank recognising a one-time charge of \$5 million relating to the revaluation of its deferred tax asset. The bank will incur the surcharge described in (i) on all future profits including those against which it is able to utilise its unused tax losses.

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13 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The table below presents a reconciliation between tax on profit on ordinary activities and the amount calculated by applying the weighted average rate of U K corporation tax applicable to the bank for the year of 20 25% (2014 21 5%) to the profit on ordinary activities before taxation

	Year Ended December 2015 \$'000	Year Ended December 2014 \$'000
Profit on ordinary activities before taxation	187,534	12,254
Profit on ordinary activities multiplied by U K corporate tax rate of 20 25% (2014 21 5%)	37,976	2,635
Changes in recognition and measurement of deferred tax assets	440	255
Permanent differences	35	94
Exchange differences and other	140	6
Adjustments in respect of prior periods	944	(1,968)
Effect of change in U K corporate tax rates	4,591	-
Total tax on profit on ordinary activities	44,126	1,022

14. CUSTOMER ACCOUNTS RECEIVABLE

	December 2015 \$'000	December 2014 \$'000
Bank loans	1,866,017	428,724
Amounts due from customers	317,269	284,301
Amounts due from group undertakings	565,104	1,100,787
	2,748,390	1,813,812

The following table presents the contractual maturity of customer accounts receivable

	December 2015 \$'000	December 2014 \$'000
Less than three months	882,373	1,385,088
More than three months but less than one year	557,946	-
More than one year but less than five years	266,648	132,746
Greater than five years	1,041,423	295,978
	2,748,390	1,813,812

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

15. 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 financial instruments owned pledged as collateral. These represent financial instruments owned and pledged to counterparties that have the right to deliver or repledge. See Note 26 for further information.

The table below presents the bank's financial instruments owned

	December 2015 \$'000	December 2014 \$'000
Cash instruments		
Government bonds	7,664,493	7,670,661
Bank loans	70,065	204,629
	<u>7,734,558</u>	<u>7,875,290</u>
Derivative instruments		
Interest rates	3,821,704	7,914,260
Currencies	639,287	506,767
Equities	18,840	53,359
Credit	2,178	-
	<u>4,482,009</u>	<u>8,474,386</u>
	<u>12,216,567</u>	<u>16,349,676</u>

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

	December 2015 \$'000	December 2014 \$'000
Cash instruments		
Government bonds	4,437,463	4,460,192
Bank loans	2,031	8,180
	<u>4,439,494</u>	<u>4,468,372</u>
Derivative instruments		
Interest rates	3,684,514	7,848,926
Currencies	672,655	634,703
Equities	18,840	53,359
Credit	7,475	-
	<u>4,383,484</u>	<u>8,536,988</u>
	<u>8,822,978</u>	<u>13,005,360</u>

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16. COLLATERALISED AGREEMENTS WITH GROUP UNDERTAKINGS

	December 2015	December 2014
	\$'000	\$'000
Resale agreements	24,818,466	22,551,467
Other secured lending arrangements	-	146,245
	24,818,466	22,697,712

17. TANGIBLE FIXED ASSETS

	Leasehold improvements	Fixtures, fittings & equipment	Total
	\$'000	\$'000	\$'000
Cost			
As of January 1	1,506	2,438	3,944
Additions	219	101	320
Disposals	-	(191)	(191)
Translation loss	(98)	(149)	(247)
As of December 31	1,627	2,199	3,826
Accumulated depreciation			
As of January 1	965	2,252	3,217
Charge for the year (see Note 9)	77	88	165
Disposals	-	(159)	(159)
Translation gain	(64)	(128)	(192)
As of December 31	978	2,053	3,031
Net book value			
As of December 2015	649	146	795
As of December 2014	541	186	727

18. OTHER ASSETS

	December 2015	December 2014
	\$'000	\$'000
Other amounts due from group undertakings	789,261	729,903
Deferred tax (see Note 19)	56,271	65,282
Other assets	13,732	11,594
	859,264	806,779

Other assets includes financial assets of \$798 million and \$736 million as of December 2015 and December 2014, respectively, and non-financial assets of \$61 million and \$71 million as of December 2015 and December 2014, respectively

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19. DEFERRED TAX

The table below presents the components of the bank's deferred tax asset

	December 2015 \$'000	December 2014 \$'000
Unused tax losses	55,977	64,775
Other timing differences	294	507
	56,271	65,282

Other timing differences are mainly in respect of share-based compensation

The table below presents changes in each component of the bank's deferred tax asset

	December 2015 \$'000	December 2014 \$'000
Unused tax losses		
As of January 1	64,775	65,487
Transfer to the profit and loss account	(8,798)	(712)
As of December 31	55,977	64,775
Other timing differences		
As of January 1	507	329
Transfer to the profit and loss account	(255)	194
Translation gain/(loss)	42	(16)
As of December 31	294	507
Total		
As of January 1	65,282	65,816
Transfer to the profit and loss account (see Note 13)	(9,053)	(518)
Translation gain/(loss)	42	(16)
As of December 31	56,271	65,282

The deferred tax asset is recognised on the basis of estimated future taxable profits over the bank's planning horizon. Having considered the expected performance of the business, the directors are of the opinion that these projections support the recognition of the deferred tax asset.

20. CUSTOMER ACCOUNTS PAYABLE

	December 2015 \$'000	December 2014 \$'000
Customer deposits	13,492,360	9,497,616
Amounts due to customers	322,026	169,869
Deposits from group undertakings	1,387,190	1,168,272
Amounts due to group undertakings	313,831	646,622
	15,515,407	11,482,379

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21. OTHER LIABILITIES

	December 2015	December 2014
	\$'000	\$'000
Accruals and deferred income	21,857	7,360
Other amounts due to group undertakings (see Note a)	1,380,087	1,531,299
Other liabilities (see Note b)	14,502	6,164
	<u>1,416,446</u>	<u>1,544,823</u>

- a. Other amounts due to group undertakings includes group relief payable of \$5 million and \$27 million as of December 2015 and December 2014, respectively
- b. Other liabilities includes a provision for impairment in respect of unfunded bank loans held at amortised cost of \$6 million and \$2 million as of December 2015 and December 2014, respectively

Other liabilities includes financial liabilities of \$1 40 billion and \$1 54 billion as of December 2015 and December 2014, respectively, and non-financial liabilities of \$16 million and \$4 million as of December 2015 and December 2014, respectively

22. LONG-TERM SUBORDINATED LOANS FROM GROUP UNDERTAKINGS

During 2015, the bank's long-term subordinated loans from Group Inc of \$826 million were repaid and an \$826 million long-term subordinated loan was provided by GSGUK. This long-term subordinated loan is unsecured and carries interest at a margin over the U.S. Federal Reserve's federal funds rate and constitutes regulatory capital as approved by the PRA. Repayment is subject to PRA approval and can be made no earlier than September 2020 following notice to GSGUK.

23. SHARE CAPITAL

The table below presents the bank's share capital

	December 2015		December 2014	
	No	\$'000	No.	\$'000
Allotted, called up and fully paid				
Ordinary shares of £1 each	40,169,994	62,558	40,169,994	62,558
		<u>62,558</u>		<u>62,558</u>

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24. FINANCIAL COMMITMENTS AND CONTINGENCIES

Commitments

	December 2015 \$'000	December 2014 \$'000
Principal risk	3,957,873	1,675,008
Sub-participated	822,157	1,256,145
Unfunded bank loans (see Note a)	4,780,030	2,931,153
Forward starting resale agreements (see Note b)	65,000	1,748,857
Leases (see Note c)	1,074	1,285
	4,846,104	4,681,295

- a. 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.
- b. 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.
- c. 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. The table below presents future minimum rental payments:

	December 2015 \$'000	December 2014 \$'000
Less than one year	524	475
Between one and five years	550	810
	1,074	1,285

Contingent Liabilities

	December 2015 \$'000	December 2014 \$'000
Securities lending indemnifications (see Note a)	1,215,544	2,404,898
Other	-	10,258
	1,215,544	2,415,156

- a. 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 \$1.22 billion and \$2.40 billion as of December 2015 and December 2014, respectively. The market value of the collateral held to cover the loss was \$1.36 billion and \$2.65 billion as of December 2015 and December 2014, respectively. These guarantees are covered by back-to-back guarantees with the bank's ultimate parent company, Group Inc.

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25. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

a Capital Management

Overview

The bank determines the appropriate level and composition of its equity capital by considering multiple factors including the bank's current and future regulatory capital requirements, the results of the bank's capital planning and stress testing process and other factors such as rating agency guidelines, the business environment and conditions in the financial markets

Regulatory Capital

	December 2015	December 2014
	\$'000	\$'000
Called up share capital	62,558	62,558
Share premium account	2,094,303	2,094,303
Retained earnings	651,846	510,745
Total shareholder's funds	<u>2,808,707</u>	<u>2,667,606</u>
Deductions to tier 1	(154,771)	(143,953)
Common equity tier 1	<u>2,653,936</u>	<u>2,523,653</u>
Tier 2 capital (long-term subordinated loans from group undertakings)	826,000	826,182
Deductions to tier 2	(150,000)	(115,000)
Total capital resources (net of deductions)	<u>3,329,936</u>	<u>3,234,835</u>

During 2015 and 2014, the bank was in compliance with the capital requirements set by the PRA

b Liquidity Risk Management

Overview

Liquidity risk is the risk that the bank will be unable to fund itself or meet its liquidity needs in the event of bank-specific, broader industry, or market liquidity stress events. Liquidity is of critical importance to the bank, as most of the failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the bank has in place a comprehensive and conservative set of liquidity and funding policies. The principal objective is to be able to fund the bank and to enable the core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Treasury has the primary responsibility for assessing, monitoring and managing liquidity and funding strategy. Treasury is independent of the revenue-producing units and reports to GS Group's chief financial officer.

GS Group's Liquidity Risk Management and Analysis (Liquidity Risk Management) function is an independent risk management function responsible for control and oversight of GS Group's liquidity risk management framework, including stress testing and limit governance. Liquidity Risk Management is independent of the revenue-producing units and Treasury, and reports to GS Group's chief risk officer.

Liquidity Risk Management Principles

The bank manages liquidity risk according to three principles (i) hold sufficient excess liquidity in the form of Global Core Liquid Assets (GCLA) to cover outflows during a stressed period, (ii) maintain appropriate Asset-Liability Management and (iii) maintain a viable Contingency Funding Plan.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

25. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

b. Liquidity Risk Management (continued)

Global Core Liquid Assets. GCLA is liquidity that the bank maintains to meet a broad range of potential cash outflows and collateral needs in a stressed environment

Asset-Liability Management. The bank's liquidity risk management policies are designed to ensure it has a sufficient amount of financing, even when funding markets experience persistent stress. The bank manages maturities and diversity of funding across markets, products and counterparties, and seeks to maintain a long-dated and diversified external funding profile, taking into consideration the characteristics and liquidity profile of its assets

Contingency Funding Plan. GS Group maintains a contingency funding plan, which has a specific Goldman Sachs International Bank addendum, to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and/or market dislocation. The contingency funding plan also describes the bank's potential responses if assessments indicate that the bank has entered a liquidity crisis, which includes pre-funding for what the bank estimates will be its potential cash and collateral needs as well as utilising secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution

Liquidity Coverage Ratio

The liquidity coverage ratio (LCR) is designed to ensure that the entity maintains an adequate level of unencumbered high-quality liquid assets based on expected net cash outflows under an acute short-term liquidity stress scenario. The LCR rule issued by the PRA became effective on October 1, 2015, with a phase-in period whereby certain financial institutions, including the bank, must have an 80% minimum ratio initially, increasing to 90% on January 1, 2017 and 100% on January 1, 2018

c. Market Risk Management

Overview

Market risk is the risk of loss in the value of the bank's financial instruments owned and financial instruments sold, but not yet purchased (i.e., inventory), as well as certain other financial assets and financial liabilities, due to changes in market conditions. The bank employs a variety of risk measures, each described in the respective sections below, to monitor market risk. The bank holds inventory primarily for market-making for clients. The bank's inventory therefore changes based on client demands. The bank's inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in trading profit. 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 and credit spreads,
- Equity price risk results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices, and
- Currency rate risk results from exposures to changes in spot prices, forward prices and volatilities of currency rates

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

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25. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

c. Market Risk Management (continued)

Market Risk Management and Analysis (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 and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

Market Risk Management Process

The bank manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This process 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.

The bank'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 bank level.

Value-at-Risk. VaR is the potential loss in value due to adverse market movements over a defined time horizon with a specified confidence level. A one-day time horizon with a 95% confidence level is typically employed. The VaR model is a single model that captures risks including interest rates, equity prices and currency rates. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk across the bank.

Metrics

The table below presents average daily VaR, period-end VaR, and high and low VaR.

	December 2015	December 2014
	\$'million	\$'million
Average daily VaR for the year ended	3.2	2.0
Period-end VaR	2.2	1.6
Highest daily VaR for the year ended	13.5	8.1
Lowest daily VaR for the year ended	1.2	0.8

d. 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 bank holds. The bank's exposure to credit risk comes mostly from lending activities and client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements) and customer accounts receivable.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

25. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

d. Credit Risk Management (continued)

Credit Risk Management and Advisory (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. The bank'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 bank 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 bank 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.

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 bank's current and potential credit exposure and losses resulting from counterparty default,
- Reporting of credit exposures to senior management, the bank's 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 bank's counterparties. For substantially all of the bank'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

The bank's credit exposures are described further below.

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 bank places substantially all of its deposits with highly-rated banks and central banks.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

25. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

d. Credit Risk Management (continued)

Customer Accounts Receivable The bank is exposed to credit risk from its customer accounts receivable through its amounts due from customers, bank loans and amounts due from group undertakings. The bank manages its lending activities using the process described above, including participation agreements with affiliates.

Financial Instruments Owned. Financial instruments owned includes cash instruments and derivatives. The bank's credit exposure on derivatives arises primarily from market-making activities. As a market maker, the bank enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. The bank also enters into derivatives to manage market risk exposures. 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 bank'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 above.

Collateralised Agreements With Group Undertakings. The bank bears credit risk related to collateralised agreements only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. The bank'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 bank also has credit exposure on collateralised financings, 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.

The tables below present the bank's gross credit exposure to financial assets and net credit exposure after taking account of assets captured by market risk in the bank'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 set-off 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. This is presented by financial asset class and by credit rating equivalent (internally determined public rating agency equivalents).

In the tables below, cash collateral is slightly higher than the amounts disclosed in Note 27 to the financial statements as the below disclosure includes additional cash collateral that management considers when determining credit risk.

	As of December 2015					
	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial asset class						
Cash at bank and in hand	289,437	-	-	-	-	289,437
Customer accounts receivable	2,748,390	-	-	(419,672)	(1,136,352)	1,192,366
Financial instruments owned	12,216,567	(7,664,493)	(3,930,312)	(406,813)	(34,031)	180,918
Collateralised agreements with group undertakings	24,818,466	-	(9,588,216)	-	(15,230,250)	-
Other assets	798,079	-	-	-	-	798,079
	40,870,939	(7,664,493)	(13,518,528)	(826,485)	(16,400,633)	2,460,800

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

25 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

d. Credit Risk Management (continued)

As of December 2014						
Financial asset class	Gross exposure \$'000	Assets captured by market risk \$'000	Counterparty netting \$'000	Cash collateral \$'000	Security collateral received \$'000	Net credit exposure \$'000
Cash at bank and in hand	115,919	-	-	-	-	115,919
Customer accounts receivable	1,813,812	-	-	(525,628)	(295,613)	992,571
Financial instruments owned	16,349,676	(7,670,661)	(7,970,012)	(239,923)	(53,331)	415,749
Collateralised agreements with group undertakings	22,697,712	-	(8,919,643)	-	(13,778,069)	-
Other assets	735,796	-	-	-	-	735,796
	41,712,915	(7,670,661)	(16,889,655)	(765,551)	(14,127,013)	2,260,035

As of December 2015						
Credit rating equivalent	Gross exposure \$'000	Assets captured by market risk \$'000	Counterparty netting \$'000	Cash collateral \$'000	Security collateral received \$'000	Net credit exposure \$'000
AAA/Aaa	135,935	-	-	-	-	135,935
AA/Aa2	321,370	-	(74,169)	(15,120)	-	232,081
A/A2	30,632,042	-	(13,376,487)	(787,869)	(15,230,250)	1,237,436
BBB/Baa2	1,028,614	-	(64,168)	(21,287)	(718,005)	225,154
BB/Ba2 or lower	1,057,693	-	(3,704)	(2,209)	(451,306)	600,474
Unrated	7,695,285	(7,664,493)	-	-	(1,072)	29,720
	40,870,939	(7,664,493)	(13,518,528)	(826,485)	(16,400,633)	2,460,800

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25. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

d. Credit Risk Management (continued)

As of December 2014						
	Gross exposure \$'000	Assets captured by market risk \$'000	Counterparty netting \$'000	Cash collateral \$'000	Security collateral received \$'000	Net credit exposure \$'000
Credit rating equivalent						
AAA/Aaa	4,605	-	-	-	-	4,605
AA/Aa2	262,116	-	(66,277)	(3,018)	(38,581)	154,240
A/A2	33,049,606	-	(16,796,984)	(756,730)	(13,778,069)	1,717,823
BBB/Baa2	202,223	-	(24,744)	(5,400)	(14,750)	157,329
BB/Ba2 or lower	425,040	-	(1,650)	(403)	(226,650)	196,337
Unrated	7,769,325	(7,670,661)	-	-	(68,963)	29,701
	41,712,915	(7,670,661)	(16,889,655)	(765,551)	(14,127,013)	2,260,035

During the year, the bank 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 bank's credit risk on financial assets, giving consideration to the expected enforceability of collateral arrangements

The unrated net credit exposure of \$30 million as of December 2015 and December 2014 relates to financial assets for which the bank has not assigned an internally determined public rating agency equivalent

In addition to credit risk on financial assets, the bank also has credit exposure in respect of contingent and forward starting resale agreements. The bank's gross credit exposure related to these activities is \$65 million and \$1.75 billion as of December 2015 and December 2014, respectively. However, this will be fully mitigated by collateral if these commitments are fulfilled. As a result, the bank did not have net credit exposure to these commitments.

As of December 2015 and December 2014, financial assets past due or impaired were not material.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

a. 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

	As of December 2015			
	Held for trading	Designated at fair value	Loans and receivables	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash at bank and in hand	-	-	289,437	289,437
Customer accounts receivable	-	273,835	2,474,555	2,748,390
Financial instruments owned	12,216,567	-	-	12,216,567
Collateralised agreements with group undertakings	-	24,818,466	-	24,818,466
Other assets	-	-	798,079	798,079
	12,216,567	25,092,301	3,562,071	40,870,939
	Held for trading	Designated at fair value	Amortised cost	Total
	\$'000	\$'000	\$'000	\$'000
Financial liabilities				
Customer accounts payable	-	6,862,234	8,653,173	15,515,407
Deposits by banks	-	1,955,165	-	1,955,165
Financial instruments sold, but not yet purchased	8,822,978	-	-	8,822,978
Collateralised financings with group undertakings	-	9,588,216	-	9,588,216
Other liabilities	-	55,659	1,344,305	1,399,964
Long-term subordinated loans from group undertakings	-	-	826,000	826,000
	8,822,978	18,461,274	10,823,478	38,107,730

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

26 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

a. Financial Assets and Financial Liabilities by Category (continued)

	As of December 2014			
	Held for trading	Designated at fair value	Loans and receivables	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash at bank and in hand	-	-	115,919	115,919
Customer accounts receivable	-	-	1,813,812	1,813,812
Financial instruments owned	16,349,676	-	-	16,349,676
Collateralised agreements with group undertakings	-	22,697,712	-	22,697,712
Other assets	-	-	735,796	735,796
	16,349,676	22,697,712	2,665,527	41,712,915
	Held for trading	Designated at fair value	Amortised cost	Total
	\$'000	\$'000	\$'000	\$'000
Financial liabilities				
Customer accounts payable	-	4,356,392	7,125,987	11,482,379
Deposits by banks	-	3,292,680	-	3,292,680
Financial instruments sold, but not yet purchased	13,005,360	-	-	13,005,360
Collateralised financings with group undertakings	-	8,965,595	-	8,965,595
Other liabilities	-	74,574	1,466,440	1,541,014
Long-term subordinated loans from group undertakings	-	-	826,182	826,182
	13,005,360	16,689,241	9,418,609	39,113,210

b. 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).

FRS 101 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.

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26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

b. Fair Value Hierarchy (continued)

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.

c Valuation Techniques and Significant Inputs

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

- Level 1 cash instruments 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 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 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.

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.

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Bank loans	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.</p> <p>Significant inputs are generally determined based on relative value analyses and include:</p> <ul style="list-style-type: none"> • 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 • Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds)

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26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

c. 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 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.

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26 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

c. Valuation Techniques and Significant Inputs (continued)

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

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

Level 3 Derivatives

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

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

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

Valuation Adjustments

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

26 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

c Valuation Techniques and Significant Inputs (continued)

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.

d Significant Unobservable Inputs Used in Level 3 Fair Value Measurement

As of December 2015 and December 2014, the bank had level 3 asset bank loans of \$173 million and \$85 million, respectively. Level 3 liability cash instruments as of both December 2015 and December 2014 were not material. Level 3 derivatives as of both December 2015 and December 2014 were not material. The table below presents the ranges of significant unobservable inputs used to value these level 3 asset bank loans, as well as the related weighted averages. In the table below:

- 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 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 bank loan. For example, the highest yield presented in the tables below for bank loans is appropriate for valuing a specific bank loan but may not be appropriate for valuing any other bank loan.
- Increases in yield or duration used in the valuation of the bank's level 3 bank loans would result in a lower fair value measurement, while increases in recovery rate would result in a higher fair value measurement.
- The fair value of any one bank loan 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 Instruments	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average)	
		As of December 2015	As of December 2014
Bank loans (<i>\$173 million and \$85 million of level 3 assets as of December 2015 and December 2014, respectively</i>)	Discounted cash flows <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) 	1.4% to 7.8% (5.2%) 20.0% to 85.0% (50.6%) 0.9 to 4.9 (3.4)	1.1% to 10.7% (4.8%) 40.0% to 85.0% (64.4%) 2.6 to 6.0 (5.5)

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26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

e 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

	As of December 2015			
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value				
Customer accounts receivable	-	113,377	160,458	273,835
Cash instruments	7,482,228	240,150	12,180	7,734,558
Derivative instruments	400	4,472,546	9,063	4,482,009
Financial instruments owned	7,482,628	4,712,696	21,243	12,216,567
Collateralised agreements with group undertakings	-	24,818,466	-	24,818,466
	7,482,628	29,644,539	181,701	37,308,868
Financial liabilities at fair value				
Customer accounts payable	-	6,862,234	-	6,862,234
Deposits by banks	-	1,955,165	-	1,955,165
Cash instruments	4,327,931	109,661	1,902	4,439,494
Derivative instruments	402	4,373,910	9,172	4,383,484
Financial instruments sold, but not yet purchased	4,328,333	4,483,571	11,074	8,822,978
Collateralised financings with group undertakings	-	9,588,216	-	9,588,216
Other liabilities	-	55,659	-	55,659
	4,328,333	22,944,845	11,074	27,284,252
Net derivative instruments	(2)	98,636	(109)	98,525

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26 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

e Fair Value of Financial Assets and Financial Liabilities by Level (continued)

	As of December 2014			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value				
Cash instruments	7,597,302	192,692	85,296	7,875,290
Derivative instruments	65	8,459,644	14,677	8,474,386
Financial instruments owned	7,597,367	8,652,336	99,973	16,349,676
Collateralised agreements with group undertakings	-	22,697,712	-	22,697,712
	7,597,367	31,350,048	99,973	39,047,388
Financial liabilities at fair value				
Customer accounts payable	-	4,356,392	-	4,356,392
Deposits by banks	-	3,292,680	-	3,292,680
Cash instruments	4,399,971	62,964	5,437	4,468,372
Derivative instruments	7,645	8,514,656	14,687	8,536,988
Financial instruments sold, but not yet purchased	4,407,616	8,577,620	20,124	13,005,360
Collateralised financings with group undertakings	-	8,965,595	-	8,965,595
Other liabilities	-	74,574	-	74,574
	4,407,616	25,266,861	20,124	29,694,601
Net derivative instruments	(7,580)	(55,012)	(10)	(62,602)

During 2015 and 2014, there were no significant transfers between level 1 and level 2 financial assets and financial liabilities measured at fair value on a reoccurring basis

f. Level 3 Rollforward

The tables below 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 trading profit 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. For level 3 financial assets and financial liabilities, increases are shown as positive amounts, while decreases are shown as negative 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

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26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

f Level 3 Rollforward (continued)

- 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 tables 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.
- See "Level 3 Rollforward Commentary" below for an explanation of transfers into and transfers out of level 3.

	Year Ended December 2015		
	Customer accounts receivable	Financial instruments owned	Total
	\$'000	\$'000	\$'000
Level 3 financial assets at fair value			
Balance, beginning of year	-	99,973	99,973
(Loss)/gain	(4,513)	8,666	4,153
Purchases	162,453	3,140	165,593
Sales	-	(19,198)	(19,198)
Settlements	(557)	(85,962)	(86,519)
Transfers into level 3	3,075	20,677	23,752
Transfers out of level 3	-	(6,053)	(6,053)
Balance, end of year	160,458	21,243	181,701

	Financial instruments sold, but not yet purchased	Total
	\$'000	\$'000
Level 3 financial liabilities at fair value		
Balance, beginning of year	20,124	20,124
Loss	5,806	5,806
Purchases	(3,749)	(3,749)
Sales	187	187
Settlements	(11,289)	(11,289)
Transfers into level 3	-	-
Transfers out of level 3	(5)	(5)
Balance, end of year	11,074	11,074

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

f. Level 3 Rollforward (continued)

	Year Ended December 2014	
	Financial instruments owned	Total
	\$'000	\$'000
Level 3 financial assets at fair value		
Balance, beginning of year	251,061	251,061
Gain	8,389	8,389
Purchases	88,899	88,899
Sales	(123,107)	(123,107)
Settlements	(125,209)	(125,209)
Transfers into level 3	-	-
Transfers out of level 3	(60)	(60)
Balance, end of year	99,973	99,973
Level 3 financial liabilities at fair value		
Balance, beginning of year	14,456	14,456
Loss	7,624	7,624
Purchases	(2,699)	(2,699)
Sales	2,942	2,942
Settlements	(2,199)	(2,199)
Transfers into level 3	-	-
Transfers out of level 3	-	-
Balance, end of year	20,124	20,124

g. Level 3 Rollforward Commentary

During 2015 and 2014, there were no significant transfers into or out of level 3 financial assets and financial liabilities measured at fair value on a recurring basis

h. 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 December 2015 and December 2014.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

As of December 2015 and December 2014, the bank had \$3.56 billion and \$2.67 billion, respectively, of financial assets and \$10.82 billion and \$9.42 billion, respectively, of financial liabilities that are not measured at fair value. Given these instruments are predominantly short-term in nature, 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 \$105 million and \$32 million as of December 2015 and December 2014, 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.

j. Maturity of Financial Liabilities

The tables below present the cash flows of the bank's financial liabilities by contractual maturity including interest that will accrue, except for financial instruments sold, but not yet purchased. Financial instruments sold, but not yet purchased are classified as trading/on demand. Financial liabilities, with the exception of those that are held for trading or designated at fair value through profit and loss, are disclosed at their undiscounted cash flows.

The fair values of financial liabilities held for trading and financial liabilities designated at fair value through profit and loss have been disclosed as this is consistent with the values used in the liquidity risk management of these instruments. Liquidity risk on derivatives is mitigated through master netting agreements and cash collateral arrangements.

As of December 2015							
	Trading/on demand	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	Greater than five years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities							
Customer accounts payable	6,513,419	2,797,736	2,077,719	3,886,832	132,909	118,755	15,527,370
Deposits by banks	-	416,787	923,790	614,588	-	-	1,955,165
Financial instruments sold, but not yet purchased	8,822,978	-	-	-	-	-	8,822,978
Collateralised financings with group undertakings	-	9,915	9,578,301	-	-	-	9,588,216
Other liabilities	-	559,981	-	-	839,983	-	1,399,964
Long-term subordinated loans from group undertakings	-	-	4,860	-	957,927	-	962,787
Total – on-balance sheet	15,336,397	3,784,419	12,584,670	4,501,420	1,930,819	118,755	38,256,480
Total – commitments	-	4,845,030	-	524	550	-	4,846,104
	15,336,397	8,629,449	12,584,670	4,501,944	1,931,369	118,755	43,102,584

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

j. Maturity of Financial Liabilities (continued)

	As of December 2014						Total \$'000
	Trading/on demand \$'000	Less than one month \$'000	More than one month but less than three months \$'000	More than three months but less than one year \$'000	More than one year but less than five years \$'000	Greater than five years \$'000	
Financial liabilities							
Customer accounts payable	5,097,945	2,687,554	1,192,072	2,454,402	10,638	42,322	11,484,933
Deposits by banks	-	720,884	1,600,718	971,078	-	-	3,292,680
Financial instruments sold, but not yet purchased	13,005,360	-	-	-	-	-	13,005,360
Collateralised financings with group undertakings	-	23,506	-	8,942,089	-	-	8,965,595
Other liabilities	-	711,975	-	754,425	-	74,614	1,541,014
Long-term subordinated loans from group undertakings	-	-	5,907	17,722	873,314	-	896,943
Total – on-balance sheet	18,103,305	4,143,919	2,798,697	13,139,716	883,952	116,936	39,186,525
Total – commitments	-	4,680,010	-	475	810	-	4,681,295
	18,103,305	8,823,929	2,798,697	13,140,191	884,762	116,936	43,867,820

The bank seeks to raise funding with a term appropriate for the liquidity of the assets that are being financed, including where these commitments are currently unfunded. If drawn, the commitments in the tables presented above would primarily be funded from existing deposit taking activities which are reinvested with group undertakings.

k. Collateral Received and Pledged

The bank receives financial instruments (e.g., government and agency obligations, corporate debt securities, equities and convertible debentures) as collateral, primarily in connection with resale agreements and derivative transactions. The bank obtains cash and securities as collateral on an upfront or contingent basis for derivative instruments and collateralised agreements to reduce its credit exposure to individual counterparties.

In many cases, the bank is permitted to deliver or repledge financial instruments received as collateral in connection with collateralising derivative transactions and meeting bank settlement requirements.

The bank also pledges certain financial instruments owned in connection with repurchase agreements to counterparties who may or may not have the right to deliver or repledge.

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26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

k. Collateral Received and Pledged (continued)

The table below presents financial instruments received as collateral that were available to be delivered, or repledged and were delivered or repledged by the bank

	December 2015 \$'000	December 2014 \$'000
Collateral available to be delivered or repledged	23,817,889	21,632,021
Collateral that was delivered or repledged	6,332,290	5,388,095

The table below presents information about assets pledged

	December 2015 \$'000	December 2014 \$'000
Financial instruments owned pledged to counterparties that		
Had the right to deliver or repledge	7,124,105	7,234,608
Did not have the right to deliver or repledge	-	-

The bank has received cash collateral in respect of financial instruments owned of \$410 million and \$246 million as of December 2015 and December 2014, respectively, and posted cash collateral in respect of financial instruments sold, but not yet purchased of \$431 million and \$538 million as of December 2015 and December 2014, respectively

l Hedge Accounting

Fair Value Hedges. The bank designates certain interest rate swaps as fair value hedges. These interest rate swaps hedge changes in fair value attributable to the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting fixed rate obligations into floating rate obligations.

The bank applies a statistical method that utilises regression analysis when assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and the risk being hedged (i.e., interest rate risk). An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

For qualifying fair value hedges, gains or losses on derivatives and the change in fair value of the hedged item attributable to the hedged risk are included in total operating income. When a derivative is no longer designated as a hedge, any remaining difference between the carrying value and par value of the hedged item is amortised over the remaining life of the hedged item using the effective interest method.

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged customer deposits and the hedge ineffectiveness on these derivatives

	Year Ended December 2015 \$'000	Year Ended December 2014 \$'000
Interest rate hedges	22	142
Hedge customer deposits	(35)	(136)
	(13)	6

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

26. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

l. Hedge Accounting (continued)

The fair value of asset and liability derivative instruments designated as hedges were \$2 million and \$56,000, respectively, as of December 2015

The fair value of asset and liability derivative instruments designated as hedges were \$2 million and \$nil, respectively, as of December 2014

Net Investment Hedging The bank seeks to reduce the impact of fluctuations in foreign exchange rates on its foreign operations through the use of foreign currency forward contracts. For foreign currency forward contracts designated as hedges, the effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts (i.e., based on changes in forward rates)

For qualifying net investment hedges, the gains or losses on the hedging instruments, to the extent effective, are included in the statements of comprehensive income

The fair value of asset and liability derivative instruments designated as hedges were \$8 million and \$148,000, respectively, as of December 2015

The fair value of asset and liability derivative instruments designated as hedges were \$5 million and \$461,000, respectively, as of December 2014

m Transferred Assets

Assets Continued to be Recognised in Full During the year, the bank transferred certain financial assets where the transfers failed to meet the derecognition criteria, as contained in IAS 39 'Financial Instruments: Recognition and Measurement', and as a result of which the bank continues to recognise these assets in full on the balance sheet

The bank transfers assets owned to counterparties in the ordinary course of business to collateralise repurchase agreements. In these transactions the transferred assets continue to be recognised by the bank for accounting purposes because the transactions require the financial instruments to be repurchased at maturity of the agreement and the bank remains exposed to the price, credit and interest rate risk of these instruments. When the bank receives cash proceeds from the transfer of the asset, a financial liability is recognised in respect of the consideration received and recorded within "Collateralised financings with group undertakings". When the bank receives non cash collateral (in the form of securities) no liability is initially recognised. If collateral received is subsequently sold, the obligation to return the collateral is recognised as a liability within "Financial instruments sold, but not yet purchased"

Other financial assets transferred that continue to be recognised on balance sheet for accounting purposes relate to pledges of securities as collateral, primarily for derivative transactions. The obligations under such derivatives are recorded in "Financial instruments sold, but not yet purchased"

The table below presents financial assets which have been transferred but which remain on balance sheet for accounting purposes. The carrying amount of the associated financial liabilities generally approximate the carrying amount of the assets transferred.

	December 2015	December 2014
	\$'000	\$'000
Government bonds	7,124,105	7,234,608

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27. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The tables below present the bank'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 bank's economic exposure. Amounts are only offset in the balance sheet when the bank 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 tables below also present 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 set-off 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 bank 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 tables below.

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

27. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	As of December 2015						
	Amounts not offset in the balance sheet						Net amount
	Gross amounts \$'000	Amounts offset in the balance sheet \$'000	Net amount presented in the balance sheet \$'000	Counterparty netting \$'000	Cash collateral \$'000	Security collateral \$'000	
Financial assets							
Customer accounts receivable	1,561,986	-	1,561,986	-	(363,955)	(1,136,352)	61,679
Financial instruments owned	4,482,009	-	4,482,009	(3,930,312)	(362,601)	(34,031)	155,065
Collateralised agreements with group undertakings	24,841,429	(22,963)	24,818,466	(9,588,216)	-	(15,230,250)	-
Financial assets subject to enforceable netting agreements	30,885,424	(22,963)	30,862,461	(13,518,528)	(726,556)	(16,400,633)	216,744
Financial assets not subject to enforceable netting agreements	10,008,478	-	10,008,478	-	-	-	10,008,478
	40,893,902	(22,963)	40,870,939	(13,518,528)	(726,556)	(16,400,633)	10,225,222
Financial liabilities							
Customer accounts payable	394,782	-	394,782	-	(362,601)	-	32,181
Financial instruments sold, but not yet purchased	4,383,484	-	4,383,484	(3,930,312)	(363,955)	-	89,217
Collateralised financings with group undertakings	9,611,179	(22,963)	9,588,216	(9,588,216)	-	-	-
Other liabilities	55,659	-	55,659	-	-	-	55,659
Financial liabilities subject to enforceable netting agreements	14,445,104	(22,963)	14,422,141	(13,518,528)	(726,556)	-	177,057
Financial liabilities not subject to enforceable netting agreements	23,685,589	-	23,685,589	-	-	-	23,685,589
	38,130,693	(22,963)	38,107,730	(13,518,528)	(726,556)	-	23,862,646

Financial instruments owned and financial instruments sold, but not yet purchased comprise derivative instruments and include amounts that are not subject to an enforceable netting agreement or are subject to a netting agreement that the bank has not yet determined to be enforceable of \$80 million and \$32 million, respectively

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NOTES TO THE FINANCIAL STATEMENTS – DECEMBER 2015

27 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

As of December 2014							
	Amounts not offset in the balance sheet						
	Gross amounts \$'000	Amounts offset in the balance sheet \$'000	Net amount presented in the balance sheet \$'000	Counterparty netting \$'000	Cash collateral \$'000	Security collateral \$'000	Net amount \$'000
Financial assets							
Customer accounts receivable	833,819	-	833,819	-	(517,939)	(295,613)	20,267
Financial instruments owned	8,474,386	-	8,474,386	(7,968,129)	(199,131)	(53,331)	253,795
Collateralised agreements with group undertakings	22,709,036	(11,324)	22,697,712	(8,919,643)	-	(13,778,069)	-
Financial assets subject to enforceable netting agreements	32,017,241	(11,324)	32,005,917	(16,887,772)	(717,070)	(14,127,013)	274,062
Financial assets not subject to enforceable netting agreements	9,706,998	-	9,706,998	-	-	-	9,706,998
	41,724,239	(11,324)	41,712,915	(16,887,772)	(717,070)	(14,127,013)	9,981,060
Financial liabilities							
Customer accounts payable	239,884	-	239,884	-	(199,131)	-	40,753
Financial instruments sold, but not yet purchased	8,536,988	-	8,536,988	(7,968,129)	(517,939)	-	50,920
Collateralised financings with group undertakings	8,976,919	(11,324)	8,965,595	(8,919,643)	-	(45,952)	-
Other liabilities	74,574	-	74,574	-	-	-	74,574
Financial liabilities subject to enforceable netting agreements	17,828,365	(11,324)	17,817,041	(16,887,772)	(717,070)	(45,952)	166,247
Financial liabilities not subject to enforceable netting agreements	21,296,169	-	21,296,169	-	-	-	21,296,169
	39,124,534	(11,324)	39,113,210	(16,887,772)	(717,070)	(45,952)	21,462,416

Financial instruments owned and financial instruments sold, but not yet purchased comprise derivative instruments and include amounts that are not subject to an enforceable netting agreement or are subject to a netting agreement that the bank has not yet determined to be enforceable of \$95 million and \$10 million, respectively

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28 POST BALANCE SHEET EVENTS

In January 2016, following the conclusion of an ongoing review of the group's operations in Korea, it was determined that the client execution activities conducted by the Seoul branch would be transferred to group undertakings, and that the bank's Seoul branch would subsequently be closed. The bank is currently assessing the financial impact of the closure.