



Unaudited Quarterly Financial Report

March 31, 2017

Goldman Sachs International (unlimited company)

Company Number: 02263951

INDEX	Page No.
Part I Management Report	2
Introduction	2
Executive Overview	2
Business Environment	3
Critical Accounting Policy	4
Results of Operations	4
Balance Sheet and Funding Sources	8
Equity Capital Management and Regulatory Capital	10
Regulatory Developments	12
Principal Risks and Uncertainties	12
Risk Management	12
Overview and Structure of Risk Management	12
Liquidity Risk Management	13
Market Risk Management	16
Credit Risk Management	18
Operational Risk Management	21
Model Risk Management	22
Directors	22
Date of Issue	22
Part II Unaudited Financial Statements	23
Profit and Loss Account	23
Statements of Comprehensive Income	23
Balance Sheet	24
Statements of Changes in Equity	25
Statements of Cash Flows	26
Notes to the Financial Statements	27
Note 1. General Information	27
Note 2. Summary of Significant Accounting Policies	27
Note 3. Critical Accounting Estimates and Judgements	27
Note 4. Segment Reporting	28
Note 5. Tax on Profit on Ordinary Activities	28
Note 6. Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased	29
Note 7. Collateralised Agreements	29
Note 8. Debtors	29
Note 9. Collateralised Financings	30
Note 10. Other Creditors	30
Note 11. Share Capital	32
Note 12. Cash and Cash Equivalents	32
Note 13. Reconciliation of Cash Flows From Operating Activities	32
Note 14. Financial Commitments and Contingencies	33
Note 15. Financial Risk Management and Capital Management	34
Note 16. Financial Assets and Financial Liabilities	34

Management Report

Introduction

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

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

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

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

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

Unless otherwise stated, all amounts in this financial report are prepared in accordance with United Kingdom Generally Accepted Accounting Practices (U.K. GAAP).

Executive Overview

Profit and Loss Account

The profit and loss account is set out on page 23 of this financial report. The company's profit for the financial period was \$428 million for the first quarter of 2017, an increase of 16% compared with the first quarter of 2016.

Net revenues were \$1.63 billion for the first quarter of 2017, 18% higher than the first quarter of 2016, primarily due to higher net revenues in Institutional Client Services. In addition, net revenues in Investing & Lending and Investment Management were significantly higher. These increases were partially offset by lower net revenues in Investing Banking.

Administrative expenses were \$957 million for the first quarter of 2017, 22% higher than the first quarter of 2016, primarily reflecting changes in the mark-to-market impact of share-based compensation. Excluding the mark-to-market impact of share-based compensation for both periods, administrative expenses were \$979 million for the first quarter of 2017, 4% higher than the first quarter of 2016.

See "Results of Operations" below for further information about the company's net revenues, segment reporting and administrative expenses.

Capital Ratios

The company maintained strong capital ratios. As of March 2017, the company's Common Equity Tier 1 ratio was 12.7% (under CRD IV as defined in "Equity Capital Management and Regulatory Capital — Regulatory Capital").

Liquidity

The company maintained strong liquidity. As of March 2017, the company's global core liquid assets were \$53.58 billion. See "Risk Management — Liquidity Risk Management" for further information about the company's global core liquid assets.

Balance Sheet

The balance sheet is set out on page 24 of this financial report. In the subsequent paragraphs, total assets are the sum of "Fixed assets", "Current assets" and the company's "Pension surplus". Total liabilities are the sum of "Creditors: amounts falling due within one year" and "Creditors: amounts falling due after more than one year".

Management Report

As of March 2017, total assets were \$912.84 billion, a decrease of \$21.49 billion from December 2016, primarily reflecting a decrease in financial instruments owned of \$45.06 billion, partially offset by an increase in collateralised agreements of \$21.62 billion. Financial instruments owned decreased primarily due to the impact of movements in currencies and interest rates on derivative valuations. Collateralised agreements increased primarily due to changes in client activity.

As of March 2017, total liabilities were \$884.90 billion, a decrease of \$21.88 billion from December 2016, primarily reflecting a decrease in financial instruments sold, but not yet purchased of \$43.24 billion, partially offset by an increase in collateralised financings of \$25.17 billion. Financial instruments sold, but not yet purchased decreased primarily due to the impact of movements in currencies and interest rates on derivative valuations. Collateralised financings increased primarily due to changes in client and firm activity.

U.S. GAAP Results

The company also prepares results under United States Generally Accepted Accounting Principles (U.S. GAAP), which are included in the consolidated financial statements of GS Group.

The company's profit under U.S. GAAP differs from that under U.K. GAAP primarily due to timing differences in the recognition of certain revenues and expenses. Under U.S. GAAP, the company's profit for the first quarter for 2017 was not significantly different from that reported under U.K. GAAP.

The company's total assets and total liabilities under U.S. GAAP differ from those reported under U.K. GAAP primarily due to the company presenting derivative balances gross under U.K. GAAP if they are not net settled in the normal course of business, even where it has a legally enforceable right to offset those balances. Under U.S. GAAP, as of March 2017, total assets were \$396.67 billion, an increase of \$36.03 billion from December 2016. This increase primarily reflected an increase in collateralised agreements due to changes in client activity. Total liabilities were \$368.65 billion, an increase of \$35.67 billion from December 2016. This increase primarily reflected an increase in collateralised financings due to changes in client and firm activity.

Business Environment

Global

During the first quarter of 2017, global economic conditions appeared mixed compared with the previous quarter, as real gross domestic product (GDP) growth in the U.S., China and the U.K. slowed, while growth in Japan and India appeared to improve. Broadly, global macroeconomic data remained strong throughout the quarter, and volatility in equity, foreign exchange and commodity markets was low. Major central banks continued to gradually tighten their stance on monetary policy. The U.S. Federal Reserve followed an increase in the target federal funds rate in December 2016 with another increase in March 2017. In addition, the People's Bank of China tightened its stance on monetary policy slightly by raising certain interest rates, and the European Central Bank confirmed it intended to decrease the pace of its monthly asset purchases beginning in April 2017. The price of crude oil (WTI) ended the quarter at approximately \$51 per barrel, a decrease of 6% from the end of 2016. In investment banking, industry-wide mergers and acquisitions volumes declined compared with the robust level of volumes during 2016. Industry-wide equity underwriting activity continued to improve from the low levels of activity during 2016 and industry-wide debt underwriting activity increased after a slowdown in the fourth quarter of 2016.

Europe

In the Euro area, both real GDP growth and measures of inflation increased at a similar pace compared to the previous quarter. The European Central Bank maintained its main refinancing operations rate at 0.00% and its deposit rate at (0.40)%. In addition, the European Central Bank maintained the pace of its monthly asset purchases at €80 billion in the first quarter, but confirmed it intended to reduce the pace of purchases to €60 billion beginning in April 2017. Measures of unemployment remained high and the Euro appreciated by 1% against the U.S. dollar compared with the end of 2016. In the U.K., real GDP growth decreased compared with the previous quarter. The Bank of England maintained its official bank rate at 0.25%, and the British pound appreciated by 2% against the U.S. dollar. Yields on 10-year government bonds generally increased in the region. In equity markets, the DAX Index, Euro Stoxx 50 Index, CAC 40 Index and FTSE 100 Index increased by 7%, 6%, 5% and 3%, respectively, compared with the end of 2016. During the last week of the quarter, the U.K. activated Article 50 of the E.U. treaty initiating a two-year negotiation period for its exit from the E.U.

Management Report

Critical Accounting Policy

For a description of the company's critical accounting policy, fair value, see "Critical Accounting Policy" in Part I of the 2016 Annual Report.

The fair values for substantially all of the company'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. Total level 3 financial assets were \$5.05 billion and \$5.15 billion as of March 2017 and December 2016, respectively. See Note 16 to the financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurement.

Results of Operations

The composition of the company's net revenues has varied over time as financial markets and the scope of its operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in economic and market conditions. See "Principal Risks and Uncertainties" in Part I of the 2016 Annual Report for further information about the impact of economic and market conditions on the company's results of operations. In addition to transactions entered into with third parties, the company also enters into transactions with affiliates in the normal course of business as part of its market-making activities and general operations.

Net Revenues

Net revenues include the net profit arising from transactions, with both third parties and affiliates, in securities, foreign exchange and other financial instruments, and fees and commissions. This is inclusive of associated interest and dividends. See "Segment Reporting" below for further details.

Segment Reporting

The table below presents the net revenues of the company's segments.

<i>\$ in millions</i>	Three Months Ended March	
	2017	2016
Investment Banking		
Financial Advisory	\$ 119	\$ 214
Underwriting	145	104
Total Investment Banking	\$ 264	\$ 318
Institutional Client Services		
Fixed Income, Currency and Commodities		
Client Execution	\$ 531	\$ 457
Equities	553	458
Total Institutional Client Services	\$1,084	\$ 915
Investing & Lending	\$ 142	\$ 67
Investment Management	\$ 143	\$ 87
Total net revenues	\$1,633	\$1,387

In the table above, for the three months ended March 2016, the company has reclassified \$52 million of net revenues from Fixed Income, Currency and Commodities Client Execution to Equities within the Institutional Client Services segment to conform to the current period presentation.

Investment Banking

Investment Banking is comprised of:

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

Underwriting. Includes equity and debt underwriting of public offerings and private placements, including local and cross-border transactions and acquisition financing, of a wide range of securities and other financial instruments, including loans, and derivative transactions directly related to these client underwriting activities.

Operating Environment. In mergers and acquisitions, both European industry-wide completed and announced volumes declined compared with the robust level of volumes during 2016. In underwriting, generally higher equity prices contributed to a relatively favourable financing environment. As a result, industry-wide equity underwriting activity continued to improve from the low levels of activity during 2016, which began with a challenging first quarter. In addition, industry-wide debt underwriting activity increased during the quarter after a slowdown in the fourth quarter of 2016, as high-yield activity rebounded.

Management Report

Three Months Ended March 2017 versus March 2016.

Net revenues in Investment Banking were \$264 million for the first quarter of 2017, 17% lower than the first quarter of 2016.

Net revenues in Financial Advisory were \$119 million, 44% lower than the first quarter of 2016. Industry-wide completed mergers and acquisitions activity levels declined in EMEA compared with the same prior year period. Net revenues in Underwriting were \$145 million, 39% higher than the first quarter of 2016, due to significantly higher net revenues in equity underwriting, reflecting an increase in European secondary offerings, and significantly higher net revenues in debt underwriting, primarily reflecting an increase in high-yield activity.

As of March 2017, the company's investment banking transaction backlog decreased compared with both the end of 2016 and the end of the first quarter of 2016. The decrease compared with the end of 2016 was due to lower estimated net revenues from potential advisory transactions, reflecting a decrease in net revenues related to mergers and acquisitions, and lower estimated net revenues from potential debt underwriting transactions, principally related to investment-grade transactions.

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

Institutional Client Services

Institutional Client Services is comprised of:

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

- **Interest Rate Products.** Government bonds (including inflation-linked securities) across maturities, other government-backed securities, securities sold under agreements to repurchase (repurchase agreements), and interest rate swaps, options and other derivatives.
- **Credit Products.** Investment-grade corporate securities, high-yield securities, credit derivatives, exchange-traded funds, bank and bridge loans, municipal securities, emerging market and distressed debt, and trade claims.
- **Mortgages.** Commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives, and other asset-backed securities, loans and derivatives.
- **Currencies.** Currency options, spot/forwards and other derivatives on G-10 currencies and emerging-market products.
- **Commodities.** Commodity derivatives and, to a lesser extent, physical commodities, involving crude oil and petroleum products, natural gas, base, precious and other metals, electricity, coal, agricultural and other commodity products.

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

Management Report

Operating Environment. After investor sentiment improved in the fourth quarter of 2016 following strong economic data, the prospect of higher interest rates and the potential for more pro-growth policies in the U.S., expectations were tempered in light of uncertainty regarding European elections and legislative challenges in the United States. Reduced volatility negatively affected client activity across businesses with the VIX falling below 11, Euro-dollar foreign exchange volatility approaching its lowest level in two years and crude oil volatility averaging its lowest level in more than two years. In addition, oil and European natural gas prices declined during the quarter to approximately \$51 per barrel (WTI) and €15.58 per MWh, respectively. European equity markets continued to increase during the first quarter of 2017 with the MSCI Europe Index up 7%. In credit markets, spreads were essentially unchanged compared with the end of 2016. See “Business Environment” above for further information about economic and market conditions in the global operating environment during the quarter.

Three Months Ended March 2017 versus March 2016. Net revenues in Institutional Client Services were \$1.08 billion for the first quarter of 2017, 18% higher than the first quarter of 2016.

Net revenues in Fixed Income, Currency and Commodities Client Execution (FICC Client Execution) were \$531 million for the first quarter of 2017, 16% higher than the first quarter of 2016.

The following provides details of the company’s FICC Client Execution net revenues by business, compared with results in the first quarter of 2016:

- Net revenues in interest rate products and credit products were significantly higher, reflecting improved market-making conditions, partially offset by lower client activity.
- Net revenues in mortgages were significantly higher, reflecting improved market-making conditions.
- Net revenues in currencies were slightly higher.
- Net revenues in commodities were significantly lower, reflecting the impact of changes in market-making conditions and lower client activity.

Net revenues in Equities were \$553 million for the first quarter of 2017, 21% higher than the first quarter of 2016, primarily due to significantly higher net revenues in equities client execution, reflecting significantly higher results in derivatives.

Investing & Lending

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

Three Months Ended March 2017 versus March 2016. Net revenues in Investing & Lending were \$142 million for the first quarter of 2017, compared with \$67 million for the first quarter of 2016, reflecting significantly higher net gains from investments in debt instruments.

Investment Management

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

Three Months Ended March 2017 versus March 2016. Net revenues in Investment Management were \$143 million for the first quarter of 2017, 64% higher than the first quarter of 2016, reflecting higher management and other fees, primarily due to an increase in net revenues from providing investing services.

Management Report

Administrative Expenses

Administrative expenses are primarily influenced by compensation (including the impact of the Group Inc. share price on share-based compensation), headcount and levels of business activity. Direct costs of employment include salaries, allowances, estimated year-end discretionary compensation, amortisation and mark-to-market of share-based compensation and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, overall financial performance, prevailing labour markets, business mix, the structure of share-based compensation programmes and the external environment.

The table below presents the company's administrative expenses and total staff (which includes employees, consultants and temporary staff).

<i>\$ in millions</i>	Three Months Ended March	
	2017	2016
Direct costs of employment	\$ 641	\$ 446
Brokerage, clearing, exchange and distribution fees	138	156
Market development	15	19
Communications and technology	23	19
Depreciation and amortisation	8	1
Occupancy	37	39
Professional fees	19	36
Other expenses	76	68
Total non-compensation expenses	316	338
Total administrative expenses	\$ 957	\$ 784
Total staff at period-end	5,784	6,279

In the table above, direct costs of employment includes a credit of \$22 million for the first quarter of 2017 and a credit of \$156 million for the first quarter of 2016, relating to the mark-to-market of share based compensation.

Three Months Ended March 2017 versus March 2016.

Administrative expenses were \$957 million for the first quarter of 2017, 22% higher than the first quarter of 2016. Direct costs of employment were \$641 million for the first quarter of 2017, 44% higher than the first quarter of 2016. Excluding the mark-to-market impact of share-based compensation for both periods, direct costs of employment were \$663 million for the first quarter of 2017, 10% higher than the first quarter of 2016, reflecting an increase in net revenues.

Non-compensation expenses were \$316 million for the first quarter of 2017, 7% lower than the first quarter of 2016.

As of March 2017, total staff decreased by 2% compared with December 2016.

Interest Payable and Similar Charges

Interest payable and similar charges comprises interest on long-term subordinated loans from parent and group undertakings.

Three Months Ended March 2017 versus March 2016.

Interest payable and similar charges was \$93 million for the first quarter of 2017, 11% higher than the first quarter of 2016, reflecting an increase in the average interest rates.

Tax on Profit on Ordinary Activities

The effective tax rate for first three months of 2017 was 26.7%, which compares to the U.K. corporate tax rate applicable to the company of 27.25% for 2017. The effective tax rate represents the company's tax on profit on ordinary activities divided by its profit on ordinary activities before taxation.

Management Report

Balance Sheet and Funding Sources

Balance Sheet Management

One of the company's risk management disciplines is its ability to manage the size and composition of its balance sheet. GSI leverages the firmwide balance sheet management process performed at the GS Group level to manage these factors. While the asset base of Group Inc. and its subsidiaries changes due to client activity, market fluctuations and business opportunities, the size and composition of the company's balance sheet also reflects factors including (i) the overall risk tolerance of GS Group, (ii) the amount of equity capital held by GS Group and (iii) the funding profile of GS Group, among other factors. See "Equity Capital Management and Regulatory Capital — Equity Capital Management" for information about the company's equity capital management process.

In order to ensure appropriate risk management, GSI seeks to maintain a sufficiently liquid balance sheet and leverages GS Group's processes to dynamically manage its assets and liabilities which include (i) balance sheet planning, (ii) business-specific limits, (iii) monitoring of key metrics and (iv) scenario analyses. See "Balance Sheet and Funding Sources — Balance Sheet Management" in Part I of the 2016 Annual Report for further information about the company's balance sheet management process.

Liquidity and Cash

The company maintains liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment, referred to as Global Core Liquid Assets (GCLA). See "Risk Management — Liquidity Risk Management — Liquidity Risk Management Principles — Global Core Liquid Assets" for details about the composition and sizing of the company's GCLA.

Funding Sources

The company's primary sources of funding are secured financings, intercompany unsecured borrowings and external unsecured borrowings. GSI raises this funding through a number of different products, including:

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

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

Secured Funding. The company funds a significant amount of inventory on a secured basis, with external counterparties as well as with affiliates, including repurchase agreements, securities loaned and other secured financings. The company may also pledge its inventory as collateral for securities borrowed under a securities lending agreement or as collateral for derivative transactions. The company also uses its own inventory to cover transactions in which the company or its clients have sold securities that have not yet been purchased. Secured funding is less sensitive to changes in Group Inc. and/or GSI's credit quality than unsecured funding, due to the posting of collateral to lenders. Nonetheless, GSI continually analyses the refinancing risk of its secured funding activities, taking into account trade tenors, maturity profiles, counterparty concentrations, collateral eligibility and counterparty rollover probabilities. GSI seeks to mitigate its refinancing risk by executing term trades with staggered maturities, diversifying counterparties, raising excess secured funding, and pre-funding residual risk through the GCLA.

Management Report

GSI seeks to raise secured funding with a term appropriate for the liquidity of the assets that are being financed, and seeks longer maturities for secured funding collateralised by asset classes that may be harder to fund on a secured basis, especially during times of market stress, such as: mortgage and other asset-backed loans and securities; non-investment-grade corporate debt securities; equity securities; and emerging market securities. GSI's external secured funding, excluding funding collateralised by liquid government obligations, is primarily executed for tenors of one month or greater.

A majority of the company's secured funding for securities not eligible for inclusion in the GCLA is executed through term repurchase agreements and securities loaned contracts. The company also raises financing through debt securities.

The table below presents GSI's secured funding included in "Collateralised financings" and "Other creditors" on the balance sheet.

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Repurchase agreements	\$102,943	\$ 84,581
Securities loaned	57,590	53,060
Amounts due to parent and group undertakings – secured borrowings	941	–
Debt securities issued	3,297	2,747
Short-term secured funding	164,771	140,388
Repurchase agreements	7,513	5,734
Securities loaned	1,001	499
Debt securities issued	1,832	1,567
Long-term secured funding	10,346	7,800
Total secured funding	\$175,117	\$148,188

In the table above, secured funding with external counterparties was \$57.23 billion and \$48.81 billion as of March 2017 and December 2016, respectively. Secured funding with affiliates was \$117.89 billion and \$99.38 billion as March 2017 and December 2016, respectively.

The weighted average maturity of the company's external secured funding, included in "Collateralised financings" and "Other creditors" on the balance sheet, excluding funding that can only be collateralised by highly liquid securities eligible for inclusion in the GCLA, exceeded 120 days as of March 2017.

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

The table below presents GSI's intercompany unsecured borrowings included in "Other creditors" on the balance sheet.

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Amounts due to parent and group undertakings – unsecured borrowings	\$19,457	\$18,922
Debt securities issued	2,096	2,080
Short-term intercompany unsecured borrowings	21,553	21,002
Long-term subordinated loans	8,958	8,958
Amounts due to parent and group undertakings – unsecured borrowings	18,229	16,882
Debt securities issued	836	886
Long-term intercompany unsecured borrowings	28,023	26,726
Total intercompany unsecured borrowings	\$49,576	\$47,728

External Unsecured Borrowings. External unsecured borrowings include debt securities issued, bank loans and overdrafts.

The table below presents GSI's external unsecured borrowings included in "Other creditors" on the balance sheet.

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Bank loans	\$ 204	\$ 164
Overdrafts	34	7
Debt securities issued	7,850	7,992
Short-term external unsecured borrowings	8,088	8,163
Debt securities issued	9,882	8,704
Long-term external unsecured borrowings	9,882	8,704
Total external unsecured borrowings	\$17,970	\$16,867

Total Shareholder's Funds

GSI held \$27.93 billion and \$27.53 billion of total shareholder's funds as of March 2017 and December 2016, respectively. See "Equity Capital Management and Regulatory Capital — Regulatory Capital" for further information about GSI's capital.

Management Report

Equity Capital Management and Regulatory Capital

Capital adequacy is of critical importance to the company. The company has in place a comprehensive capital management policy that provides a framework, defines objectives and establishes guidelines to assist the company in maintaining the appropriate level and composition of capital in both business-as-usual and stressed conditions.

Equity Capital Management

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

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

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

Regulatory Capital

The company is subject to the revised capital framework for E.U.-regulated financial institutions (the fourth E.U. Capital Requirements Directive and E.U. Capital Requirements Regulation, collectively known as "CRD IV"). These capital regulations are largely based on the Basel Committee on Banking Supervision's (Basel Committee) final capital framework for strengthening international capital standards (Basel III). The Basel Committee is the primary global standard setter for prudential bank regulation, and its member jurisdictions implement regulations based on its standards and guidelines.

The risk-based capital requirements are expressed as capital ratios that compare measures of regulatory capital to risk-weighted assets (RWAs). The Common Equity Tier 1 (CET1) ratio is defined as CET1 divided by RWAs. The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs.

Under CRD IV, the minimum CET1, Tier 1 capital and Total capital ratios (collectively the Pillar 1 capital requirements) are supplemented by:

- A capital conservation buffer, consisting entirely of capital that qualifies as CET1, began to phase in on January 1, 2016, and will continue to do so in increments of 0.625% per year until it reaches 2.5% of RWAs on January 1, 2019.
- A countercyclical capital buffer of up to 2.5% (and also consisting entirely of CET1) in order to counteract excessive credit growth. The buffer only applies to the company's exposures to certain types of counterparties based in jurisdictions which have announced a countercyclical buffer. Since these exposures are not currently material, the buffer adds less than 0.01% to the CET1 ratio and has an immaterial impact on the capital of the company. The countercyclical capital buffer applicable to the company could change in the future and, as a result, the company's minimum ratios could increase.
- Individual capital guidance under Pillar 2A (an additional amount to cover risks not adequately captured in Pillar 1). The PRA performs a periodic supervisory review of the company's ICAAP, which leads to a final determination by the PRA of individual capital guidance under Pillar 2A. This is a point in time assessment of the minimum amount of capital the PRA considers that a firm should hold.

The table below presents the company's minimum required ratios.

	March 2017	December 2016
	Minimum Ratio	Minimum Ratio
CET1 ratio	7.2%	6.5%
Tier 1 capital ratio	9.2%	8.5%
Total capital ratio	11.8%	11.2%

These minimum ratios incorporate the Pillar 2A capital guidance received from the PRA and could change in the future. In addition to the Pillar 2A capital guidance, the PRA also defines forward looking capital guidance which represents the PRA's view of the capital that the company would require to absorb losses in stressed market conditions. This is known as Pillar 2B or the "PRA buffer" and is not reflected in the minimum ratios shown above. As the capital conservation buffer phases in, as described above, it will fully or partially replace the PRA buffer.

Management Report

During the three months ended March 2017 and the year ended December 2016, GSI was in compliance with the capital requirements set by the PRA.

Regulatory Capital Ratios

The table below presents GSI's capital ratios under CRD IV.

	As of	
	March 2017	December 2016
CET1 ratio	12.7%	12.9%
Total capital ratio	16.7%	17.2%

In the table above, the CET1 ratio and Total capital ratio as of March 2017 include approximately 20 basis points attributable to the company's profit for the three months ended March 2017. This represents the company's profit for the financial period divided by its RWAs.

As of March 2017 and December 2016, GSI did not have any financial instruments which qualified as additional Tier 1 capital and the Tier 1 capital ratio was identical to the CET1 ratio disclosed above.

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

Capital Resources

The table below presents GSI's capital components under CRD IV.

	As of	
	March 2017	December 2016
<i>\$ in millions</i>		
Called up share capital	\$ 582	\$ 582
Share premium account including capital reserves	4,881	4,881
Retained earnings	22,471	22,070
Total shareholder's funds	27,934	27,533
Deductions	(680)	(1,080)
Common Equity Tier 1 and Tier 1 capital	\$27,254	\$26,453
Tier 2 and Total capital		
Long-term subordinated loans	\$ 8,958	\$ 8,958
Deductions	(298)	(48)
Tier 2 capital	8,660	8,910
Total capital	\$35,914	\$35,363

Risk-Weighted Assets

The table below presents the components of RWAs within GSI's regulatory capital ratios under CRD IV. See "Equity Capital Management and Regulatory Capital" in Part I of the 2016 Annual Report for a description of each RWA component.

	As of	
	March 2017	December 2016
<i>\$ in millions</i>		
Credit RWAs	\$120,173	\$114,420
Market RWAs	80,579	77,367
Operational RWAs	14,335	13,305
Total	\$215,087	\$205,092

Leverage Ratio

The company is required to monitor and disclose its leverage ratio using CRD IV's definition of exposure as amended by the European Commission Leverage Ratio Delegated Act. This leverage ratio compares CRD IV's definition of Tier 1 capital to a measure of leverage exposure, defined as the sum of assets plus certain off-balance-sheet exposures (which include a measure of derivatives exposures, securities financing transactions and commitments), less Tier 1 capital deductions. Any required minimum ratio is expected to become effective for GSI no earlier than January 1, 2018.

The table below presents GSI's leverage ratio under CRD IV.

	As of	
	March 2017	December 2016
<i>\$ in millions</i>		
Tier 1 capital	\$ 27,254	\$ 26,453
Leverage exposure	\$732,817	\$697,402
Leverage ratio	3.7%	3.8%

In the table above, the leverage ratio as of March 2017 includes approximately 6 basis points attributable to the company's profit for the three months ended March 2017. This represents the company's profit for the financial period divided by its leverage exposure. This leverage ratio is based on the company's current interpretation and understanding of this rule and may evolve as the interpretation and application of this rule is discussed with the company's regulators.

Management Report

Regulatory Developments

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

See "Regulatory Developments" in Part I of the 2016 Annual Report for further information about the laws, rules and regulations and proposed laws, rules and regulations that apply to the company and its operations.

Swaps and Derivatives Regulation

From February 2017, the final margin rules published in the Official Journal of the E.U. for uncleared derivatives became effective. These rules were effective for variation margin requirements in March 2017 and will phase in through September 2020 for initial margin requirements depending on counterparty type, the clearing threshold and derivatives volumes.

As a registered "swap dealer" under the U.S. Commodity Futures Trading Commission (CFTC) rules, the company is also subject to the CFTC margin rules. In September 2016, the final margin rules issued by the U.S. federal bank regulatory agencies and the CFTC for uncleared swaps became effective. These rules were effective for variation margin requirements in March 2017 and will phase in through September 2020 for initial margin requirements depending on the level of swaps, security-based swaps and/or exempt foreign exchange derivative transaction activity of the swap dealer and the relevant counterparty. The final rules of the U.S. federal bank regulatory agencies would generally apply to certain of the company's inter-affiliate transactions, with limited relief available from initial margin requirements for affiliates. Under the CFTC final rules, inter-affiliate transactions are exempt from initial margin requirements with certain exceptions but variation margin requirements still apply. The company expects that its margin requirements will continue to increase as the rules phase in.

Principal Risks and Uncertainties

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

Risk Management

Risks are inherent in the company's business and include liquidity, market, credit, operational, model, legal, compliance, regulatory and reputational risks. For further information about the company's risk management processes, see "Risk Management — Overview and Structure of Risk Management" in Part I of the 2016 Annual Report. The company's risks include the risks across its risk categories, regions or global businesses, as well as those which have uncertain outcomes and have the potential to materially impact the company's financial results, its liquidity and its reputation. For further information about the company's areas of risk, see "Liquidity Risk Management", "Market Risk Management", "Credit Risk Management", "Operational Risk Management", "Model Risk Management" below and "Principal Risks and Uncertainties" in Part I of the 2016 Annual Report.

Overview and Structure of Risk Management

The company's overview and structure of risk management is consistent with the 2016 Annual Report. See "Risk Management — Overview and Structure of Risk Management" in Part I of the 2016 Annual Report for further details.

Management Report

Liquidity Risk Management

Overview

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

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 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

GSI manages liquidity risk according to three principles (i) hold sufficient excess liquidity in the form of GCLA to cover outflows during a stressed period, (ii) maintain appropriate Asset-Liability Management and (iii) maintain a viable Contingency Funding Plan. See "Risk Management — Liquidity Risk Management" in Part I of the 2016 Annual Report for further details.

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

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

Contingency Funding Plan. GS Group maintains a contingency funding plan, which has a GSI-specific 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 company's potential responses if assessments indicate that the company has entered a liquidity crisis, which includes pre-funding for what the company 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 Stress Tests

In order to determine the appropriate size of the company's GCLA, an internal liquidity model is used, referred to as the Modeled Liquidity Outflow, which captures and quantifies the company's liquidity risks. Other factors are considered including, but not limited to, an assessment of potential intraday liquidity needs through an additional internal liquidity model, referred to as the Intraday Liquidity Model, the results of the company's long-term stress testing models, applicable regulatory requirements and a qualitative assessment of the condition of the company as well as the financial markets. The results of the Modeled Liquidity Outflow, the Intraday Liquidity Model and the long-term stress testing models are reported to senior management on a regular basis. See "Risk Management — Liquidity Risk Management" in Part I of the 2016 Annual Report for further details.

Management Report

GCLA and Unencumbered Metrics

GCLA. Based on the results of the company's internal liquidity risk models, described above, as well as consideration of other factors including, but not limited to, an assessment of the company's potential intraday liquidity needs and a qualitative assessment of the condition of the company as well as the financial markets, the company believes its liquidity position as of both March 2017 and December 2016 was appropriate. As of March 2017 and December 2016, the fair value of the securities and certain overnight cash deposits included in GSI's GCLA totalled \$53.58 billion and \$59.51 billion, respectively. The company strictly limits its GCLA to a narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. The company does not include other potential sources of excess liquidity, such as less liquid unencumbered securities or committed credit facilities, in the GCLA. The fair value of the company's GCLA averaged \$58.12 billion and \$59.44 billion for the three months ended March 2017 and December 2016, respectively.

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

\$ in millions	Average for the Three Months Ended	
	March 2017	December 2016
Overnight cash deposits	\$11,292	\$11,651
U.S. government obligations	25,660	26,760
French government obligations	6,117	5,536
U.K. government obligations	6,834	7,121
German government obligations	5,936	6,217
Japanese government obligations	2,277	2,156
Total	\$58,116	\$59,441

The company maintains its GCLA to enable it to meet current and potential liquidity requirements. The minimum GCLA required, as calculated by the Modeled Liquidity Outflow and the Intraday Liquidity Model, is held by the company directly and is intended for use only by GSI to meet its liquidity requirements, and is assumed not to be available to Group Inc. In addition to GCLA held in GSI, GS Group holds a portion of global GCLA directly at Group Inc., which in some circumstances may be additionally provided to GSI or other major subsidiaries.

Other Unencumbered Assets. In addition to its GCLA, the company has a significant amount of other unencumbered cash and financial instruments, including other government obligations, high-grade money market securities, corporate obligations, marginable equities, loans and cash deposits not included in its GCLA. The fair value of the company's other unencumbered assets averaged \$26.15 billion and \$28.48 billion for the three months ended March 2017 and December 2016, respectively. GSI does not consider these assets liquid enough to be eligible for inclusion in its GCLA.

Liquidity Regulatory Framework

The implementation of the Basel Committee's international framework for liquidity risk management, standards and monitoring calls for a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR).

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

The NSFR is designed to promote medium- and long-term stable funding of the assets and off-balance-sheet activities of banking organisations over a one-year time horizon. The Basel Committee's NSFR framework requires banking organisations to maintain a minimum NSFR of 100%, and will be effective on January 1, 2018. In November 2016, the European Commission issued a proposed rule that would implement an NSFR for certain E.U. financial institutions, including GSI. The proposed rule would be effective two years after it is incorporated into CRD IV.

The implementation of these rules, and any amendments adopted by the applicable regulatory authorities, could impact the company's liquidity and funding requirements and practices in the future.

Management Report

Credit Ratings

GSI relies on the debt capital markets to fund a portion of its day-to-day operations and the cost and availability of debt financing is influenced by its credit rating and that of Group Inc. Credit ratings are also important when GSI is competing in certain markets, such as OTC derivatives, and when GSI seeks to engage in longer-term transactions. See “Principal Risks and Uncertainties — Liquidity” in Part I of the 2016 Annual Report for information about the risks associated with a reduction in GSI’s and/or Group Inc.’s credit rating.

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

	As of March 2017		
	Fitch	Moody’s	S&P
GSI			
Short-term Debt	F1	P-1	A-1
Long-term Debt	A	A1	A+
Ratings Outlook	Stable	Stable	Stable
Group Inc.			
Short-term Debt	F1	P-2	A-2
Long-term Debt	A	A3	BBB+
Subordinated Debt	A-	Baa2	BBB-
Trust Preferred	BBB-	Baa3	BB
Preferred Stock	BB+	Ba1	BB
Ratings Outlook	Stable	Stable	Stable

Certain of the company’s derivatives have been transacted under bilateral agreements with counterparties who may require GSI to post collateral or terminate the transactions based on changes in the credit ratings of either GSI and/or Group Inc. The company assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies of both Group Inc. and GSI simultaneously and of each entity individually. A downgrade by any one rating agency, depending on the agency’s relative ratings of Group Inc. and GSI at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. The company manages its GCLA to ensure that it would, among other potential requirements, be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in Group Inc. and/or GSI’s long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them.

The table below presents the additional collateral or termination payments related to the company’s net derivative liabilities under bilateral agreements that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in Group Inc.’s and/or GSI’s credit ratings.

\$ in millions	As of	
	March 2017	December 2016
Additional collateral or termination payments:		
One-notch downgrade	\$ 150	\$ 491
Two-notch downgrade	\$1,364	\$1,811

Cash Flows

As a financial institution, the company’s cash flows are complex and bear little relation to the company’s profitability and net assets. Consequently, the company believes that traditional cash flow analysis is less meaningful in evaluating its liquidity position than the liquidity and asset-liability management policies described above and in more detail in “Risk Management — Liquidity Risk Management” in Part I of the 2016 Annual Report. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in the company’s businesses.

The statements of cash flows are set out on page 26 of this financial report.

Three Months Ended March 2017. The company’s cash and cash equivalents increased by \$2.07 billion to \$19.04 billion at the end of the first quarter of 2017. The company generated \$2.29 billion in net cash from operating activities.

Three Months Ended March 2016. The company’s cash and cash equivalents increased by \$4.08 billion to \$14.25 billion at the end of the first quarter of 2016. The company generated \$4.26 billion in net cash from operating activities.

Management Report

Market Risk Management

Overview

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

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

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

Market Risk Management Process

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

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

Risk Measures

Market Risk Management produces risk measures and monitors them against established market risk limits. These measures reflect an extensive range of scenarios and the results are aggregated at the product, business and company-wide level.

A variety of risk measures are used to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Primary risk measures are VaR, used for shorter-term periods, and stress tests. The GSI risk report details key risks, drivers and changes for each business, and is distributed daily to senior management of both the revenue-producing units and independent control and support functions.

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, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk across GSI. See "Risk Management — Market Risk Management" in Part I of the 2016 Annual Report for further details.

Limits. Risk limits are used at various levels (including entity, business and product) to govern risk appetite by controlling the size of its exposures to market risk. Limits for GSI are set based on VaR and on a range of stress tests relevant to the company's exposures. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

Management Report

The GSI Board Risk Committee and the GSI Risk Committee set market risk limits for the company at an overall, business and product level, consistent with the company's risk appetite. In addition, Market Risk Management (through delegated authority from the GSI Risk Committee) sets market risk sub-limits at certain business and product levels.

The purpose of the company-wide limits is to assist senior management in controlling the overall risk profile. Sub-limits are set below the approved level of risk limits. Sub-limits set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded.

When a risk limit has been exceeded (e.g., due to positional changes or changes in market conditions, such as increased volatilities or changes in correlations), it is escalated to senior managers in Market Risk Management and the appropriate risk committee. Such instances are remediated by an inventory reduction and/or a temporary or permanent increase to the risk limit.

Metrics

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

The table below presents average daily VaR by risk category.

<i>\$ in millions</i>	Three Months Ended		
	March 2017	December 2016	March 2016
Interest rates	\$ 26	\$ 26	\$ 27
Equity prices	18	17	17
Currency rates	10	7	15
Commodity prices	5	2	1
Diversification effect	(30)	(23)	(26)
Total	\$ 29	\$ 29	\$ 34

The company's average daily VaR was \$29 million for the first quarter of 2017, unchanged from the fourth quarter of 2016.

The company's average daily VaR decreased to \$29 million for the first quarter of 2017 from \$34 million for the first quarter of 2016, primarily reflecting a decrease in the currency rates category due to decreased exposures.

The table below presents period-end VaR by risk category.

<i>\$ in millions</i>	As of		
	March 2017	December 2016	March 2016
Interest rates	\$ 24	\$ 23	\$ 27
Equity prices	18	16	17
Currency rates	10	8	11
Commodity prices	4	3	1
Diversification effect	(25)	(24)	(24)
Total	\$ 31	\$ 26	\$ 32

The company's daily VaR increased to \$31 million as of March 2017 from \$26 million as of December 2016, primarily reflecting an increase in the equity prices category due to increased exposures.

The company's daily VaR decreased to \$31 million as of March 2017 from \$32 million as of March 2016, primarily reflecting a decrease in the interest rates category due to lower market volatility.

The table below presents high and low VaR by risk category.

<i>\$ in millions</i>	Three Months Ended March 2017	
	High	Low
Interest rates	\$30	\$22
Equity prices	\$24	\$14
Currency rates	\$15	\$ 6
Commodity prices	\$ 7	\$ 2

The high and low total VaR was \$32 million and \$27 million, respectively, for the three months ended March 2017.

Management Report

Sensitivity Measures

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure for these positions.

10% Sensitivity Measures. The table below presents market risk for positions, accounted for at fair value, that are not included in VaR by asset category. The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the value of these positions.

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Equity	\$10.1	\$11.8
Debt	0.1	0.1
Total	\$10.2	\$11.9

Credit Risk Management

Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments the company holds. The company's exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and debtors.

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

Credit Risk Management Process

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

- Approving transactions and setting and communicating credit exposure limits;
- Monitoring compliance with established credit exposure limits;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring the company's current and potential credit exposure and losses resulting from counterparty default;
- Reporting of credit exposures to senior management, the GSI board of directors and regulators;
- Using credit risk mitigants, including collateral and hedging; and
- Communicating and collaborating with other independent control and support functions such as operations, legal and compliance.

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

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

Management Report

Risk Measures and Limits

Credit risk is measured based on the potential loss in the event of non-payment by a counterparty using current and potential exposure. For derivatives and securities financing transactions, current exposure represents the amount presently owed to the company after taking into account applicable netting and collateral arrangements while potential exposure represents the company's estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure also takes into account netting and collateral arrangements.

Credit limits are used at various levels (e.g., counterparty, economic group, industry and country) to control the size and nature of the company's credit exposures. Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing risk appetites for a given counterparty or group of counterparties. Limits for industries and countries are based on the company's risk tolerance and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations.

The GSI Board Risk Committee and the GSI Risk Committee approve credit risk limits for the company at the company-wide, business and product level, consistent with the company's risk appetite. Furthermore, the GSI Risk Committee approves the framework that governs the setting of credit risk sub-limits at the GSI level, which is delegated to the GSI Credit Committee. Credit Risk Management (through delegated authority from GS Group's Risk Governance Committee and the GSI Credit Committee) sets credit limits for individual counterparties, economic groups, industries and countries. Policies authorised by GS Group's Firmwide Risk Committee, Risk Governance Committee and Credit Policy Committee prescribe the level of formal approval required for GS Group to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants.

Credit Exposures

GSI's credit exposures are described further below.

Financial Instruments Owned. Financial instruments owned includes cash instruments and derivatives. The company's credit exposure on derivatives arises primarily from market-making activities. As a market maker, the company enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. The company 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 company's financial statements unless it has current legal right of set-off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above, and in more detail in "Risk Management — Credit Risk Management" in Part I of the 2016 Annual Report.

Collateralised Agreements. The company 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 company's credit exposure on these transactions is therefore significantly lower than the amounts recorded on the balance sheet, which represent fair values or contractual value before consideration of collateral received. The company also has credit exposure on 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.

Debtors. The company is exposed to credit risk from its debtors through its amounts due from broker/dealers and customers; and amounts due from parent and group undertakings. These primarily comprise receivables related to cash collateral paid to counterparties and clearing organisations in respect of derivative financial instrument liabilities. Debtors also includes collateralised receivables related to customer securities transactions, which generally have minimal credit risk due to both the value of the collateral received and the short-term nature of these receivables.

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

Management Report

The tables below present the company's gross credit exposure to financial assets and net credit exposure after taking account of assets captured by market risk in the company's risk management process, counterparty netting (i.e., the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting

agreement), and cash and security collateral received and cash collateral posted under credit support agreements, which management considers when determining credit risk. This is presented by financial asset class and by credit rating equivalent (internally determined public rating agency equivalents).

<i>\$ in millions</i>	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
Financial Asset Class						
As of March 2017						
Financial instruments owned	\$617,888	\$(64,512)	\$(485,081)	\$(33,511)	\$ (14,970)	\$19,814
Collateralised agreements	206,223	–	(99,364)	–	(104,851)	2,008
Debtors	68,788	–	(4,483)	(34,291)	(5,703)	24,311
Cash at bank and in hand	19,070	–	–	–	–	19,070
Total	\$911,969	\$(64,512)	\$(588,928)	\$(67,802)	\$(125,524)	\$65,203
As of December 2016						
Financial instruments owned	\$662,945	\$(58,759)	\$(525,887)	\$(42,921)	\$ (16,136)	\$19,242
Collateralised agreements	184,600	–	(85,692)	–	(95,741)	3,167
Debtors	68,960	–	(3,531)	(37,476)	(4,864)	23,089
Cash at bank and in hand	16,888	–	–	–	–	16,888
Total	\$933,393	\$(58,759)	\$(615,110)	\$(80,397)	\$(116,741)	\$62,386

<i>\$ in millions</i>	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
Credit Rating Equivalent						
As of March 2017						
AAA/Aaa	\$ 19,544	\$ –	\$ (2,383)	\$ (1,596)	\$ (2,608)	\$12,957
AA/Aa2	125,125	–	(52,907)	(19,484)	(33,473)	19,261
A/A2	568,873	–	(468,139)	(23,404)	(62,590)	14,740
BBB/Baa2	89,826	–	(53,987)	(16,438)	(11,374)	8,027
BB/Ba2 or lower	39,756	–	(11,426)	(6,845)	(15,005)	6,480
Unrated	68,845	(64,512)	(86)	(35)	(474)	3,738
Total	\$911,969	\$(64,512)	\$(588,928)	\$(67,802)	\$(125,524)	\$65,203
As of December 2016						
AAA/Aaa	\$ 14,117	\$ –	\$ (2,633)	\$ (2,172)	\$ (235)	\$ 9,077
AA/Aa2	124,593	–	(56,064)	(23,156)	(26,761)	18,612
A/A2	603,808	–	(488,712)	(30,600)	(66,657)	17,839
BBB/Baa2	91,020	–	(56,285)	(16,746)	(9,573)	8,416
BB/Ba2 or lower	37,809	–	(11,315)	(7,709)	(12,966)	5,819
Unrated	62,046	(58,759)	(101)	(14)	(549)	2,623
Total	\$933,393	\$(58,759)	\$(615,110)	\$(80,397)	\$(116,741)	\$62,386

Management Report

The unrated net credit exposure of \$3.74 billion and \$2.62 billion as of March 2017 and December 2016, respectively, relates to financial assets for which the company has not assigned an internally determined public rating agency equivalent.

In addition to credit risk on financial assets, the company also has credit exposure in respect of contingent and forward starting resale and securities borrowing agreements. The company's gross credit exposure related to these activities is \$63.20 billion and \$43.60 billion as of March 2017 and December 2016, respectively. However, this will be mitigated by collateral of approximately \$62.80 billion and \$43.26 billion as of March 2017 and December 2016, respectively, if these commitments are fulfilled. As a result, the company's net credit exposure to these commitments was \$405 million and \$340 million as of March 2017 and December 2016, respectively.

As of March 2017 and December 2016, financial assets past due or impaired were not material.

Operational Risk Management

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures or legal and regulatory matters. Potential types of loss events related to internal and external operational risk include:

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

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

Operational Risk Management Process

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

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

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

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

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

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

Management Report

Model Risk Management

Overview

Model risk is the potential for adverse consequences from decisions made based on model outputs that may be incorrect or used inappropriately. GS Group relies on quantitative models across its business activities primarily to value certain financial assets and liabilities, to monitor and manage its risk, and to measure and monitor its regulatory capital.

GSI's framework for managing model risk is consistent with and part of GS Group's framework. GS Group's model risk management framework is managed through a governance structure and risk management controls, which encompass standards designed to ensure it maintains a comprehensive model inventory, including risk assessment and classification, sound model development practices, independent review and model-specific usage controls. GS Group's Firmwide Risk Committee and GS Group's Firmwide Model Risk Control Committee oversee the model risk management framework. Model Risk Management, which is independent of model developers, model owners and model users, reports to GS Group's chief risk officer, is responsible for identifying and reporting significant risks associated with models, and provides periodic updates to senior management, risk committees and GS Group's Risk Committee of the Board.

Model Review and Validation

Model Risk Management consists of quantitative professionals who perform an independent review, validation and approval of the models. This review includes an analysis of the model documentation, independent testing, an assessment of the appropriateness of the methodology used, and verification of compliance with model development and implementation standards. Model Risk Management reviews all existing models on an annual basis, as well as new models or significant changes to models.

The model validation process incorporates a review of models and trade and risk parameters across a broad range of scenarios (including extreme conditions) in order to critically evaluate and verify:

- The model's conceptual soundness, including the reasonableness of model assumptions, and suitability for intended use;
- The testing strategy utilised by the model developers to ensure that the models function as intended;
- The suitability of the calculation techniques incorporated in the model;
- The model's accuracy in reflecting the characteristics of the related product and its significant risks;
- The model's consistency with models for similar products; and
- The model's sensitivity to input parameters and assumptions.

Directors

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

Date of Issue

This financial report was issued on May 12, 2017.

Unaudited Financial Statements

GOLDMAN SACHS INTERNATIONAL (UNLIMITED COMPANY)

Profit and Loss Account (Unaudited)

<i>\$ in millions</i>	Note	Three Months Ended March	
		2017	2016
Net revenues	4	\$1,633	\$1,387
Administrative expenses		(957)	(784)
Operating profit		676	603
Interest payable and similar charges		(93)	(84)
Net finance income		1	2
Profit on ordinary activities before taxation		584	521
Tax on profit on ordinary activities	5	(156)	(153)
Profit for the financial period		\$ 428	\$ 368

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

Statements of Comprehensive Income (Unaudited)

<i>\$ in millions</i>	Note	Three Months Ended March	
		2017	2016
Profit for the financial period		\$ 428	\$ 368
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial profit relating to the pension scheme		15	152
Debt valuation adjustment	10	(51)	24
U.K. deferred tax attributable to the components of other comprehensive income		9	(46)
Other comprehensive income/(loss) for the financial period, net of tax		(27)	130
Total comprehensive income for the financial period		\$ 401	\$ 498

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

Balance Sheet

(Unaudited)

\$ in millions	Note	As of	
		March 2017	December 2016
Fixed assets		\$ 154	\$ 140
Current assets			
Financial instruments owned (includes \$24,315 and \$20,110 pledged as collateral)	6	617,888	662,945
Collateralised agreements	7	206,223	184,600
Debtors	8	69,382	69,696
Cash at bank and in hand		19,070	16,888
		912,563	934,129
Creditors: amounts falling due within one year			
Financial instruments sold, but not yet purchased	6	(570,676)	(613,911)
Collateralised financings	9	(160,533)	(137,641)
Other creditors	10	(104,993)	(110,931)
		(836,202)	(862,483)
Net current assets		76,361	71,646
Total assets less current liabilities		76,515	71,786
Creditors: amounts falling due after more than one year			
Collateralised financings	9	(8,514)	(6,233)
Other creditors	10	(40,186)	(38,073)
		(48,700)	(44,306)
Net assets excluding pension surplus		27,815	27,480
Pension surplus		119	53
Net assets including pension surplus		\$ 27,934	\$ 27,533
Capital and reserves			
Called up share capital	11	\$ 582	\$ 582
Share premium account		4,864	4,864
Capital reserve (non-distributable)		17	17
Profit and loss account		22,471	22,070
Total shareholder's funds		\$ 27,934	\$ 27,533

Statements of Changes in Equity (Unaudited)

<i>\$ in millions</i>	Three Months Ended March	
	2017	2016
Called up share capital		
Beginning balance	\$ 582	\$ 582
Ending balance	582	582
Share premium account		
Beginning balance	4,864	4,864
Ending balance	4,864	4,864
Capital reserve (non-distributable)		
Beginning balance	17	17
Ending balance	17	17
Profit and loss account		
Beginning balance	22,070	20,890
Profit for the financial period	428	368
Other comprehensive income/(loss)	(27)	130
Share-based payments	272	385
Management recharge related to share-based payments	(272)	(385)
Ending balance	22,471	21,388
Total shareholder's funds	\$27,934	\$26,851

No dividends were paid for the three months ended March 2017 and March 2016.

Statements of Cash Flows (Unaudited)

<i>\$ in millions</i>	Note	Three Months Ended March	
		2017	2016
Cash flows from operating activities			
Cash generated from operations	13	\$ 2,469	\$ 4,438
Taxation paid		(177)	(181)
Net cash from operating activities		2,292	4,257
Cash flows from investing activities			
Capital expenditure for fixed assets		(21)	–
Net cash used in investing activities		(21)	–
Cash flows from financing activities			
Interest paid on long-term subordinated loans		(204)	(182)
Net cash used in financing activities		(204)	(182)
Net increase in cash and cash equivalents		2,067	4,075
Cash and cash equivalents, beginning balance		16,881	9,970
Foreign exchange gains on cash and cash equivalents		88	208
Cash and cash equivalents, ending balance	12	\$19,036	\$14,253

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

Notes to the Financial Statements (Unaudited)

Note 1.

General Information

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

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

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

Note 2.

Summary of Significant Accounting Policies

Basis of Preparation

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

Accounting Policies

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

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

Note 3.

Critical Accounting Estimates and Judgements

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

Estimated Year-End Discretionary Compensation

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

Notes to the Financial Statements (Unaudited)

Note 4.

Segment Reporting

The company reports its activities in the following four business segments: Investment Banking; Institutional Client Services; Investing & Lending; and Investment Management. See “Results of Operations — Segment Reporting” in Part I of this financial report for a description of the company’s segments.

Basis of Presentation

The basis of presentation of the company’s segment reporting is consistent with that described in the 2016 Annual Report.

Segment Net Revenues

See “Results of Operations — Segment Reporting” in Part I of this financial report for the company’s segment net revenues.

Segment Operating Profit

The table below presents the operating profit of the company’s significant segments.

<i>\$ in millions</i>	Three Months Ended March	
	2017	2016
Investment Banking		
Net revenues	\$ 264	\$ 318
Administrative expenses	172	194
Operating profit	\$ 92	\$ 124
Institutional Client Services		
Net revenues	\$1,084	\$ 915
Administrative expenses	652	615
Operating profit	\$ 432	\$ 300
Total net revenues	\$1,633	\$1,387
Total administrative expenses	957	784
Total operating profit	\$ 676	\$ 603

In the table above:

- Total net revenues includes net revenues of \$285 million and \$154 million for the three months ended March 2017 and March 2016, respectively, related to Investing & Lending and Investment Management.
- Total administrative expenses includes administrative expenses of \$155 million and \$131 million for the three months ended March 2017 and March 2016, respectively, related to Investing & Lending and Investment Management segments, and a credit of \$22 million and a credit of \$156 million for the three months ended March 2017 and March 2016, respectively, relating to the mark-to-market of share-based compensation that has not been allocated to the company’s segments.

Segment Assets

Substantially all of the company’s assets are attributable to Institutional Client Services.

Note 5.

Tax on Profit on Ordinary Activities

The table below presents the company’s analysis of tax on profit on ordinary activities.

<i>\$ in millions</i>	Three Months Ended March	
	2017	2016
Current tax		
U.K. corporation tax	\$ –	\$ (12)
Adjustments in respect of prior periods	–	6
Overseas taxation	3	4
Total current tax	3	(2)
Deferred tax		
Origination and reversal of temporary differences	153	155
Total deferred tax	153	155
Total tax on profit on ordinary activities	\$156	\$153

Notes to the Financial Statements (Unaudited)

Note 6.

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

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

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

\$ in millions	As of	
	March 2017	December 2016
Cash instruments		
Money market instruments	\$ 294	\$ 211
Government and agency obligations	20,313	18,459
Mortgage and other asset-backed loans and securities	511	704
Corporate loans and debt securities and other debt obligations	12,907	12,356
Equity securities	34,963	31,513
Commodities	26	103
Total cash instruments	69,014	63,346
Derivative instruments		
Interest rates	362,156	371,881
Credit	31,764	34,059
Currencies	92,350	127,290
Commodities	8,143	9,813
Equities	54,461	56,556
Total derivative instruments	548,874	599,599
Total financial instruments owned	\$617,888	\$662,945

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

\$ in millions	As of	
	March 2017	December 2016
Cash instruments		
Government and agency obligations	\$ 12,836	\$ 10,099
Corporate loans and debt securities and other debt obligations	2,590	2,129
Equity securities	16,338	14,701
Commodities	-	7
Total cash instruments	31,764	26,936
Derivative instruments		
Interest rates	355,584	365,628
Credit	28,999	31,501
Currencies	94,043	126,877
Commodities	8,114	9,795
Equities	52,172	53,174
Total derivative instruments	538,912	586,975
Total financial instruments sold, but not yet purchased	\$570,676	\$613,911

In the tables above, equity securities include public and private equities, exchange-traded funds and convertible debentures.

Note 7.

Collateralised Agreements

The table below presents the company's collateralised agreements.

\$ in millions	As of	
	March 2017	December 2016
Resale agreements	\$136,131	\$120,005
Securities borrowed	70,092	64,595
Total collateralised agreements	\$206,223	\$184,600

In the table above:

- Total collateralised agreements includes amounts due from group undertakings of \$131.34 billion and \$121.45 billion as of March 2017 and December 2016, respectively.
- Total collateralised agreements includes balances due in more than one year of \$437 million and \$433 million as of March 2017 and December 2016, respectively.

Note 8.

Debtors

The table below presents the company's debtors balances. All debtors are due within one year of the balance sheet date, unless noted below.

\$ in millions	As of	
	March 2017	December 2016
Amounts due from broker/dealers and customers	\$57,354	\$57,290
Amounts due from parent and group undertakings	11,337	11,574
Deferred tax	560	704
Other debtors	32	44
Prepayments and accrued income	99	84
Total debtors	\$69,382	\$69,696

In the table above:

- Amounts due from broker/dealers and customers includes balances due in more than one year relating to prepaid commodity contracts of \$56 million and \$276 million as of March 2017 and December 2016, respectively.
- Total debtors include financial assets of \$68.79 billion and \$68.96 billion as of March 2017 and December 2016, respectively, and non-financial assets of \$594 million and \$736 million as of March 2017 and December 2016, respectively.

Notes to the Financial Statements (Unaudited)

Note 9.

Collateralised Financings

The table below presents the company's collateralised financings.

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Amounts falling due within one year		
Repurchase agreements	\$102,943	\$ 84,581
Securities loaned	57,590	53,060
Total	\$160,533	\$137,641
Amounts falling due after more than one year		
Repurchase agreements	\$ 7,513	\$ 5,734
Securities loaned	1,001	499
Total	\$ 8,514	\$ 6,233
Total collateralised financings	\$169,047	\$143,874

In the table above, total collateralised financings includes amounts due to group undertakings of \$116.13 billion and \$97.91 billion as of March 2017 and December 2016, respectively, of which \$115.72 billion and \$97.58 billion as of March 2017 and December 2016, respectively, are due within one year.

Note 10.

Other Creditors

The table below presents the company's other creditors.

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Amounts falling due within one year		
Bank loans	\$ 204	\$ 164
Overdrafts	34	7
Debt securities issued	13,243	12,819
Amounts due to broker/dealers and customers	50,532	54,071
Amounts due to parent and group undertakings – unsecured borrowings	19,457	18,922
Amounts due to parent and group undertakings – secured borrowings	941	–
Amounts due to parent and group undertakings – other unsecured creditors	18,864	22,517
Accrual for management charges payable to parent and group undertakings	634	918
Corporation tax payable	79	203
Other taxes and social security costs	152	231
Other creditors and accruals	853	1,079
Total	\$104,993	\$110,931
Amounts falling due after more than one year		
Long-term subordinated loans	\$ 8,958	\$ 8,958
Debt securities issued	12,550	11,157
Amounts due to parent and group undertakings – unsecured borrowings	18,229	16,882
Amounts due to parent and group undertakings – other unsecured creditors	56	276
Accrual for management charges payable to parent and group undertakings	336	745
Other creditors	57	55
Total	\$ 40,186	\$ 38,073
Total other creditors	\$145,179	\$149,004

In the table above:

- The accrual for management charges payable to parent and group undertakings is in respect of share-based compensation.
- Total amounts falling due within one year includes financial liabilities of \$104.76 billion and \$110.50 billion as of March 2017 and December 2016, respectively, and non-financial liabilities of \$231 million and \$434 million as of March 2017 and December 2016, respectively.
- All amounts falling due after more than one year are financial liabilities as of March 2017 and December 2016.

Notes to the Financial Statements (Unaudited)

Debt Securities Issued

The table below presents the company's debt securities issued.

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Amounts falling due within one year		
Unsecured debt securities issued with affiliates	\$ 2,096	\$ 2,080
Unsecured debt securities issued with external counterparties	7,850	7,992
Secured debt securities issued with affiliates	279	932
Secured debt securities issued with external counterparties	3,018	1,815
Total	\$13,243	\$12,819
Amounts falling due after more than one year		
Unsecured debt securities issued with affiliates	\$ 836	\$ 886
Unsecured debt securities issued with external counterparties	9,882	8,704
Secured debt securities issued with affiliates	539	537
Secured debt securities issued with external counterparties	1,293	1,030
Total	\$12,550	\$11,157
Total debt securities issued	\$25,793	\$23,976

In the table above, secured debt securities issued are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within "Financial instruments owned" or sourced through collateralised agreements.

The table below presents the maturity of the company's long-term debt securities issued.

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Over one year and up to two years	\$ 2,092	\$ 1,630
Over two years and up to five years	4,054	3,295
Over five years	6,404	6,232
Total	\$12,550	\$11,157

Amounts due in more than five years predominantly relate to structured debt securities issued with maturities falling due between 2022 and 2056. Payments on these instruments are typically referenced to underlying financial assets, which are predominately interest rate and equities-related.

Debt Valuation Adjustment

The fair value of debt securities issued that are designated at fair value through profit or loss are calculated by discounting future cash flows at a rate which incorporates GS Group's credit spreads. The net DVA on such financial liabilities is a pre-tax loss of \$51 million for the three months ended March 2017 and a pre-tax gain of \$24 million for the three months ended March 2016, and has been included in "Debt valuation adjustment" in other comprehensive income.

Long-Term Subordinated Loans

Long-term subordinated loans comprise long-term subordinated loans from parent and group undertakings, which are unsecured and carry interest at a margin over the U.S. Federal Reserve's federal funds rate. The margin is reset on a periodic basis to reflect changes in GS Group's weighted average cost of debt. Long-term subordinated loans constitute regulatory capital as approved by the PRA and are repayable subject to PRA approval. Long-term subordinated loans of \$8.70 billion are repayable between December 14, 2021 and April 29, 2025. Any repayment prior to the maturity date requires PRA approval. Long-term subordinated loans of \$255 million are repayable upon giving or receiving at least 5 years' notice to or from the group undertaking and is subject to PRA approval.

Intercompany Borrowings

Intercompany borrowings due within one year as of March 2017 increased compared with December 2016, reflecting an increase in secured borrowings of \$941 million due to new proceeds, and an increase in unsecured borrowings of \$535 million due to new proceeds of \$1.02 billion, partially offset by repayments of \$483 million.

Intercompany borrowings due after more than one year as of March 2017 increased compared with December 2016, reflecting an increase in unsecured borrowings of \$1.35 billion due to new proceeds of \$11.12 billion, partially offset by repayments of \$9.77 billion.

Amounts due to parent and group undertakings falling due after more than one year include loans that are repayable in more than five years. As of March 2017, the company had a variable rate loan of \$214 million with a maturity of June 13, 2026 and a variable rate loan of \$347 million with a maturity of February 7, 2032. As of December 2016, the company had a variable rate loan of \$211 million with a maturity of June 13, 2026.

Notes to the Financial Statements (Unaudited)

Note 11.

Share Capital

The table below presents the company's share capital.

Allotted, called up and fully paid	Ordinary shares	
	of \$1 each	\$ in millions
As of January 1, 2017	581,964,161	\$582
As of March 31, 2017	581,964,161	\$582

Note 12.

Cash and Cash Equivalents

The table below presents the company's cash and cash equivalents for the purpose of the statements of cash flows.

\$ in millions	As of March	
	2017	2016
Cash at bank and in hand	\$19,070	\$14,361
Overdrafts (see Note 10)	(34)	(108)
Total cash and cash equivalents	\$19,036	\$14,253

Note 13.

Reconciliation of Cash Flows From Operating Activities

The table below presents the company's reconciliation of cash flows from operating activities.

\$ in millions	Three Months Ended March	
	2017	2016
Profit on ordinary activities before taxation	\$ 584	\$ 521
Adjustments for		
Depreciation and amortisation	8	1
Charge/(credit) for defined benefit plan	(1)	7
Foreign exchange gains	(86)	(208)
Share-based compensation expense/(credit)	22	(117)
Provisions for liabilities	-	25
Interest payable and similar charges	93	84
Cash generated before changes in operating assets and liabilities	620	313
Changes in operating assets		
Decrease/(increase) in financial instruments owned	45,057	(157,291)
Increase in collateralised agreements	(21,623)	(29,869)
Decrease/(increase) in debtors	156	(11,806)
Changes in operating assets	23,590	(198,966)
Changes in operating liabilities		
Increase/(decrease) in financial instruments sold, but not yet purchased	(43,235)	170,056
Increase in collateralised financings	25,173	12,984
Increase/(decrease) in other creditors	(3,629)	20,059
Changes in operating liabilities	(21,691)	203,099
Contributions paid to defined benefit plan	(50)	(8)
Cash generated from operations	\$ 2,469	\$ 4,438

Cash generated from operations includes interest paid of \$476 million and \$386 million for the three months ended March 2017 and March 2016, respectively, and interest received of \$611 million and \$495 million for the three months ended March 2017 and March 2016, respectively.

Notes to the Financial Statements (Unaudited)

Note 14.

Financial Commitments and Contingencies

Commitments and Contingencies

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

<i>\$ in millions</i>	As of	
	March 2017	December 2016
Contingent and forward starting resale and securities borrowing agreements	\$63,201	\$43,599
Forward starting repurchase and secured lending agreements	18,781	11,806
Other	2,839	3,993
Total	\$84,821	\$59,398

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

Other commitments primarily relate to collateral commitments and commitments to extend credit.

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

Leases

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

Legal Proceedings

The company is involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the company's business, however it is not practicable to reliably estimate an impact, if any, of these proceedings.

Interest Rate Swap Antitrust Litigation. GSI is among the defendants named in putative antitrust class actions relating to the trading of interest rate swaps, filed beginning in November 2015 and consolidated in the U.S. District Court for the Southern District of New York. The second consolidated amended complaint filed on December 9, 2016 generally alleges a conspiracy among the defendants since at least January 1, 2007 to preclude exchange trading of interest rate swaps. The complaint seeks declaratory and injunctive relief as well as treble damages in an unspecified amount. Defendants moved to dismiss on January 20, 2017.

GSI is among the defendants named in antitrust actions relating to the trading of interest rate swaps filed in the U.S. District Court for the Southern District of New York beginning in April 2016 by two operators of swap execution facilities and certain of their affiliates. These actions have been consolidated with the class action described above for pretrial proceedings. The second consolidated amended complaint filed on December 9, 2016 generally asserts claims under federal and state antitrust laws and state common law in connection with an alleged conspiracy among the defendants to preclude trading of interest rate swaps on the plaintiffs' respective swap execution facilities and seeks declaratory and injunctive relief as well as treble damages in an unspecified amount. Defendants moved to dismiss on January 20, 2017.

Commodities-Related Litigation. GSI is among the defendants named in putative class actions relating to trading in platinum and palladium, filed beginning on November 25, 2014 and most recently amended on July 27, 2015, in the U.S. District Court for the Southern District of New York. The complaints generally allege that the defendants violated federal antitrust laws and the Commodity Exchange Act in connection with an alleged conspiracy to manipulate a benchmark for physical platinum and palladium prices and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On March 28, 2017, the district court dismissed the antitrust claims but permitted certain of the Commodity Exchange Act claims to proceed against certain defendants, including GSI.

Notes to the Financial Statements (Unaudited)

Regulatory Investigations and Reviews and Related Litigation. Group Inc. and certain of its affiliates, including GSI, are subject to a number of other investigations and reviews by, and in some cases have received subpoenas and requests for documents and information from, various governmental and regulatory bodies and self-regulatory organisations and litigation relating to various matters relating to the GS Group's businesses and operations, including:

- The 2008 financial crisis;
- The public offering process;
- Investment management and financial advisory services;
- Conflicts of interest;
- Transactions involving government-related financings and other matters, including those related to 1Malaysia Development Berhad (1MDB), a sovereign wealth fund in Malaysia;
- The offering, auction, sales, trading and clearance of corporate and government securities, currencies, commodities and other financial products and related sales and other communications and activities, as well as GS Group's supervision and controls relating to such activities, including compliance with short sale rules, algorithmic, high-frequency and quantitative trading, futures trading, options trading, when-issued trading, transaction reporting, technology systems and controls, securities lending practices, trading and clearance of credit derivative instruments and interest rate swaps, commodities activities and metals storage, private placement practices, allocations of and trading in securities, and trading activities and communications in connection with the establishment of benchmark rates, such as currency rates;
- Compliance with the U.K. Bribery Act and the U.S. Foreign Corrupt Practices Act;
- Hiring and compensation practices;
- System of risk management and controls; and
- Insider trading, the potential misuse and dissemination of material non-public information regarding corporate and governmental developments and the effectiveness of insider trading controls and information barriers.

In addition, investigations, reviews and litigation involving the company's affiliates and such affiliates' businesses and operations, including various matters referred to above but also other matters, may have an impact on the company's businesses and operations.

Note 15.

Financial Risk Management and Capital Management

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

Note 16.

Financial Assets and Financial Liabilities

Financial Assets and Financial Liabilities by Category

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

\$ in millions	Financial Assets			Total
	Held for trading	Designated at fair value	Loans and receivables	
As of March 2017				
Financial instruments owned	\$617,888	\$ -	\$ -	\$617,888
Collateralised agreements	-	158,586	47,637	206,223
Debtors	-	845	67,943	68,788
Cash at bank and in hand	-	-	19,070	19,070
Total financial assets	\$617,888	\$159,431	\$134,650	\$911,969

\$ in millions	Financial Assets			Total
	Held for trading	Designated at fair value	Loans and receivables	
As of December 2016				
Financial instruments owned	\$662,945	\$ -	\$ -	\$662,945
Collateralised agreements	-	139,732	44,868	184,600
Debtors	-	1,432	67,528	68,960
Cash at bank and in hand	-	-	16,888	16,888
Total financial assets	\$662,945	\$141,164	\$129,284	\$933,393

\$ in millions	Financial Liabilities			Total
	Held for trading	Designated at fair value	Amortised cost	
As of March 2017				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$570,676	\$ -	\$ -	\$570,676
Collateralised financings	-	115,322	45,211	160,533
Other creditors	-	14,527	90,235	104,762
Total	570,676	129,849	135,446	835,971

Amounts falling due after more than one year				
Collateralised financings	-	8,514	-	8,514
Other creditors	-	21,505	18,681	40,186
Total	-	30,019	18,681	48,700
Total financial liabilities	\$570,676	\$159,868	\$154,127	\$884,671

\$ in millions	Financial Liabilities			Total
	Held for trading	Designated at fair value	Amortised cost	
As of December 2016				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$613,911	\$ -	\$ -	\$613,911
Collateralised financings	-	96,427	41,214	137,641
Other creditors	-	13,542	96,955	110,497
Total	613,911	109,969	138,169	862,049

Amounts falling due after more than one year				
Collateralised financings	-	6,233	-	6,233
Other creditors	-	19,407	18,666	38,073
Total	-	25,640	18,666	44,306
Total financial liabilities	\$613,911	\$135,609	\$156,835	\$906,355

Notes to the Financial Statements (Unaudited)

In the table above, financial instruments owned held for trading include \$38 million and \$37 million as of March 2017 and December 2016, respectively, of derivative instruments designated as hedges.

Fair Value Hierarchy

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

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

The fair value hierarchy is as follows:

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

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

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

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

Valuation Techniques and Significant Inputs

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

Level 1 Cash Instruments

Level 1 cash instruments are valued using quoted prices for identical unrestricted instruments in active markets. The company defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument. The company defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

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

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

Level 3 Cash Instruments

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

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

Notes to the Financial Statements (Unaudited)

• **Mortgages and Other Asset-Backed Loans and Securities.** Significant inputs are generally determined based on relative value analyses and include:

- Market yields implied by transactions of similar or related assets;
- Current performance of the borrower or loan collateral and recovery assumptions if a default occurs; and
- Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

• **Equity Securities.** Equity securities include private equity securities and convertible debentures. Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate:

- Industry multiples and public comparables;
- Transactions in similar instruments; and
- Discounted cash flow techniques.

• **Corporate Obligations and Other Cash Instruments.** Corporate obligations and other cash instruments consists of corporate loans and debt securities and other debt obligations and government and agency obligations. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:

- Market yields implied by transactions of similar or related assets;
- Current levels and changes in market indices such as the iTraxx, CDX and LCDX (indices that track the performance of corporate credit and loans, respectively);
- Current performance of the borrower or loan collateral and recovery assumptions if a default occurs; and
- Maturity and coupon profile of the instrument.

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

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

Notes to the Financial Statements (Unaudited)

- **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 company considers, among other factors, a portfolio's net risk exposure to that input.

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

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

Level 3 Derivatives

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

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 company also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the company 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 company makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

Notes to the Financial Statements (Unaudited)

Other Financial Assets and Financial Liabilities.

Valuation techniques and significant inputs of other financial assets and financial liabilities include:

- **Collateralised Agreements and Collateralised Financings.** The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates.
- **Debtors.** Debtors measured at fair value are primarily comprised of secured lending and prepaid commodity contracts. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads.
- **Other Creditors.** Other creditors primarily comprise hybrid financial instruments and prepaid commodity contracts.

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

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

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.

\$ in millions	Financial Assets and Financial Liabilities at Fair Value as of March 2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash instruments	\$50,211	\$ 17,733	\$ 1,070	\$ 69,014
Derivative instruments	63	544,834	3,977	548,874
Financial instruments owned	50,274	562,567	5,047	617,888
Collateralised agreements	–	158,586	–	158,586
Debtors	–	845	–	845
Total financial assets	\$50,274	\$721,998	\$ 5,047	\$777,319
Financial Liabilities				
Amounts falling due within one year				
Cash instruments	\$27,698	\$ 4,062	\$ 4	\$ 31,764
Derivative instruments	12	536,756	2,144	538,912
Financial instruments sold, but not yet purchased	27,710	540,818	2,148	570,676
Collateralised financings	–	115,258	64	115,322
Other creditors	–	10,412	4,115	14,527
Total	27,710	666,488	6,327	700,525
Amounts falling due after more than one year				
Collateralised financings	–	8,514	–	8,514
Other creditors	–	17,584	3,921	21,505
Total	–	26,098	3,921	30,019
Total financial liabilities	\$27,710	\$692,586	\$10,248	\$730,544
Net derivative instruments	\$ 51	\$ 8,078	\$ 1,833	\$ 9,962

\$ in millions	Financial Assets and Financial Liabilities at Fair Value as of December 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash instruments	\$43,678	\$ 18,633	\$ 1,035	\$ 63,346
Derivative instruments	47	595,435	4,117	599,599
Financial instruments owned	43,725	614,068	5,152	662,945
Collateralised agreements	–	139,732	–	139,732
Debtors	–	1,432	–	1,432
Total financial assets	\$43,725	\$755,232	\$ 5,152	\$804,109
Financial Liabilities				
Amounts falling due within one year				
Cash instruments	\$23,837	\$ 3,095	\$ 4	\$ 26,936
Derivative instruments	34	584,717	2,224	586,975
Financial instruments sold, but not yet purchased	23,871	587,812	2,228	613,911
Collateralised financings	–	96,361	66	96,427
Other creditors	–	9,941	3,601	13,542
Total	23,871	694,114	5,895	723,880
Amounts falling due after more than one year				
Collateralised financings	–	6,233	–	6,233
Other creditors	–	15,674	3,733	19,407
Total	–	21,907	3,733	25,640
Total financial liabilities	\$23,871	\$716,021	\$ 9,628	\$749,520
Net derivative instruments	\$ 13	\$ 10,718	\$ 1,893	\$ 12,624

Notes to the Financial Statements (Unaudited)

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

Cash Instruments. As of March 2017 and December 2016, the company had level 3 cash instrument assets of \$1.07 billion and \$1.04 billion, respectively. Level 3 cash instrument liabilities were not material. The table below presents the amount of level 3 cash instruments assets, and ranges and weighted averages of significant unobservable inputs used to value the company's level 3 cash instrument assets.

\$ in millions	Level 3 Cash Instruments Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
	March 2017	December 2016
Mortgages and other asset-backed loans and securities		
Level 3 assets	\$295	\$336
Yield	1.9% to 18.4% (5.2%)	0.8% to 20.0% (7.1%)
Recovery rate	75.0% to 75.0% (75.0%)	35.0% to 97.5% (76.5%)
Duration (years)	0.7 to 14.6 (4.8)	0.8 to 16.1 (4.7)
Equity securities		
Level 3 assets	\$163	\$199
Multiples	0.9x to 5.5x (2.1x)	0.9x to 5.5x (1.6x)
Corporate obligations and other cash instruments		
Level 3 assets	\$612	\$500
Yield	2.6% to 16.1% (6.6%)	2.6% to 14.1% (6.3%)
Recovery rate	0.0% to 70.0% (45.1%)	0.0% to 70.0% (45.1%)
Duration (years)	2.4 to 5.4 (3.2)	1.9 to 15.7 (3.4)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument.
- Weighted averages are calculated by weighting each input by the relative fair value of the cash instruments.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest yield for mortgages and other asset-backed loans and securities is appropriate for valuing a specific mortgage but may not be appropriate for valuing any other mortgages. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the company's level 3 cash instruments.
- Increases in yield or duration used in the valuation of the company's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate or multiples would result in a higher fair value measurement. Due to the distinctive nature of each of the company's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.
- Equity securities include public and private equities, exchange-traded funds and convertible debentures.

- Mortgages and other asset-backed loans and securities and corporate obligations and other cash instruments are valued using discounted cash flows, and equity securities are valued using market comparables and discounted cash flows.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Derivative Instruments. As of March 2017 and December 2016, the company had net level 3 derivative instruments of \$1.83 billion and \$1.89 billion, respectively. The table below presents the amount of net level 3 derivative instruments, and ranges, averages and medians of significant unobservable inputs used to value the company's credit and equities derivative instruments. As of March 2017 and December 2016, the company had net level 3 financial instruments of \$(143) million and \$(184) million, respectively, relating to interest rate, currencies and commodities derivatives for which the range of significant unobservable inputs has not been disclosed as the amounts are not material.

\$ in millions	Net Level 3 Derivative Instruments and Range of Significant Unobservable Inputs (Average/Median) as of	
	March 2017	December 2016
Credit	\$2,202	\$2,313
Correlation	36% to 90% (67%/70%)	35% to 91% (65%/68%)
Credit spreads (bps)	1 to 962 (106/70)	2 to 993 (148/100)
Upfront credit points	0 to 51 (15/9)	0 to 96 (21/8)
Recovery rates	20% to 97% (61%/70%)	1% to 83% (54%/70%)
Equities	\$(226)	\$(236)
Correlation	(30)% to 87% (44%/46%)	(39)% to 87% (42%/45%)
Volatility	5% to 80% (23%/22%)	5% to 63% (23%/22%)

In the table above:

- Net derivative assets are shown as positive amounts and net derivative liabilities are shown as negative amounts.
- Ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative.
- Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average.

Notes to the Financial Statements (Unaudited)

- The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation for credit derivatives is appropriate for valuing a specific credit derivative but may not be appropriate for valuing any other credit derivative. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the company's level 3 derivatives.
- Credit derivatives are valued using option pricing, correlation and discounted cash flow models, and equities derivatives are valued using option pricing models.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
- Correlation within equities includes cross-product correlation.

Range of Significant Unobservable Inputs

The following is information about the ranges of significant unobservable inputs used to value the company's level 3 derivative instruments:

- **Correlation.** Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of an equity index and a foreign exchange rate), as well as across regions.
- **Volatility.** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.
- **Credit spreads, upfront credit points and recovery rates.** The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

The following is a description of the directional sensitivity of the company's level 3 fair value measurements to changes in significant unobservable inputs, in isolation:

- **Correlation.** In general, for contracts where the holder benefits from the consistent directional performance of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation results in a higher fair value measurement.
- **Volatility.** In general, for purchased options, an increase in volatility results in a higher fair value measurement.
- **Credit spreads, upfront credit points and recovery rates.** In general, the fair value of purchased credit protection increases as credit spreads or upfront credit points increase or recovery rates decrease. Credit spreads, upfront credit points and recovery rates are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation; and macroeconomic conditions.

Due to the distinctive nature of each of the company's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

Notes to the Financial Statements (Unaudited)

Other Financial Assets and Financial Liabilities.

Significant unobservable inputs of other financial assets and financial liabilities include:

- **Collateralised Agreements and Collateralised Financings.** As of both March 2017 and December 2016, the company had no level 3 resale agreements, securities borrowed or securities loaned. As of both March 2017 and December 2016, the company's level 3 repurchase agreements were not material.
- **Debtors.** As of both March 2017 and December 2016, the company had no level 3 debtors.
- **Other Creditors.** As of March 2017 and December 2016, the significant unobservable inputs used to value the company's level 3 other creditors are incorporated into the company's derivative instruments and cash instruments disclosures related to unobservable inputs. See "Cash Instruments" and "Derivative Instruments" above.

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

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

Level 3 Rollforward

The table below presents a summary of the changes in fair value for all level 3 financial assets and financial liabilities measured at fair value on a recurring basis.

<i>\$ in millions</i>	Three Months Ended March	
	2017	2016
Total financial assets		
Beginning balance	\$ 5,152	\$ 6,041
Gains/(losses)	206	841
Purchases	370	204
Sales	(188)	(90)
Settlements	(314)	(426)
Transfers into level 3	163	564
Transfers out of level 3	(342)	(1,078)
Ending balance	\$ 5,047	\$ 6,056
Total financial liabilities		
Beginning balance	\$ (9,628)	\$(8,401)
Gains/(losses)	(428)	(413)
Purchases	6	9
Sales	(1,946)	(1,895)
Settlements	1,681	656
Transfers into level 3	(160)	(572)
Transfers out of level 3	227	768
Ending balance	\$(10,248)	\$(9,848)

In the table above:

- If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. For level 3 financial assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Transfers between levels are recognised at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses for level 3 financial assets and financial liabilities that were transferred out of level 3 prior to the end of the period.
- Level 3 financial assets and financial liabilities are frequently economically hedged with level 1 and level 2 financial assets and financial liabilities. Accordingly, level 3 gains or losses that are reported in the table below for a particular class of financial asset or financial liability can be partially offset by gains or losses attributable to level 1 or level 2 in the same class of financial asset or financial liability or gains or losses attributable to level 1, level 2 or level 3 in a different class of financial asset or financial liability. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the company's results of operations, liquidity or capital resources.
- The net gains on level 3 financial assets for the three months ended March 2017 and the three months ended March 2016 are reported in "Net revenues" in the profit and loss account.
- The net losses on level 3 financial liabilities of \$428 million for the three months ended March 2017 include losses of \$408 million reported in "Net revenues" in the profit and loss account and losses of \$20 million reported in "Debt valuation adjustment" in the statements of comprehensive income.

Notes to the Financial Statements (Unaudited)

The table below disaggregates, by the balance sheet line items, the information for financial liabilities included in the summary table above. The information for financial assets included in the summary table above has not been disaggregated as it solely relates to “Financial instruments owned” on the balance sheet.

<i>\$ in millions</i>	Three Months Ended March	
	2017	2016
Financial instruments sold, but not yet purchased		
Beginning balance	\$(2,228)	\$(2,727)
Gains/(losses)	(124)	(445)
Purchases	6	9
Sales	(72)	(95)
Settlements	157	340
Transfers into level 3	(102)	(233)
Transfers out of level 3	215	551
Ending balance	\$(2,148)	\$(2,600)
Collateralised financings		
Beginning balance	\$ (66)	\$ (71)
Gains/(losses)	–	(2)
Settlements	2	–
Ending balance	\$ (64)	\$ (73)
Other creditors		
Beginning balance	\$(7,334)	\$(5,603)
Gains/(losses)	(304)	34
Sales	(1,874)	(1,800)
Settlements	1,522	316
Transfers into level 3	(58)	(339)
Transfers out of level 3	12	217
Ending balance	\$(8,036)	\$(7,175)

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

Three Months Ended March 2017. Transfers into level 3 primarily reflected transfers of certain credit derivatives from level 2, principally due to unobservable credit spread and yield inputs becoming significant to the valuation of these instruments, and transfers of certain equity derivatives from level 2, principally due to unobservable volatility and correlation inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable credit spread and yield inputs no longer being significant to the net risk of certain portfolios, and transfers of certain equity derivatives to level 2, principally due to unobservable volatility and correlation inputs no longer being significant to the valuation of these derivatives.

Three Months Ended March 2016. Transfers into level 3 primarily reflected transfers of certain credit derivatives from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these instruments, and transfers of certain equity derivatives from level 2, principally due to unobservable volatility and correlation inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable credit spread inputs no longer being significant to the net risk of certain portfolios, and transfers of certain interest rate derivatives to level 2, due to unobservable long-dated interest rates becoming observable.

Notes to the Financial Statements (Unaudited)

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, has been quantified as of March 2017 and March 2016, as approximately \$282 million and \$380 million, respectively, for favourable changes, and \$260 million and \$305 million, respectively, for unfavourable changes. In determining reasonably possible alternative unfavourable assumptions, a detailed business and position level review has been performed to identify and quantify instances where potential uncertainty exists. This has taken into account the positions' fair value as compared to the range of available market information.

The table below presents the amounts not recognised in the profit and loss account relating to the difference between the fair value of financial instruments held for trading at initial recognition (the transaction price) and the amounts determined at initial recognition using the valuation techniques (day 1 P&L).

<i>\$ in millions</i>	Three Months Ended March	
	2017	2016
As of January 1	\$149	\$139
New transactions	71	50
Amounts recognised in the profit and loss account during the period	(16)	(15)
As of March 31	\$204	\$174

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

As of March 2017 and December 2016, the company had \$134.65 billion and \$129.28 billion, respectively, of current financial assets and \$135.45 billion and \$138.17 billion, respectively, of current financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

As of March 2017 and December 2016, the company had \$18.68 billion and \$18.67 billion, respectively, of financial liabilities that are due after more than one year that are not measured at fair value which predominantly relate to long-term intercompany borrowings. The interest rates of these borrowings are variable in nature and approximate prevailing market interest rates for instruments with similar terms and characteristics. As such, their carrying amounts in the balance sheet are a reasonable approximation of fair value.