

GOLDMAN SACHS INTERNATIONAL

(unlimited company)

UNAUDITED HALF-YEARLY FINANCIAL REPORT

30 JUNE 2014

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

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Part 1: Management report

GOLDMAN SACHS INTERNATIONAL

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MANAGEMENT REPORT

1. Introduction

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

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

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

GS Group has a presence in EMEA through a number of subsidiaries, including GSI.

GSI seeks to be the advisor of choice for its global clients and a leading participant in global financial markets. As part of GS Group, GSI also enters into transactions with affiliates in the normal course of business as part of market-making 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.

2. Financial overview

References to 'the financial statements' refer to the unaudited financial statements as presented in Part 2 of this financial report for the half-year ended 30 June 2014. Comparative information has been presented for the half-year ended 30 June 2013 and the year ended 31 December 2013. All references to 30 June 2014, 31 December 2013 and 30 June 2013 refer to the periods ended, or the dates, as the context requires, 30 June 2014, 31 December 2013, and 30 June 2013, respectively.

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

GS Group prepares consolidated financial statements under United States Generally Accepted Accounting Principles ('U.S. GAAP'), which include the results of GSI prepared on a U.S. GAAP basis. The company's profit under U.K. GAAP differs to that under U.S. GAAP primarily due to timing differences in the recognition of certain revenues and expenses. The company's total assets and total liabilities under U.S. GAAP are significantly lower than those presented under U.K. GAAP, as the company is able to net a significant proportion of its derivative assets and liabilities under U.S. GAAP. Refer to *Balance sheet* below for further details.

Profit and loss account

The profit and loss account for the period is set out on page 26 of this financial report. Net revenue was US\$3.3 billion for the half-year ended 30 June 2014 (30 June 2013: US\$3.0 billion) and pre-tax profit was US\$1.1 billion for the half-year ended 30 June 2014 (30 June 2013: US\$335 million).

Balance sheet

The balance sheet as at 30 June 2014 is set out on page 27 of this financial report. GSI had total assets and total liabilities of US\$884 billion and US\$862 billion, respectively, as at 30 June 2014 (31 December 2013: total assets of US\$816 billion and total liabilities of US\$796 billion). The increase in total assets and total liabilities was primarily attributable to the increase in the fair value of interest rate derivative instruments mainly as a result of market moves in the period.

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MANAGEMENT REPORT (continued)

2. Financial overview (continued)

GSI had total assets and total liabilities under U.S. GAAP of US\$368 billion and US\$347 billion, respectively, as at 30 June 2014 (31 December 2013: total assets of US\$374 billion and total liabilities of US\$354 billion). GSI's total assets and total liabilities under U.K. GAAP are greater than under U.S. GAAP primarily due to certain financial assets and liabilities being offset under U.S. GAAP. Under U.K. GAAP, the company presents derivative balances as gross if they are not net settled in the normal course of business, even where it has a legally enforceable right to offset those balances.

Future outlook

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

3. Business environment

Global

Global economic conditions generally appeared to be mixed during the first quarter of 2014, and have appeared to improve during the second quarter of 2014. After economic activity in the United States weakened substantially during the first quarter of 2014 largely due to harsh weather conditions, broader economic prospects and market sentiment improved during the second quarter of 2014. In the first quarter of 2014, market sentiment toward emerging market assets was negatively affected by a deceleration in real gross domestic product ('GDP') growth in China and tensions related to the political situation in Ukraine and Russia. In the second quarter of 2014, real GDP growth in China accelerated significantly, and while tensions in Ukraine and Russia subsided temporarily, political instability in Iraq generated concern by the end of the period. In Japan, real GDP growth accelerated substantially during the first quarter of 2014, but appeared to contract substantially during the second quarter of 2014, in each case primarily reflecting the timing and impact of a consumption tax hike on consumer spending in the second quarter of 2014. During the first half of 2014, global equity prices generally improved, interest rates generally fell and credit spreads tightened, while levels of volatility declined further from already low levels. In investment banking, industry-wide underwriting activity in both equity and debt was strong during the first half of 2014. While industry-wide announced mergers and acquisitions activity significantly increased, industry-wide completed mergers and acquisitions activity declined compared with the first half of 2013.

Europe

In the Euro area, real GDP appeared to increase slightly during the first half of 2014. The European Central Bank ('ECB') responded to low inflation by reducing its main refinancing operations rate by 10 basis points to 0.15% and lowering the deposit rate into negative territory. The ECB also announced further steps to increase private sector lending, including the implementation of targeted longer-term refinancing operations. Measures of unemployment remained high. The Euro depreciated by 1% against the U.S. dollar during the first half of 2014. In the United Kingdom, real GDP growth remained strong in the first quarter of 2014 and continued to expand at a solid pace during the second quarter of 2014, reflecting strong domestic demand. The Bank of England maintained its official bank rate at 0.50% and adjusted its forward guidance to include a broader view of spare capacity in the economy. The British pound appreciated by 3% against the U.S. dollar during the first half of 2014. Over the same period, long-term government bond yields generally fell in both core and periphery economies, and in equity markets, the Euro Stoxx 50 Index increased by 4%, the DAX Index and CAC 40 Index both increased by 3%, and the FTSE 100 Index was essentially unchanged.

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4. Critical accounting policy

The company's critical accounting policy is consistent with that described in the Annual Report for the year ended 31 December 2013.

The fair values for substantially all of the company's financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and GS Group's credit quality, funding risk, transfer restrictions, liquidity and bid / offer spreads. Valuation adjustments are generally based on market evidence. Instruments categorised within level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. As at 30 June 2014, the company had level 3 financial assets under U.K. GAAP of US\$13.1 billion (31 December 2013: US\$13.6 billion). As at 30 June 2014, the company had level 3 financial assets under U.S. GAAP of US\$7.5 billion (31 December 2013: US\$8.0 billion).

5. Results of operations

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

Net revenue

Net revenue includes the net profit arising from transactions, with both affiliates and third parties, in securities, foreign exchange and other financial instruments, and fees and commissions. This is inclusive of market-making related expenses (i.e. brokerage, clearing, and exchange fees), interest and dividends.

For the half-year ended 30 June 2014, net revenue was US\$3.3 billion (30 June 2013: US\$3.0 billion). The increase of US\$267 million primarily reflected significantly higher net revenues in Investment Banking and, to a lesser extent, Investing & Lending. In addition, Investment Management net revenues were slightly higher. These increases were partially offset by lower net revenues in Institutional Client Services.

Administrative expenses

Administrative expenses are primarily influenced by compensation (including the impact of the Group Inc. share price on share-based compensation), headcount and levels of business activity. Administrative expenses were US\$2.0 billion for the half-year ended 30 June 2014 (30 June 2013: US\$2.5 billion).

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

Direct costs of employment were US\$1.8 billion for the half-year ended 30 June 2014, 18% lower than the half-year ended 30 June 2013 (30 June 2013: \$2.2 billion). Excluding the impact of the mark-to-market of share-based compensation, direct costs of employment were US\$2.0 billion for the half-year ended 30 June 2014, 18% higher than the half-year ended 30 June 2013 (30 June 2013: US\$1.7 billion). This increase is broadly in line with the company's increase in net revenue after adjusting for an increase in employee costs recharged to GS Group affiliates ('management recharges'). The average number of the company's staff (employees including directors, and consultants and temporary staff) was 5,485 for the half-year ended 30 June 2014, 1% higher than the half-year ended 30 June 2013. The mark-to-market of share-based compensation awarded in prior years by Group Inc. was a credit of US\$163 million due to a decrease in the Group Inc. share price during 2014 (30 June 2013: charge of US\$516 million). Other expenses decreased to US\$237 million for the half-year ended 30 June 2014 (30 June 2013: US\$326 million) primarily as a result of higher management recharges and lower miscellaneous taxes, partially offset by higher professional fees.

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MANAGEMENT REPORT (continued)

5. Results of operations (continued)

Interest payable and similar charges

Interest payable and similar charges comprises interest on long-term subordinated loans from group undertakings, which was US\$114 million for the half-year ended 30 June 2014 (30 June 2013: US\$168 million). The decrease was due to a reduction in the average long-term subordinated loans balance in comparison to the half-year ended 30 June 2013.

Tax on profit

Tax on profit was US\$220 million for the half-year ended 30 June 2014 (30 June 2013: US\$86 million). This increase was mainly due to an increase in pre-tax profits. The effective tax rate for the half-year ended 30 June 2014 was 19%, down from 26% for the half-year ended 30 June 2013. The decrease in the effective tax rate was primarily due to non-recurring deferred tax write-downs in the half-year ended 30 June 2013 and a reduction in the U.K. corporation tax rate to 21.5% in the half-year ended 30 June 2014 (30 June 2013: 23.25%).

Segment reporting

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

	Half-year Ended 30 June 2014 US\$'000	Half-year Ended 30 June 2013 US\$'000	Year Ended 31 December 2013 US\$'000
Investment Banking			
Financial Advisory	233,063	169,623	342,960
Underwriting	623,344	421,779	754,971
	856,407	591,402	1,097,931
Institutional Client Services			
Fixed Income, Currency and Commodities Client Execution	1,387,621	1,439,037	2,198,951
Equities	721,377	764,882	1,516,429
	2,108,998	2,203,919	3,715,380
Investing & Lending	193,328	98,957	164,946
Investment Management	109,148	106,251	178,431
Net revenue	3,267,881	3,000,529	5,156,688

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MANAGEMENT REPORT (continued)

5. Results of operations (continued)

Investment Banking

Investment Banking is comprised of:

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

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

Half-year ended 30 June 2014 versus 30 June 2013. Net revenues in Investment Banking were US\$856 million for the half-year ended 30 June 2014, 45% higher than the half-year ended 30 June 2013. Net revenues in Underwriting were US\$623 million, 48% higher than the half-year ended 30 June 2013, primarily due to significantly higher net revenues in equity underwriting, principally from primary and secondary offerings, and higher net revenues in debt underwriting. Net revenues in Financial Advisory were US\$233 million, 37% higher than the half-year ended 30 June 2013.

During the half-year ended 30 June 2014, the company's investment banking transaction backlog increased significantly due to a significant increase in estimated net revenues from potential equity underwriting transactions and an increase in estimated net revenues from potential debt underwriting and potential advisory 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 interest rate products, credit products, mortgages, currencies and commodities.

The company generates market-making revenues in these activities in three ways:

- In large, highly liquid markets, the company executes a high volume of transactions for clients for modest spreads and fees;
- In less liquid markets, the company executes transactions for clients for spreads and fees that are generally somewhat larger; and
- The company also structures and executes transactions involving customised or tailor-made products that address clients' risk exposures, investment objectives or other complex needs.

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MANAGEMENT REPORT (continued)

5. Results of operations (continued)

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

Half-year ended 30 June 2014 versus 30 June 2013. Net revenues in Institutional Client Services were US\$2.1 billion for the half-year ended 30 June 2014, 4% lower than the half-year ended 30 June 2013.

Net revenues in Fixed Income, Currency and Commodities Client Execution were US\$1.4 billion, 4% lower than the half-year ended 30 June 2013, due to significantly lower net revenues in currencies and commodities. These results were partially offset by significantly higher net revenues in interest rate products and credit products and higher net revenues in mortgages.

Net revenues in Equities were US\$721 million, 6% lower than the half-year ended 30 June 2013 due to lower net revenues in equities client execution. This was partially offset by higher commissions and fees and higher net revenues in securities services.

During the first half of 2014, Institutional Client Services operated in a challenging environment generally characterised by continued low volatility levels. Global equity prices increased and credit spreads tightened during the first half of 2014, while clients' risk appetite remained subdued and activity levels generally remained low.

Investing & Lending

Investing & Lending includes direct investments made by the company and net revenues associated with providing investing services to funds managed by GS Group.

Half year-ended 30 June 2014 versus 30 June 2013. Net revenues in Investing & Lending were US\$193 million for the half-year ended 30 June 2014, compared with US\$99 million for the half-year ended 30 June 2013. This increase was mainly driven by net revenues associated with providing investing services to funds managed by GS Group and net gains from investments in equity securities, primarily driven by company-specific events.

Investment Management

Investment Management offers investment management and wealth advisory services, including portfolio management and financial counselling, and brokerage and other transaction services to high-net-worth individuals and families.

Half-year ended 30 June 2014 versus 30 June 2013. Net revenues in Investment Management were US\$109 million for the half-year ended 30 June 2014, 3% higher than the half-year ended 30 June 2013, primarily due to higher management and other fees, reflecting higher average assets under supervision (includes assets under management and other client assets). This was partially offset by lower transaction revenues.

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MANAGEMENT REPORT (continued)

6. Balance sheet and funding sources

Balance sheet management

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

In order to ensure appropriate risk management, GSI seeks to maintain a liquid balance sheet and leverages GS Group's processes in place to dynamically manage assets and liabilities. Primary balance sheet management processes include:

- quarterly planning;
- business-specific limits;
- monitoring of key metrics; and
- scenario analyses.

Excess liquidity and cash

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

Funding sources

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

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

- collateralised financing, such as repurchase agreements and securities loaned with both external counterparts and affiliates and customer shorts;
- debt securities issued to both external counterparts and affiliates including securitised derivative products (including certificates and warrants), notes and long-term benchmark debt. Debt securities issued also includes transfers of assets accounted for as financings rather than sales; and
- intercompany unsecured loans from Group Inc. and other affiliates.

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

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MANAGEMENT REPORT (continued)

6. Balance sheet and funding sources (continued)

Secured funding. The company funds a significant amount of inventory on a secured basis with external counterparts as well as with other GS Group affiliates. As at 30 June 2014, secured funding with external counterparts totalled US\$73.1 billion (31 December 2013: US\$97.0 billion) and secured funding with GS Group affiliates totalled US\$97.1 billion (31 December 2013: US\$102.0 billion).

A majority of the company's secured funding for securities not eligible for inclusion in the GCE is executed through collateralised financing, which includes term repurchase agreements and securities lending contracts. The company also raises financing through other types of secured funding, such as debt securities issued. The table below presents GSI's secured funding.

	30 June 2014	31 December 2013
	US\$m	US\$m
Short-term secured funding		
Collateralised financing	163,454	190,211
Debt securities issued	4,478	6,724
Subtotal	167,932	196,935
Long-term secured funding		
Debt securities issued	2,230	2,050
Subtotal	2,230	2,050
Total	170,162	198,985

Collateralised financing decreased US\$26.8 billion to US\$163.5 billion as at 30 June 2014, mainly resulting from a GS Group initiative to reduce activities with lower returns.

The weighted average maturity of the company's external secured funding, excluding funding collateralised by highly liquid securities eligible for inclusion in the GCE, exceeded 120 days as at 30 June 2014.

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

	30 June 2014	31 December 2013
	US\$m	US\$m
Short-term intercompany unsecured borrowings		
Amounts due to parent and group undertakings	50,254	37,857
Debt securities issued	3,919	3,820
Subtotal	54,173	41,677
Long-term intercompany unsecured borrowings		
Long-term subordinated loans	6,458	6,458
Amounts due to parent and group undertakings	2,727	3,550
Debt securities issued	498	102
Subtotal	9,683	10,110
Total	63,856	51,787

Short-term amounts due to parent and group undertakings increased US\$12.4 billion to US\$50.3 billion as at 30 June 2014, primarily as a result of the company's increase in GCE. Refer to *Item 9 (Risk management – Liquidity risk management – Excess liquidity)* for further details.

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MANAGEMENT REPORT (continued)

6. Balance sheet and funding sources (continued)

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

	30 June 2014	31 December 2013
	US\$m	US\$m
Short-term external unsecured borrowings		
Bank loans and overdraft	272	71
Debt securities issued	7,660	8,417
Subtotal	7,932	8,488
Long-term external unsecured borrowings		
Debt securities issued	2,892	2,054
Subtotal	2,892	2,054
Total	10,824	10,542

Total shareholders' funds

As at 30 June 2014, GSI held US\$21.2 billion (31 December 2013: US\$20.3 billion) of total shareholders' funds. Refer to *Item 7 (Regulatory – Regulatory capital)* for further information on GSI's capital.

7. Regulatory

Capital

Capital adequacy is of critical importance to the company. The company's objective is to be conservatively capitalised in terms of the amount and composition of its equity base, both relative to the company's risk exposures and compared to external requirements and benchmarks. Accordingly, a comprehensive capital management policy is in place that provides a framework and a set of guidelines to assist in determining the level and composition of capital. The appropriate level and composition of equity capital is determined by considering multiple factors, including: current and future regulatory capital requirements; the results of the company's capital planning and stress testing process; and other factors such as rating agency guidelines, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in the company's business and market environments.

Regulatory capital

From 1 January 2014, the company became subject to a new capital framework for European Union-regulated financial institutions (the Capital Requirements Directive and Capital Requirements Regulation, collectively known as 'CRD IV'). These 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 table below presents the minimum ratios currently applicable under CRD IV, and the minimum ratios that the company expects will apply at the end of the transitional provisions from 1 January 2019.

	30 June 2014	1 January 2019
	Minimum ratio	Minimum ratio
Common Equity Tier 1 ('CET1') Ratio	4.0%	7.0% ¹
Tier 1 Capital Ratio	5.5%	8.5% ¹
Total Capital Ratio	8.0%	10.5% ¹

The CET1 Ratio is defined as CET1 divided by Risk-Weighted Assets ('RWAs'). The Tier 1 Capital Ratio is defined as Tier 1 capital divided by RWAs. The Total Capital Ratio is defined as total capital divided by RWAs.

¹ The minimum ratios from 1 January 2019 include the required increases on 1 January 2015 and the capital conservation buffer of 2.5%.

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MANAGEMENT REPORT (continued)

7. Regulatory (continued)

From 1 January 2015, the minimum CET1 Ratio requirement will increase to 4.5%, and the minimum Tier 1 Capital Ratio requirement will increase to 6.0%. GSI's future capital requirements may also be impacted by developments such as the introduction of capital buffers.

As at 31 December 2013, the company was subject to the risk-based capital regulations of the PRA that were based on the Third European Union Capital Requirements Directive ('CRD III'), which are based on the Basel Committee's June 2006 framework ('Basel II'), as modified by the Basel Committee's February 2011 revisions to the market risk framework. Under CRD III, GSI had a Tier 1 Capital Ratio of 14.4% and a Total Capital Ratio of 18.5% as at 31 December 2013.

Regulatory capital ratios

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

Although the fully phased-in capital ratios under CRD IV are not applicable until 2019, they are meaningful because they are measures that the company and its regulators and investors use to assess capital adequacy. The table below presents a breakdown of GSI's capital components and capital ratios under CRD IV on a fully phased-in basis as at 30 June 2014. The prior period estimated capital components and capital ratios have been prepared under the assumption that the CRD IV rules, applicable since 1 January 2014, applied as at 31 December 2013.

	30 June 2014	31 December 2013
	US\$m	US\$m
Ordinary share capital	533	533
Share premium account including reserves	2,880	2,880
Audited retained earnings	16,887	16,887
CET1 (before deductions)	20,300	20,300
Deductions from CET1	(948)	(568)
CET1	19,352	19,732
Tier 2 capital (before deductions)	6,458	6,458
Deductions from Tier 2 capital	-	-
Tier 2 capital	6,458	6,458
Total capital resources (net of deductions)	25,810	26,190
RWAs	227,213	225,988
CET1 Ratio	8.5%	8.7%
Total Capital Ratio	11.4%	11.6%

As at 30 June 2014, GSI does not have any financial instruments which qualify as additional Tier 1 capital, and the Tier 1 Capital Ratio is identical to the CET1 Ratio disclosed above.

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MANAGEMENT REPORT (continued)

7. Regulatory (continued)

Risk-weighted assets

RWAs under the PRA's risk-based capital requirements in effect as at 30 June 2014 were calculated based on measures of market risk, credit risk and operational risk. The table below presents information on the components of RWAs within GSI's regulatory capital ratios, which are calculated under CRD IV, as implemented by the PRA.

RWAs	30 June 2014	31 December 2013
	US\$m	US\$m
Market RWAs	86,474	85,000
Credit RWAs	128,936	127,488
Operational RWAs	11,803	13,500
Total RWAs	227,213	225,988

Regulatory developments

The Basel Committee has recently issued several updates and consultative papers which propose further changes to capital regulations. In particular, it has finalised a revised standard approach for calculating RWAs for counterparty credit risk on derivatives exposures ("Standardised Approach for measuring Counterparty Credit Risk exposures," known as "SA-CCR"). In addition, it has published guidelines for measuring and controlling large exposures ("Supervisory Framework for measuring and controlling Large Exposures"). The Basel Committee has also issued consultation papers on a "Fundamental Review of the Trading Book" and "Revisions to the Securitisation Framework". The impact of all of these developments on the company (including RWAs and regulatory capital ratios) is subject to uncertainty until corresponding legislation is negotiated and implemented in the European Union.

In December 2013, the final rules to implement the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ('Dodd-Frank Act') referred to as the "Volcker Rule" were adopted. GSI is subject to these provisions by virtue of being a subsidiary of GS Group. GS Group is required to be in compliance with the rule (including the development of an extensive compliance programme) by July 2015 with certain provisions of the rule subject to possible extensions through July 2017.

The Volcker Rule prohibits "proprietary trading," but will allow activities such as underwriting, market making and risk-mitigation hedging. In anticipation of the final rule, GS Group evaluated this prohibition and determined that businesses that engage in "bright line" proprietary trading were most likely to be prohibited. In 2010 and 2011, GS Group liquidated substantially all of its Global Macro Proprietary and Principal Strategies trading positions.

Based on current knowledge, the company, consistent with GS Group, does not expect the impact of the prohibition on proprietary trading to be material to its financial condition, results of operations or cash flows. However, the rule is highly complex, and its impact will not be known until market practices are fully developed.

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

Regulatory leverage ratios

CRD IV introduced a new leverage ratio, which compares Tier 1 capital (as defined under the revised framework) to a measure of leverage exposure, defined as the sum of assets less Tier 1 capital deductions plus off-balance sheet exposures (including a measure of derivatives exposures, securities financing transactions and commitments). The leverage ratio becomes effective for the company on 1 January 2018, although public disclosure requirements are effective from 2015.

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8. Principal risks and uncertainties

GSI faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the Annual Report for the year ended 31 December 2013.

9. Risk management

The company's risk management framework is consistent with the Annual Report for the year ended 31 December 2013 (refer to *Items 9 – 13*).

Liquidity risk management

Overview. Liquidity is of critical importance to financial institutions. Most of the recent failures of financial institutions have occurred in part due to insufficient liquidity. Accordingly, the company has in place a comprehensive and conservative set of liquidity and funding policies to address both company-specific and broader industry or market liquidity events. The principal objective is to be able to fund the company and to enable the core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

GSI manages liquidity risk according to the following principles:

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

Excess liquidity. 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 excess liquidity in the form of unencumbered, highly liquid securities and cash. The company believes that the securities held in its GCE would be readily convertible to cash in a matter of days, through liquidation, by entering into repurchase agreements or from maturities of 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.

As at 30 June 2014, the fair value of the securities and certain overnight cash deposits included in GSI's GCE totalled US\$53.1 billion (31 December 2013: US\$45.8 billion).

In order to determine the appropriate size of the company's GCE, an internal liquidity model is used, referred to as the Modelled Liquidity Outflow ('MLO'), which captures and quantifies the company's liquidity risks. Other factors are considered including, but not limited to, an assessment of potential intraday liquidity needs through an additional internal liquidity model, referred to as the Intraday Liquidity Model, and a qualitative assessment of the condition of the financial markets and of the company. Refer to *Item 10 (Liquidity risk management)* of the Annual Report for the year ended 31 December 2013 for further details.

During the reporting period the company, consistent with GS Group, introduced an enhanced Intraday Liquidity Model and as a result the company increased the amount of GCE held.

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

MANAGEMENT REPORT (continued)

9. Risk management (continued)

The table below presents the average daily fair value of GSI's GCE by asset class over the periods shown.

	Average daily fair value of GCE	
	Half-year Ended 30 June 2014	Year Ended 31 December 2013
	US\$m	US\$m
Overnight cash deposits	870	1,778
U.S. government obligations	11,356	9,632
French government obligations	9,289	10,864
United Kingdom government obligations	17,066	9,482
German government obligations	6,613	9,217
Japanese government obligations	1,021	41
Total	46,215	41,014

In addition to the GCE, 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 the GCE. The fair value of these assets averaged US\$30.7 billion for the half-year ended 30 June 2014 (31 December 2013: US\$29.6 billion). GSI does not consider these assets liquid enough to be eligible for the GCE liquidity pool and therefore conservatively does not assume liquidity can be generated from these assets in the MLO.

Credit ratings. The table below presents the unsecured credit ratings and outlook of GSI and Group Inc. as at 30 June 2014. These unsecured credit ratings and outlooks are unchanged from 31 December 2013.

	Standard & Poor's Rating Services	Moody's Investors Service	Fitch Ratings, Inc.
GSI			
Short-term debt	A-1	P-1	F1
Long-term debt	A	A2	A
Ratings outlook	Negative	Stable	Stable
Group Inc.			
Short-term debt	A-2	P-2	F1
Long-term debt	A-	Baa1	A
Subordinated debt	BBB+	Baa2	A-
Preferred stock	BB+	Ba2	BB+
Trust preferred	BB+	Baa3	BBB-
Ratings outlook	Negative	Stable	Stable

GOLDMAN SACHS INTERNATIONAL
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MANAGEMENT REPORT (continued)

9. Risk management (continued)

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 allocates a portion of its GCE to ensure that it would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in Group Inc.'s 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.

	30 June 2014	31 December 2013
	US\$m	US\$m
Additional collateral or termination payments for a one-notch downgrade	301	362
Additional collateral or termination payments for a two-notch downgrade	1,373	1,545

Market risk management

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

- interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads;
- equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices;
- currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates; and
- commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil, petroleum products, natural gas, electricity, and precious and base metals.

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

MANAGEMENT REPORT (continued)

9. Risk management (continued)

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

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

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

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

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

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

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

Risk categories	Average daily VaR	
	Half-year Ended	Year Ended
	30 June 2014	31 December 2013
	US\$m	US\$m
Interest rates	19	26
Equity prices	20	17
Currency rates	5	5
Commodity prices	-	-
Diversification effect	(11)	(12)
Total	33	36

GOLDMAN SACHS INTERNATIONAL
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MANAGEMENT REPORT (continued)

9. Risk management (continued)

Half-year end VaR and high and low VaR

	30 June 2014	31 December 2013	High Half-year Ended 30 June 2014	Low Half-year Ended 30 June 2014
	US\$m	US\$m	US\$m	US\$m
Risk categories				
Interest rates	19	29	28	14
Equity prices	19	20	36	12
Currency rates	4	7	8	3
Commodity prices	-	-	2	-
Diversification effect	(12)	(18)		
Total	30	38	46	22

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

10% sensitivity measures

	30 June 2014	31 December 2013
	US\$m	US\$m
Asset categories		
Equity	20.1	26.9
Debt	0.4	0.5
Total	20.5	27.4

GOLDMAN SACHS INTERNATIONAL
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MANAGEMENT REPORT (continued)

9. Risk management (continued)

Credit risk management

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

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

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

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

- approving transactions and setting and communicating credit exposure limits;
- monitoring compliance with established credit exposure limits;
- assessing the likelihood that a counterparty will default on its payment obligations;
- measuring the company's current and potential credit exposure and losses resulting from counterparty default;
- 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.

GOLDMAN SACHS INTERNATIONAL
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MANAGEMENT REPORT (continued)

9. Risk management (continued)

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

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

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

Financial instruments owned

Financial instruments owned includes derivatives and cash inventory. Cash inventory is included in current assets in the table below, but removed to arrive at net credit exposure as it is captured by market risk in the company's risk management process. 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.

Collateralised agreements

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

Debtors

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

Cash at bank and in hand

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

GOLDMAN SACHS INTERNATIONAL
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MANAGEMENT REPORT (continued)

9. Risk management (continued)

The following table discloses the carrying values of financial assets recorded in the financial statements and represents the company's maximum exposure to credit risk before and after taking account of assets captured by market risk in the company's risk management process, master netting agreements and the value of collateral obtained.

Where an enforceable master netting agreement is in place, the reduction in credit exposure reflects the offsetting of derivative assets with liabilities, and collateralised agreements with collateralised financing where the instruments have the same maturity. In each case, the company has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

Credit exposure by financial asset category

	30 June 2014					
	Current assets US\$m	Assets captured by market risk US\$m	Master netting agreements US\$m	Cash collateral US\$m	Security collateral received US\$m	Net credit exposure US\$m
Exposure to credit risk by financial asset category						
Financial instruments owned	539,754	(40,708)	(434,341)	(34,531)	(9,082)	21,092
Financial instruments owned, pledged as collateral	26,746	(26,746)	-	-	-	-
Collateralised agreements	217,154	-	(16,556)	-	(199,519)	1,079
Debtors (excluding deferred tax of US\$441m)	95,221	-	-	(25,660)	(10,177)	59,384
Cash at bank and in hand	4,055	-	-	-	-	4,055
Total	882,930	(67,454)	(450,897)	(60,191)	(218,778)	85,610

	31 December 2013					
	Current assets US\$m	Assets captured by market risk US\$m	Master netting agreements US\$m	Cash collateral US\$m	Security collateral received US\$m	Net credit exposure US\$m
Exposure to credit risk by financial asset category						
Financial instruments owned	489,841	(44,588)	(380,418)	(35,386)	(9,681)	19,768
Financial instruments owned, pledged as collateral	26,264	(26,264)	-	-	-	-
Collateralised agreements	225,854	-	(14,378)	-	(209,530)	1,946
Debtors (excluding deferred tax of US\$584m)	69,628	-	-	(24,075)	(12,375)	33,178
Cash at bank and in hand	4,032	-	-	-	-	4,032
Total	815,619	(70,852)	(394,796)	(59,461)	(231,586)	58,924

GOLDMAN SACHS INTERNATIONAL
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MANAGEMENT REPORT (continued)

9. Risk management (continued)

Of the above financial instruments owned, OTC derivatives with external counterparties have a carrying value in the financial statements of US\$214.2 billion (31 December 2013: US\$207.4 billion) and a net credit exposure of US\$15.9 billion (31 December 2013: US\$14.5 billion). The table below presents the carrying value of these OTC derivatives by tenor, based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives. Net credit exposure is shown after netting, which consists of the offsetting of derivative assets and liabilities where an enforceable master netting agreement is in place and cash and security collateral to the extent there are credit exposures on the balance sheet. The categories shown reflect internally determined public rating agency equivalents.

Credit exposure by credit rating equivalent – external OTC derivatives

Credit rating equivalent	30 June 2014					
	0-12 months	1-5 years	5 years or greater	Current assets	Netting	Net credit exposure
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
AAA/Aaa	856	1,729	3,096	5,681	(4,664)	1,017
AA/Aa	6,317	19,362	27,848	53,527	(47,402)	6,125
A/A	15,881	44,228	28,695	88,804	(86,398)	2,406
BBB/Baa2	6,873	17,397	26,898	51,168	(47,002)	4,166
BB/Ba2 or lower	3,444	5,073	5,971	14,488	(12,563)	1,925
Unrated	193	109	195	497	(271)	226
Total	33,564	87,898	92,703	214,165	(198,300)	15,865

Credit rating equivalent	31 December 2013					
	0-12 months	1-5 years	5 years or greater	Current assets	Netting	Net credit exposure
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
AAA/Aaa	581	2,281	2,431	5,293	(4,282)	1,011
AA/Aa	6,586	16,153	24,461	47,200	(42,023)	5,177
A/A	19,450	47,986	25,791	93,227	(90,125)	3,102
BBB/Baa2	6,574	17,630	21,947	46,151	(42,946)	3,205
BB/Ba2 or lower	4,064	6,143	4,734	14,941	(13,162)	1,779
Unrated	209	152	237	598	(335)	263
Total	37,464	90,345	79,601	207,410	(192,873)	14,537

MANAGEMENT REPORT (continued)

9. Risk management (continued)

Operational risk management

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

- clients, products and business practices;
- execution, delivery and process management;
- business disruption and system failures;
- employment practices and workplace safety;
- damage to physical assets;
- internal fraud; and
- external fraud.

GSI's framework for managing operational risk is fully integrated into GS Group's comprehensive control framework designed to provide a well-controlled environment to minimise operational risks. Operational Risk Management is a risk management function independent of revenue-producing units, reports to the company's chief risk officer and is responsible for developing and implementing policies, methodologies and a formalised framework for operational risk management with the goal of minimising exposure to operational risk.

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

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

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

GOLDMAN SACHS INTERNATIONAL
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MANAGEMENT REPORT (continued)

9. Risk management (continued)

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

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

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

10. Responsibility statement

The financial statements have been prepared in accordance with the Accounting Standards Board statement on 'half-yearly financial reports' and the interim management report herein includes a fair review of the information required by the FCA's Disclosure and Transparency Rules 4.2.7 R and 4.2.8 R.



R. A. Vince
Director
27 August 2014

Part 2: Unaudited financial statements

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

PROFIT AND LOSS ACCOUNT (UNAUDITED)

for the half-year ended 30 June 2014

	Half-year Ended 30 June 2014	Half-year Ended 30 June 2013	Year Ended 31 December 2013
Note	US\$'000	US\$'000	US\$'000
Net revenue	3,267,881	3,000,529	5,156,688
Administrative expenses	(2,034,740)	(2,507,967)	(4,538,515)
OPERATING PROFIT	1,233,141	492,562	618,173
Loss on sale of subsidiary undertaking	-	-	(36,238)
Interest payable and similar charges	(113,541)	(167,885)	(305,837)
Net finance income	14,590	10,749	21,468
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,134,190	335,426	297,566
Tax on profit on ordinary activities	3 (220,119)	(86,151)	(128,902)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL PERIOD	12 914,071	249,275	168,664

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (UNAUDITED)

for the half-year ended 30 June 2014

	Half-year Ended 30 June 2014	Half-year Ended 30 June 2013	Year Ended 31 December 2013
Note	US\$'000	US\$'000	US\$'000
Profit for the financial period	12 914,071	249,275	168,664
Actuarial loss relating to the pension scheme	(39,242)	(124,990)	(70,358)
U.K. deferred tax attributable to the actuarial loss	7,848	28,748	8,712
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL PERIOD AND SINCE LAST FINANCIAL STATEMENTS	882,677	153,033	107,018

The notes on pages 28 to 34 form an integral part of these financial statements.

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

BALANCE SHEET (UNAUDITED)

as at 30 June 2014

	Note	30 June 2014 US\$'000	31 December 2013 US\$'000
FIXED ASSETS			
Tangible assets		13,997	14,339
Investments		1,198	1,198
		<u>15,195</u>	<u>15,537</u>
CURRENT ASSETS			
Financial instruments owned	4	539,753,564	489,841,270
Financial instruments owned pledged as collateral	4	26,746,074	26,263,531
Collateralised agreements	5	217,153,886	225,854,255
Debtors	6	95,662,941	70,211,487
Cash at bank and in hand		4,054,633	4,032,081
		<u>883,371,098</u>	<u>816,202,624</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial instruments sold, but not yet purchased	4	(513,984,268)	(457,164,133)
Collateralised financing	7	(163,454,301)	(190,210,848)
Other creditors	8	(169,281,890)	(133,349,677)
		<u>(846,720,459)</u>	<u>(780,724,658)</u>
NET CURRENT ASSETS		<u>36,650,639</u>	<u>35,477,966</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		36,665,834	35,493,503
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
PROVISIONS FOR LIABILITIES	10	(7,687)	(17,740)
NET ASSETS EXCLUDING PENSION SURPLUS		21,046,990	20,144,082
Pension surplus		136,158	156,389
NET ASSETS INCLUDING PENSION SURPLUS		<u>21,183,148</u>	<u>20,300,471</u>
CAPITAL AND RESERVES			
Called up share capital	11, 12	533,447	533,447
Share premium account	12	2,862,936	2,862,936
Capital reserve (non-distributable)	12	17,286	17,286
Profit and loss account	12	17,769,479	16,886,802
TOTAL SHAREHOLDERS' FUNDS	12	<u>21,183,148</u>	<u>20,300,471</u>

The notes on pages 28 to 34 form an integral part of these financial statements.

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2014

1. BASIS OF PREPARATION

The financial statements for the half-year ended 30 June 2014 have been prepared in accordance with the Disclosure and Transparency Rules of the FCA and Accounting Standards Board statement on 'half-yearly financial reports'. The financial statements should be read in conjunction with the financial statements for the year ended 31 December 2013 which have been prepared in accordance with applicable accounting standards.

2. ACCOUNTING POLICIES AND REPORTING AND DISCLOSURE EXEMPTIONS

The accounting policies and applicable reporting and disclosure exemptions adopted are consistent with those described in the Annual Report for the year ended 31 December 2013.

3. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge for the period:

	Half-year Ended 30 June 2014 US\$'000	Half-year Ended 30 June 2013 US\$'000	Year Ended 31 December 2013 US\$'000
Current tax:			
U.K. corporation tax	51,447	88,840	151,241
Adjustments in respect of previous periods	522	(3,573)	2,275
Overseas taxation	17,811	26,531	59,153
Total current tax	69,780	111,798	212,669
Deferred tax:			
Provisions and other timing differences	151,220	(36,231)	(117,580)
Effect of decreased tax rate on opening asset	-	9,082	38,317
Adjustments in respect of previous periods	(881)	1,502	(4,504)
Total deferred tax	150,339	(25,647)	(83,767)
Tax on profit on ordinary activities	220,119	86,151	128,902

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2014

4. FINANCIAL INSTRUMENTS OWNED AND FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED

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

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

	30 June 2014	31 December 2013
	US\$'000	US\$'000
Cash instruments:		
Commercial paper, certificates of deposit, time deposits and other money market instruments	2,252,384	3,391,803
Government and agency obligations	20,126,564	20,892,333
Mortgage and other asset-backed loans and securities	1,937,525	2,170,894
Bank loans and bridge loans	1,123,776	556,233
Corporate debt securities	11,278,274	8,685,647
Other debt obligations	263,503	414,183
Equities and convertible debentures	30,471,760	34,740,279
	67,453,786	70,851,372
Derivative instruments:		
Interest rate	304,909,190	236,486,102
Credit	67,169,416	77,176,857
Equity	68,519,690	68,647,432
Foreign currency	50,796,584	57,238,024
Commodities	7,650,972	5,705,014
	499,045,852	445,253,429
	566,499,638	516,104,801
Financial instruments owned	539,753,564	489,841,270
Financial instruments owned pledged as collateral	26,746,074	26,263,531
	566,499,638	516,104,801

Financial instruments sold, but not yet purchased comprises:

	30 June 2014	31 December 2013
	US\$'000	US\$'000
Cash instruments:		
Government and agency obligations	11,503,754	10,325,775
Corporate debt securities	2,295,035	2,663,618
Equities and convertible debentures	14,499,662	13,775,194
	28,298,451	26,764,587
Derivative instruments:		
Interest rate	300,270,950	231,757,981
Credit	62,433,862	70,760,557
Equity	65,016,742	65,413,495
Foreign currency	50,538,996	57,063,641
Commodities	7,425,267	5,403,872
	485,685,817	430,399,546
	513,984,268	457,164,133

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5. COLLATERALISED AGREEMENTS

Included within the collateralised agreements are amounts of US\$128.7 billion (31 December 2013: US\$133.3 billion) which relate to group undertakings.

6. DEBTORS

	30 June 2014	31 December 2013
	US\$'000	US\$'000
Amounts due from broker / dealers and customers	74,722,230	54,460,372
Amounts due from parent and group undertakings	20,299,293	15,025,954
Deferred tax	441,044	583,535
Other debtors	50,802	44,250
Prepayments and accrued income	47,442	22,221
Corporation tax receivable	102,130	75,155
	95,662,941	70,211,487

Of the amounts due from broker / dealers and customers, US\$175 million (31 December 2013: US\$180 million) is due in more than one year. This relates to secured lending on a collateralised debt obligation.

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

7. COLLATERALISED FINANCING

Included within collateralised financing are amounts of US\$95.6 billion (31 December 2013: US\$101.0 billion) which relate to group undertakings.

8. OTHER CREDITORS

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

	30 June 2014	31 December 2013
	US\$'000	US\$'000
Bank loans and overdrafts	271,777	70,805
Debt securities issued (see note a)	16,056,901	18,960,736
Amounts due to broker / dealers and customers	78,615,004	58,457,370
Amounts due to parent and group undertakings – unsecured borrowings	50,254,128	37,856,952
Amounts due to parent and group undertakings – other unsecured creditors	21,630,961	15,273,841
Accrual for management charges payable to parent and group undertakings (see note 9d)	980,469	1,523,525
Other taxes and social security costs	179,790	234,419
Other creditors and accruals	1,292,860	972,029
	169,281,890	133,349,677

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8. OTHER CREDITORS (continued)

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

	30 June 2014	31 December 2013
	US\$'000	US\$'000
Unsecured debt securities with affiliates	3,918,552	3,819,734
Unsecured debt securities with external counterparties	7,660,329	8,417,081
Secured debt securities with affiliates	349,622	437,242
Secured debt securities with external counterparties	4,128,398	6,286,679
	16,056,901	18,960,736

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

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	30 June 2014	31 December 2013
	US\$'000	US\$'000
Long-term subordinated loans (see note a)	6,458,000	6,458,000
Debt securities issued (see note b)	5,619,016	4,205,847
Amounts due to parent and group undertakings – unsecured borrowings (see note c)	2,727,192	3,549,630
Amounts due to parent and group undertakings – other unsecured creditors	71,791	-
Accrual for management charges payable to parent and group undertakings (see note d)	735,158	1,118,204
	15,611,157	15,331,681

- a. The amounts outstanding at 30 June 2014 and 31 December 2013 include long-term subordinated loans from group undertakings. The loans 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 the GS Group's weighted average cost of debt. Long-term subordinated loans of US\$6.5 billion (31 December 2013: US\$6.5 billion) constitute regulatory capital as approved by the PRA, which is repayable otherwise than by instalments subject to PRA approval and upon giving or receiving at least 5 years' notice to or from the group undertakings.

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

	30 June 2014	31 December 2013
	US\$'000	US\$'000
Unsecured debt securities with affiliates	497,592	101,325
Unsecured debt securities with external counterparties	2,891,530	2,054,357
Secured debt securities with affiliates	1,166,387	545,494
Secured debt securities with external counterparties	1,063,507	1,504,671
	5,619,016	4,205,847

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

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

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

	30 June 2014	31 December 2013
	US\$'000	US\$'000
In more than one year, but not more than two years	422,319	967,877
In more than two years, but not more than five years	2,801,862	1,990,917
In more than five years	2,394,835	1,247,053
	5,619,016	4,205,847

Amounts due in more than five years predominantly relate to structured debt securities with maturities falling from 2019 to 2040. Payments on these securities are typically referenced to underlying financial assets, which are predominately interest rate-related.

- c. Amounts due to parent and group undertakings relates to long-term unsecured borrowings from affiliates. As at 30 June 2014, this includes a loan of US\$400 million (31 December 2013: US\$400 million) advanced by Restamove Ireland Limited, a fellow group undertaking, under the terms of an uncommitted loan facility dated 26 June 2012. The facility is unsecured, carries interest at a variable rate and has a maturity of 1 July 2022.
- d. The accrual for management charges (per above and note 8) is in respect of RSUs and Long-Term Incentive Plans.

10. PROVISION FOR LIABILITIES

	US\$'000
At 1 January 2014	17,740
Reduction in provision	(10,000)
Foreign exchange gain	(53)
At 30 June 2014	7,687

The remaining provision of US\$8 million is in respect of legal claims made against the company. Further details relating to the provision have not been disclosed as permitted by accounting standard FRS12, 'Provisions, Contingent Liabilities and Contingent Assets', on the grounds that it would be seriously prejudicial to do so.

11. SHARE CAPITAL

At 31 December 2013 and 30 June 2014 share capital comprised:

	30 June 2014		31 December 2013	
	No.	US\$'000	No.	US\$'000
<u>Allotted, called up and fully paid</u>				
Ordinary shares of US\$1 each	533,447,150	533,447	533,447,150	533,447
		533,447		533,447

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12. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital US\$'000	Share premium account US\$'000	Capital reserve (non- distributable) US\$'000	Profit and loss account US\$'000	Total US\$'000
At 1 January 2014	533,447	2,862,936	17,286	16,886,802	20,300,471
Profit for the financial period	-	-	-	914,071	914,071
Other recognised losses for the period	-	-	-	(31,394)	(31,394)
Share-based payments	-	-	-	445,609	445,609
Management recharge related to share-based payments	-	-	-	(445,609)	(445,609)
At 30 June 2014	533,447	2,862,936	17,286	17,769,479	21,183,148

13. FINANCIAL COMMITMENTS AND CONTINGENCIES

- a. The company's financial commitments and contingencies outstanding at the period end arise from contingent and forward starting resale and securities borrowing agreements, forward starting repurchase and secured lending agreements, commitments to extend credit, letters of credit and other commitments, entered into in the ordinary course of business. In addition, there are registered charges on the company's assets which have arisen in the ordinary course of business.
- b. The company leases certain buildings on long-term leases. Under these leases, which are subject to renegotiation at various intervals specified in the leases, the company pays all insurance, maintenance and repairs of these properties.
- c. The company is involved in the below legal proceedings, however it is not practicable to estimate an impact, if any, of these proceedings.
 - i. The European Commission announced in April 2011 that it was initiating proceedings to investigate numerous financial services companies, including GSI, in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anticompetitive practices. On 1 July 2013, the European Commission issued to those financial services companies a Statement of Objections alleging that they colluded to limit competition in the trading of exchange-traded unfunded credit derivatives and exchange trading of credit default swaps more generally, and setting out its process for determining fines and other remedies. GSI's current understanding is that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely.
 - ii. Various alleged purchasers of, and counterparties involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including Aozora Bank, Ltd., Basis Yield Alpha Fund (Master), IKB Deutsche Industriebank AG and John Hancock and related parties) have filed complaints in the United States against the company and certain of its affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material fact and material omissions and generally seeking rescission and / or damages.
 - iii. GSI is the defendant in an action filed on 21 January 2014 with the High Court of Justice in London by the Libyan Investment Authority, relating to nine derivative transactions between the plaintiff and GSI and seeking, among other things, rescission of the transactions and unspecified equitable compensation and damages exceeding US\$1 billion.

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13. FINANCIAL COMMITMENTS AND CONTINGENCIES (continued)

- iv. GS Group and its subsidiaries, GS Power Holdings LLC (GS Power), GSI and Metro International Trade Services LLC (Metro), are among the defendants in putative class actions, filed beginning 23 May 2014 in the U.S. District Court for the Southern District of New York, based on alleged violations of the federal antitrust laws in connection with the management of zinc storage facilities. The complaints seek declaratory, injunctive and other equitable relief as well as unspecified monetary damages, including treble damages.

14. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS

The immediate parent undertaking is Goldman Sachs Holdings (U.K.), a company incorporated in Great Britain and registered in England and Wales. Goldman Sachs Holdings (U.K.) is a private unlimited company and re-registered as a private limited company on 31 July 2014.

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 Forms 10-Q and 10-K, that provide additional information on the GS Group and its business activities, can be obtained from Investor Relations, 200 West Street, New York, NY 10282, United States of America, the GS Group's principal place of business, or at www.goldmansachs.com/shareholders/.