
Consolidated Financial Information

December 31, 2016

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Introduction

Goldman Sachs Group UK Limited (the company), together with its subsidiary undertakings (collectively “GSGUK” or “the group”), provides a wide range of financial services to clients located worldwide.

GSGUK is supervised on a consolidated basis by the Prudential Regulatory Authority (PRA).

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”. 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.

The majority of GSGUK’s business activity is conducted through legal entities incorporated in England and Wales and regulated by the PRA, including Goldman Sachs International (GSI), the group’s broker dealer in Europe, Middle East and Africa (EMEA) region, and Goldman Sachs International Bank (GSIB), the group’s U.K. registered bank.

The non-statutory consolidated financial information of GSGUK (consolidated financial information) has been prepared by the directors to support the consolidated Pillar 3 reporting of GSGUK.

Company Information

For the year ended 31 December 2016

Directors

D. C. Bicarregui
P. L. Monteiro
R. J. Taylor

Secretary

M. Pearce

Registered Office

Peterborough Court
133 Fleet Street
London
EC4A 2BB

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Statement of Directors’ Responsibilities

The directors are responsible for the preparation of the consolidated financial information on the basis set out in the ‘Summary of Significant Accounting Policies’ on page 8. The directors prepared the consolidated financial information in accordance with the recognition and measurement requirements of EU-adopted International Financial Reporting Standards.

In preparing the consolidated financial information, the directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial information; and
- prepared the consolidated financial information on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the group. They are also responsible for safeguarding the assets of the group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the consolidated financial information on the Goldman Sachs website.



By order of the board

R. J. Taylor
Director

June 28, 2017

Report on the consolidated financial information

Our opinion

In our opinion, Goldman Sachs Group UK Limited's non-statutory consolidated financial information for the year ended 31 December 2016 has been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in the Accounting Policies Note 1.

Emphasis of matter - Basis of preparation

In forming our opinion on the non-statutory consolidated financial information, which is not modified, we draw attention to the basis of preparation described in the accounting policies note. The non-statutory consolidated financial information has been prepared for a specific purpose, is not a complete set of financial statements, and therefore does not include all the information required to be disclosed by International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In addition, we draw attention to the fact that the non-statutory consolidated financial information has not been prepared under section 394 of the Companies Act 2006 and are not the company's statutory financial statements.

What we have audited

The non-statutory consolidated financial information, included within the Consolidated Financial Information (the "Annual Report"), comprise:

- the Consolidated Statement of Financial Position as at 31 December 2016;
- the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the non-statutory consolidated financial information, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the non-statutory consolidated financial information is applicable law and the basis of preparation and accounting policies in the Accounting Policies.

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

Responsibilities for the financial information and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Director's Responsibilities set out on page 2, the directors are responsible for the preparation of the non-statutory consolidated financial information in accordance with the basis of preparation and accounting policies in the Accounting Policies and for determining that the basis of preparation and accounting policies are acceptable in the circumstances.

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

This report, including the opinion, has been prepared for and only for the company's directors as a body for audit of your non-statutory consolidated financial information for the year ended 31 December 2016 for management purposes to assist the directors to support the consolidated Pillar 3 reporting of the U.K. regulated group in accordance with our engagement letter dated 25 May 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

What an audit of consolidated financial information involves

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

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the non-statutory consolidated financial information.

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
29 June 2017

Consolidated Profit and Loss Account

<i>\$ in millions</i>	Note	Year Ended December	
		2016	2015
Net revenues		\$ 7,546	\$ 7,985
Administrative expenses	2	(4,792)	(4,625)
Operating profit		2,754	3,360
Interest payable and similar expenses		(378)	(294)
Net finance income		9	7
Profit on ordinary activities before taxation		2,385	3,073
Tax on profit on ordinary activities	3	(538)	(400)
Profit for the financial year		\$ 1,847	\$ 2,673
Attributable to:			
Owners of the company		1,843	2,673
Non-controlling interests		4	–
		\$ 1,847	\$ 2,673

Consolidated Statement of Comprehensive Income

<i>\$ in millions</i>	Year Ended December	
	2016	2015
Profit for the financial year	\$ 1,847	\$ 2,673
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to consolidated profit and loss account		
Actuarial loss relating to the pension scheme	(189)	(4)
Debt valuation adjustment	(178)	–
U.K. deferred tax attributable to components of other comprehensive income/(loss)	91	1
U.K. current tax attributable to components of other comprehensive income/(loss)	3	–
Total Items that will not be reclassified subsequently to consolidated profit and loss account	(273)	(3)
Items that will be reclassified subsequently to consolidated profit and loss account		
Currency translation differences	(106)	(36)
Total Items that will be reclassified subsequently to consolidated profit and loss account	(106)	(36)
Other comprehensive income/(loss) for the financial year, net of tax	(379)	(39)
Total comprehensive income for the financial year	\$ 1,468	\$ 2,634
Attributable to:		
Owners of the company	1,470	2,634
Non-controlling interests	(2)	–
	\$ 1,468	\$ 2,634

Consolidated Balance Sheet

\$ in millions	Note	As of December	
		2016	2015
Fixed assets			
Intangible assets		\$ 105	\$ –
Tangible assets		239	12
		344	12
Current assets			
Financial instruments owned (includes \$24,590 and \$29,160 pledged as collateral)	4	667,503	626,191
Collateralised agreements	5	182,961	161,168
Investments	6	1,642	836
Debtors	7	70,604	62,607
Cash at bank and in hand		18,025	10,648
		940,735	861,450
Creditors: amounts falling due within one year			
Financial instruments sold, but not yet purchased	4	(620,390)	(562,602)
Collateralised financings	8	(114,188)	(98,549)
Other creditors	9	(129,077)	(134,404)
		(863,655)	(795,555)
Net current assets		77,080	65,895
Total assets less current liabilities		77,424	65,907
Creditors: amounts falling due after more than one year			
Collateralised financings	8	(5,906)	(3,503)
Other creditors	9	(40,162)	(33,031)
		(46,068)	(36,534)
Net assets excluding pension surplus		31,356	29,373
Pension surplus		53	261
Net assets including pension surplus		\$ 31,409	\$ 29,634
Capital and reserves			
Called up share capital		\$ 4,935	\$ 4,893
Share premium account		388	221
Other reserve		183	133
Capital redemption reserve		305	305
Profit and loss account		25,552	24,082
Equity attributable to owners of the parent company		\$ 31,363	\$ 29,634
Non-controlling interests		46	–
Total shareholder's funds		\$ 31,409	\$ 29,634

The consolidated financial information was approved by the Board of Directors on June 28, 2017 and signed on its behalf by:

R. J. Taylor
Director

Consolidated Statement of Changes in Equity

\$ in millions	Year Ended December	
	2016	2015
Called up share capital		
Beginning balance	\$ 4,893	\$ 4,852
Shares issued	42	41
Ending balance	4,935	4,893
Share premium account		
Beginning balance	221	155
Shares issued	167	66
Ending balance	388	221
Other reserve		
Beginning balance	133	–
Shares issued	50	133
Ending balance	183	133
Capital redemption reserve		
Beginning balance	305	305
Ending balance	305	305
Profit and loss account		
Beginning balance	24,082	21,448
Profit for the financial year	1,843	2,673
Other comprehensive income/(loss)	(373)	(39)
Ending balance	25,552	24,082
Non-controlling interests		
Beginning balance	–	–
Acquisitions	48	–
Profit for the financial year	4	–
Other comprehensive income/(loss)	(6)	–
Ending balance	46	–
Total shareholder's funds	\$31,409	\$29,634

Note 1.

Summary of Significant Accounting Policies

Basis of Preparation

The non-statutory consolidated financial information of the GSGUK group has been prepared by the directors to support the consolidated Pillar 3 reporting of the GSGUK group.

The consolidated primary statements have been prepared on the going concern basis, under the historical cost convention (except as described below in “Pension Arrangements” and “Financial Assets and Liabilities”) and in line with the recognition and measurement requirements of EU-adopted International Financial Reporting Standards. These recognition and measurement requirements have been chosen to align with those followed by the company’s principal subsidiaries which prepare financial statements under FRS 101. The accounting policies applied in respect of measurement and recognition are set out below and are materially consistent with those that would have been used were these statutory consolidated financial statements.

The consolidated primary statements are presented in accordance with the formats of the Companies Act. The directors have also prepared statutory financial statements for the standalone company, which have been delivered to the Registrar of Companies. These included an auditors’ report which was unqualified and neither drew attention to any matters by way of emphasis nor contained a statement under either section 498(2) or section 498(3) of the 2006 Companies Act.

Consolidation

The consolidated primary statements include the company and all of its subsidiaries. Acquisition accounting is used to consolidate subsidiaries acquired during the year. In accounting for subsidiaries the group fully consolidates their assets, liabilities and results for the year. All intercompany balances and transactions are eliminated from the consolidated primary statements. The accounting reference date of the company and its subsidiary undertakings is 31 December, with the exception of those subsidiaries which, because of certain considerations, have different accounting reference dates, and which have been consolidated on the basis of interim financial statements for the year to 31 December.

Accounting Policies

Revenue Recognition. Net revenues have been disclosed instead of turnover as this reflects more meaningfully the nature and results of the group’s activities. Net revenues includes 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.

Financial Assets and Financial Liabilities Measured at Fair Value Through Profit or Loss

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

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

Investment Banking

Fees from financial advisory engagements and underwriting revenues are recognised in profit and loss when the relevant parties are contractually bound and as contract activity progresses unless the right to consideration does not arise until the occurrence of a critical event, in which case revenue is not recognised until that event has occurred.

Expenses associated with such engagements are deferred until the related revenue is recognised or the engagement is otherwise concluded. Expenses associated with financial advisory engagements are recognised in administrative expenses, net of client reimbursements. Underwriting revenues are presented net of related expenses.

Investment Management

Management fees are recognised on an accrual basis and are generally calculated as a percentage of a fund or a separately managed account’s average net asset value. All management fees are recognised over the period that the related service is provided.

Incentive fees are calculated as a percentage of a fund’s return or a percentage of a fund’s excess return above a specified benchmark or other performance target. Incentive fees are recognised only when all material contingencies have been resolved.

Commissions and Fees

Revenue from commissions and fees from executing and clearing client transactions on stock, options and futures markets, as well as OTC transactions is recognised in net revenues on the day the trade is executed.

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

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

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

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

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

Pension Arrangements. The group is a sponsor of a defined contribution pension plan, and was a sponsor of a hybrid pension until March 31, 2016, for the benefit of certain employees. The hybrid pension plan has both a defined benefit section (the Plan) and a defined contribution section. These are accounted for as follows:

- For the defined contribution pension plan and the defined contribution section of the hybrid pension plan, the contributions payable for the year are charged to operating profit. Differences between contributions payable for the year and contributions actually paid are shown as either accruals or prepayments on the balance sheet.
- For the Plan, the amounts charged to operating profit are the current service costs, any past service costs and any gains or losses on settlements and curtailments. These amounts are included in staff costs. The net interest is included in net finance income. Actuarial gains and losses are recognised immediately in other comprehensive income. Plan assets are measured at fair value and Plan liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the Plan liabilities. Full actuarial valuations are obtained at least triennially and updated at each balance sheet date. Any surplus or deficit of Plan assets over Plan liabilities is recognised on the balance sheet as an asset (surplus) or liability (deficit).

Intangible Fixed Assets. Intangible fixed assets are stated at cost less accumulated amortisation and provision for impairment. Subject to the recognition criteria in IAS 38 'Intangible Assets' being met, costs incurred during the year that are directly attributable to the development or improvement of new business application software are capitalised as assets in the course of construction. Assets in the course of construction are transferred to computer software once completed and ready for their intended use.

Computer software is amortised on a straight-line basis over its estimated useful life, which is three years. No amortisation is charged on assets in the course of construction. Amortisation is included in administrative expenses and the amortisation policies are reviewed on an annual basis.

Intangible fixed assets are tested for impairment whenever events or changes in circumstances suggest that an asset or asset group's carrying value may not be fully recoverable.

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

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

Current Asset Investments. Investments in associate undertakings and joint ventures are recorded at fair value in line with IAS 39: "Financial instruments: Recognition and Measurement", as permitted by IAS 28: "Investments in Associates and Joint Ventures". Other investments consist of private equity investments not held for trading and are recognised as financial assets designated at fair value through profit or loss. They are measured in the balance sheet at fair value and all subsequent gains or losses are recognised in the profit and loss account.

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

Foreign Currencies. The group's financial information is presented in U.S. dollars, which is also the group's functional currency.

Transactions denominated in foreign currencies are translated into U.S. dollars at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities, and non-monetary assets and liabilities measured at fair value, denominated in foreign currencies are translated into U.S. dollars at rates of exchange ruling at the balance sheet date. Foreign exchange gains and losses are recognised in operating profit.

The results of subsidiaries with non-U.S. dollar functional currencies are translated at the average rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net assets and results are reported in the consolidated statement of comprehensive income.

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

Financial Assets and Financial Liabilities.
Recognition and Derecognition

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

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

Classification and Measurement

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

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

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

- **Financial assets and financial liabilities designated at fair value through profit or loss.** The group designates certain of its other financial assets and financial liabilities at fair value through profit or loss. Financial assets and financial liabilities designated at fair value through profit or loss are initially recognised at fair value with transaction costs expensed in profit or loss. Financial liabilities are measured in the balance sheet at fair value, with changes in fair value attributable to own credit spreads (debt valuation adjustment or DVA) being recognised in other comprehensive income, if it does not create or enlarge an accounting mismatch, and the remaining changes in the fair value being recognised in net revenues. The primary reasons for designating such financial assets and financial liabilities at fair value through profit or loss are:

- The group of financial assets, financial liabilities or both is managed and its performance evaluated on a fair value basis; and
- To eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

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

- Resale agreements and substantially all repurchase agreements;
- Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;
- Substantially all secured debt securities issued, which includes certain hybrid financial instruments and transfers of assets accounted for as financings rather than sales;
- Certain unsecured debt securities issued, including certain hybrid financial instruments;
- Certain balances related to lending activities included in debtors;
- Certain balances related to deposit-taking activities included in other creditors;
- Certain private equity investments (see 'Current Asset Investments');
- Certain intercompany unsecured borrowings included in other creditors; and
- Certain debtors, including transfers of assets accounted for as secured loans rather than purchases.

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

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

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

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

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

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

Classification of Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. An equity investment is any contract that evidences a residual interest in the assets of the entity after deducting all liabilities. Instruments are evaluated to determine if they contain both liability and equity components. The initial carrying amount of a compound financial instrument is allocated first to the liability component, measured at fair value, and the equity is assigned the residual amount.

Offsetting Financial Assets and Financial Liabilities

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

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

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

Hedge Accounting

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

Collateralised Agreements and Collateralised Financings.

Collateralised agreements include resale agreements and securities borrowed. Collateralised financings include repurchase agreements and securities loaned. See “Classification and Measurement” above for details on the classification and measurement of these instruments. Collateral received or posted can be in the form of cash or securities. Cash collateral is recognised/derecognised when received/paid. Collateral posted by the group in the form of securities is not derecognised from the balance sheet, whilst collateral received in the form of securities is not recognised on the balance sheet. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet.

Current and Deferred Taxation. The tax expense for the period comprises current and deferred taxation. Tax is recognised in the profit and loss account, except to the extent it relates to items recognised in the statement of other comprehensive income.

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

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

Deferred tax is recognised in the profit and loss account or directly in the statement of other comprehensive income according to where the associated gain or loss, to which the deferred tax is attributable, is recognised.

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

New Accounting Standards.
IFRS 9 ‘Financial Instruments’

In November 2016, the E.U. endorsed IFRS 9 ‘Financial Instruments’ (IFRS 9). This standard provides requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items, replacing IAS 39 ‘Financial Instruments: Recognition and Measurement’. This standard requires that changes in the fair value of financial liabilities attributable to own credit spreads (debt valuation adjustment or DVA) are presented in other comprehensive income, if it does not create or enlarge an accounting mismatch.

This standard is effective for the group in January 2018, with early application being permitted either in its entirety or only in relation to the presentation of DVA. The group has early adopted only the requirements related to the presentation of DVA effective from January 2016.

Note 2.

Administrative Expenses

The table below presents the group's administrative expenses.

<i>\$ in millions</i>	Year Ended December	
	2016	2015
Direct costs of employment	\$2,983	\$2,834
Brokerage, clearing, exchange and distribution fees	656	662
Market development	65	99
Communications and technology	85	89
Depreciation and amortisation	7	4
Occupancy	161	174
Professional fees	118	164
Other expenses	717	599
Total non-compensation expenses	1,809	1,791
Total administrative expenses	\$4,792	\$4,625

Note 3.

Tax on Profit on Ordinary Activities

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

<i>\$ in millions</i>	Year Ended December	
	2016	2015
Current tax		
U.K. corporation tax	\$487	\$406
Adjustments in respect of prior periods	(18)	25
Overseas taxation	108	78
Total current tax	577	509
Deferred tax		
Origination and reversal of temporary differences	(48)	57
Effect of decreased/(increased) U.K. corporate tax rates	5	(153)
Adjustments in respect of prior periods	3	(13)
Total deferred tax	(40)	(109)
Total tax on profit on ordinary activities	\$538	\$ 400

In September 2016, a budget was enacted that will reduce the U.K. corporate tax rate by 1 percentage point effective April 1, 2020. The group remeasured its deferred tax assets accordingly but this change did not have a material impact on the group's effective tax rate for the year ended December 2016.

The table below presents a reconciliation between tax on profit on ordinary activities and the amount calculated by applying the weighted average rate of U.K. corporation tax applicable to the group for the year of 26.97% (2015: 20.25%) to the profit on ordinary activities before tax.

This weighted average rate includes the Bank Corporation Tax surcharge of 8% applicable to specific subsidiary undertakings within the group.

<i>\$ in millions</i>	Year Ended December	
	2016	2015
Profit on ordinary activities before taxation	\$2,384	\$3,073
Profit on ordinary activities multiplied by U.K. corporate tax rate of 26.97% (2015: 20.25%)	643	622
Changes in recognition and measurement of deferred tax assets	11	(8)
Permanent differences	(66)	(51)
Tax losses surrendered from GS Group undertakings for nil consideration	(22)	(29)
Effect of higher taxes on overseas earnings	-	8
Exchange differences and other	(18)	(1)
Adjustments in respect of prior periods	(15)	12
Effect of decreased/(increased) U.K. corporate tax rates	5	(153)
Total tax on profit on ordinary activities	\$ 538	\$ 400

Note 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 group. Financial instruments owned includes financial instruments owned pledged as collateral. These represent financial instruments owned and pledged to counterparties that have the right to deliver or repledge.

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

<i>\$ in millions</i>	As of December	
	2016	2015
Cash instruments		
Money market instruments	\$ 211	\$ 454
Government and agency obligations	21,213	22,920
Mortgage and other asset-backed loans and securities	773	1,094
Corporate loans and debt securities and other debt obligations	12,719	12,381
Equities and convertible debentures	31,600	36,485
Commodities	274	213
Total cash instruments	66,790	73,547
Derivative instruments		
Interest rates	372,989	325,078
Credit	33,930	47,968
Currencies	127,310	113,836
Commodities	9,928	13,102
Equities	56,556	52,660
Total derivative instruments	600,713	552,644
Total financial instruments owned	\$667,503	\$626,191

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

<i>\$ in millions</i>	As of December	
	2016	2015
Cash instruments		
Government and agency obligations	\$ 15,203	\$ 10,473
Corporate loans and debt securities and other debt obligations	2,132	2,417
Equities and convertible debentures	14,993	15,309
Commodities	7	-
Total cash instruments	32,335	28,199
Derivative instruments		
Interest rates	366,696	315,248
Credit	31,501	43,944
Currencies	126,887	113,240
Commodities	9,797	12,918
Equities	53,174	49,053
Total derivative instruments	588,055	534,403
Total financial instruments sold, but not yet purchased	\$620,390	\$562,602

Note 5.

Collateralised Agreements

The table below presents the group's collateralised agreements.

<i>\$ in millions</i>	As of December	
	2016	2015
Resale agreements	\$118,366	\$107,783
Securities borrowed	64,595	53,385
Total collateralised agreements^{1,2}	\$182,961	\$161,168

1. Includes amounts due from GS Group undertakings of \$113.70 billion and \$89.30 billion as of December 2016 and December 2015, respectively.
2. Includes balances due in more than one year of \$0.40 billion and \$1.87 billion as of December 2016 and December 2015, respectively.

Note 6.

Investments

Investments presented in current assets amounting to \$836 million as of December 2015 were previously disclosed as fixed asset investments. The investments have been moved to current assets in order to more appropriately reflect the expected maturity profile of these assets.

Note 7.

Debtors

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

<i>\$ in millions</i>	As of December	
	2016	2015
Amounts due from broker/dealers and customers ¹	\$59,517	\$55,231
Amounts due from GS Group undertakings	10,179	6,473
Group relief receivable from GS Group undertakings	6	10
Corporation tax receivable	17	14
Deferred tax	730	605
Other debtors	65	68
Prepayments and accrued income	90	206
Total debtors²	\$70,604	\$62,607

1. Includes balances due in more than one year relating to secured lending and prepaid commodity contracts of \$276 million and \$887 million as of December 2016 and December 2015, respectively.
2. Includes financial assets of \$69.87 billion and \$62.00 billion as of December 2016 and December 2015, respectively, and non-financial assets of \$730 million and \$605 million as of December 2016 and December 2015, respectively.

Note 8.

Collateralised Financings

The table below presents the group's collateralised financings.

<i>\$ in millions</i>	As of December	
	2016	2015
Amounts falling due within one year		
Repurchase agreements	\$ 60,629	\$ 20,742
Securities loaned	53,559	77,807
Total	\$114,188	\$98,549
Amounts falling due after more than one year		
Repurchase agreements	\$ 5,906	\$ 3,503
Total	\$ 5,906	\$ 3,503
Total collateralised financings¹	\$120,094	\$102,052

1. Includes amounts due to GS Group undertakings of \$74.13 billion and \$64.84 billion as of December 2016 and December 2015, respectively, of which \$74.13 billion and \$64.84 billion as of December 2016 and December 2015, respectively, are due within one year.

Note 9.

Other Creditors

The table below presents the group's other creditors.

<i>\$ in millions</i>	As of December	
	2016	2015
Amounts falling due within one year		
Bank loans and overdrafts	\$ 171	\$ 67
Debt securities issued	12,586	13,521
Amounts due to broker/dealers and customers	54,295	54,857
Amounts due to GS Group undertakings	42,445	46,635
Customer deposits	16,969	16,835
Corporation tax payable	263	154
Group relief payable to GS Group undertakings	2	2
Other taxes and social security costs	235	232
Accrual for management charges payable to GS Group undertakings ¹	920	834
Other creditors and accruals	1,191	1,267
Total²	\$129,077	\$134,404
Amounts falling due after more than one year		
Long-term subordinated loans	9,990	9,784
Debt securities issued	11,078	7,802
Amounts due to GS Group undertakings	17,555	14,761
Customer deposits	794	–
Accrual for management charges payable to GS Group undertakings ¹	745	684
Total³	\$ 40,162	\$ 33,031
Total other creditors	\$169,239	\$167,435

1. The accrual for management charges payable to GS group undertakings is in respect of share-based compensation.
2. Includes financial liabilities of \$128.58 billion and \$134.02 billion as of December 2016 and December 2015, respectively, and non-financial liabilities of \$498 million and \$386 million as of December 2016 and December 2015, respectively.
3. All amounts falling due after more than one year are financial liabilities as of December 2016 and December 2015.

Note 10.

Financial Assets and Financial Liabilities

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

<i>\$ in millions</i>	Financial Assets			Total
	Held for trading	Designated at fair value	Loans and receivables	
As of December 2016				
Financial instruments owned	\$667,503	\$ -	\$ -	\$667,503
Collateralised agreements	-	138,093	44,868	182,961
Investments	-	1,642	-	1,642
Debtors	-	1,591	68,283	69,874
Cash at bank and in hand	-	-	18,025	18,025
Total financial assets	\$667,503	\$141,326	\$131,176	\$940,005

As of December 2015				
Financial instruments owned	\$626,191	\$ -	\$ -	\$626,191
Collateralised agreements	-	130,398	30,770	161,168
Investments	-	836	-	836
Debtors	-	1,642	60,360	62,002
Cash at bank and in hand	-	-	10,648	10,648
Total financial assets	\$626,191	\$132,876	\$101,778	\$860,845

<i>\$ in millions</i>	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	\$620,390	\$ -	\$ -	\$620,390
Collateralised financings	-	72,975	41,213	114,188
Other creditors	-	21,789	106,789	128,578
Total	620,390	94,764	148,002	863,156

Amounts falling due after more than one year				
Collateralised financings	-	5,906	-	5,906
Other creditors	-	19,958	20,204	40,162
Total	-	25,864	20,204	46,068
Total financial liabilities	\$620,390	\$120,628	\$168,206	\$909,224

As of December 2015				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$562,602	\$ -	\$ -	\$562,602
Collateralised financings	-	55,077	43,472	98,549
Other creditors	-	22,024	111,993	134,017
Total	562,602	77,101	155,465	795,168

Amounts falling due after more than one year				
Collateralised financings	-	3,503	-	3,503
Other creditors ¹	-	25,222	7,808	33,031
Total	-	28,725	7,808	36,534
Total financial liabilities	\$562,602	\$105,826	\$163,273	\$831,702

1. Includes unsecured borrowings that have been designated at fair value but were previously disclosed as measured at amortised cost. As of December 2015, \$12.48 billion of other creditors falling due after more than one year have been moved from amortised cost to designated at fair value to more appropriately present these balances.