



Goldman Sachs Group UK Limited

Pillar 3 Disclosures

For the quarter ended March 31, 2016

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Introduction

Overview

The Goldman Sachs Group, Inc. (Group Inc. or parent company), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), 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. Goldman Sachs Group UK Limited (GSGUKL) is a wholly owned subsidiary of Group Inc.. When we use the terms “Goldman Sachs” and “the firm”, we mean Group Inc. and its consolidated subsidiaries and when we use the terms “GSGUK”, “we”, “us” and “our”, we mean GSGUKL and its consolidated subsidiaries.

The Board of Governors of the Federal Reserve System (Federal Reserve Board) is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act. As a bank holding company, the firm is subject to consolidated regulatory capital requirements which are calculated in accordance with the revised risk-based capital and leverage regulations of the Federal Reserve Board, subject to certain transitional provisions.

GSGUK is supervised on a consolidated basis by the Prudential Regulation Authority (PRA) and as such is subject to minimum capital adequacy standards. Certain subsidiaries of GSGUK are regulated by the Financial Conduct Authority (FCA) and the PRA and are subject to minimum capital adequacy standards also on a standalone basis.

The risk-based capital requirements are expressed as capital ratios that compare measures of regulatory capital to Risk-Weighted Assets (RWAs). Failure to comply with these requirements could result in restrictions being imposed by our regulators. GSGUK’s capital levels are also subject to qualitative judgements by our regulators about components of capital, risk weightings and other factors.

For information on Group Inc.’s financial statements and regulatory capital ratios, please refer to the firm’s most recent Quarterly Pillar 3 Disclosures and Quarterly Report on Form 10-Q. References in this document to the “Quarterly Pillar 3 Disclosures” are to the firm’s Pillar 3 Disclosures for the quarterly period ended March 31, 2016, references to the “Quarterly Report on Form 10-Q” are to the firm’s Quarterly Report on Form 10-Q for the quarterly

period ended March 31, 2016. All references to March 2016 refer to the period ended, or the date March 31, 2016 as the context requires. These forms can be accessed via the following links:

<http://www.goldmansachs.com/investor-relations/financials/current/other-information/1q-pillar3-2016.pdf>

<http://www.goldmansachs.com/investor-relations/financials/current/10q/first-quarter-2016-10-q.pdf>

The GSGUK consolidated regulatory capital requirement has been calculated in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), collectively known as CRD IV, which came into effect on January 1, 2014. These regulations are largely based on the Basel Committee’s final capital framework for strengthening international capital standards (Basel III), which is structured around three pillars: Pillar 1 “minimum capital requirements”, Pillar 2 “supervisory review process” and Pillar 3 “market discipline”. Certain provisions of CRD IV are directly applicable in the UK and certain provisions have been implemented in the PRA and FCA Rulebooks.

These quarterly Pillar 3 disclosures set out the qualitative and quantitative elements of Part 8 of the CRR within CRD IV, as supplemented by the PRA and FCA Rulebooks, for which we have determined that more frequent disclosure is appropriate in accordance with the EBA Guidelines under Articles 431(1), 432(2) and 433 of CRR. GSGUK also publishes annual Pillar 3 disclosures. The latest available published annual Pillar 3 disclosures can be accessed via the following link:

<http://www.goldmansachs.com/disclosures/>

Measures of exposures and other metrics disclosed in this report may not be based on UK generally accepted accounting principles (UK GAAP), may not be directly comparable to measures reported in financial statements, and may not be comparable to similar measures used by other companies. These disclosures are not required to be, and have not been, audited by our independent auditors.

Pillar 3 Disclosures**Basis of Consolidation**

GSGUKL is the holding company for a group that provides a wide range of financial services to clients located worldwide. The company's functional currency is US dollars and these disclosures are prepared in that currency.

The following six UK-regulated subsidiaries are included in the regulatory consolidation:

- Goldman Sachs International (GSI)
- Goldman Sachs International Bank (GSIB)
- Goldman Sachs Asset Management International
- Montague Place Custody Services
- Goldman Sachs Asset Management Global Services Limited
- Goldman Sachs MB Services Limited

The scope of consolidation for regulatory capital purposes is consistent with the UK GAAP consolidation.

CRD IV requires significant subsidiaries to make certain capital disclosures on an individual or subconsolidated basis. The significant subsidiaries of GSGUK are GSI and GSIB. GSI is the firm's broker dealer in the Europe, Middle East and Africa (EMEA) region and its risk profile is materially the same as GSGUK. GSIB is GSGUK's deposit-taking subsidiary. GSI and GSIB's results materially make up the results of GSGUK. Risk management policies and procedures are applied consistently to GSI, GSIB and to GSGUK as a whole. The remaining entities have minimal balance sheet activity and have not been determined material subsidiaries for the purposes of these Pillar 3 disclosures.

Restrictions on the Transfer of Funds or Regulatory Capital within the Firm

Group Inc. is a holding company and, therefore, utilises dividends, distributions and other payments from its subsidiaries to fund dividend payments and other payments on its obligations, including debt obligations. Regulatory capital requirements as well as provisions of applicable law and regulations restrict Group Inc.'s ability to withdraw capital from its regulated subsidiaries. Within GSGUK, capital is distributed from the UK parent level to subsidiary entities. Capital within the UK Group is considered transferable to other entities within the UK Group without any significant restriction except to the extent it is required for regulatory purposes.

For information on restrictions on the transfer of funds within Group Inc. and its subsidiaries, see "Note 20. Regulation and Capital Adequacy" in Part I, Item 1 "Financial Statements" and "Risk Management and Risk Factors – Liquidity Risk Management – Asset-Liability Management" and "Equity Capital Management and Regulatory Capital" in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the firm's Quarterly Report on Form 10-Q.

Definition of Risk-Weighted Assets

The risk weights that are used in the calculation of RWAs reflect an assessment of the riskiness of our assets and exposures. These risk weights are based on either predetermined levels set by regulators or on internal models which are subject to various qualitative and quantitative parameters that are subject to approval by our regulators. The relationship between available capital and capital requirements can be expressed in the form of a ratio, and RWAs are arrived at by multiplying capital requirements by 12.5. In this document, minimum capital requirements set out in Table 1 are expressed including the impact of additional buffers.

Fair Value

The inventory amounts reflected on our consolidated statements of financial condition as “financial instruments owned” and “financial instruments sold, but not yet purchased” as well as certain other financial assets and financial liabilities, are accounted for at fair value (i.e., marked-to-market), with related gains or losses generally recognised in our consolidated financial position and, therefore, in capital. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The use of fair value to measure financial instruments is fundamental to risk management practices and is our most critical accounting policy. The daily discipline of marking substantially all of our inventory to current market levels is an effective tool for assessing and managing risk and provides transparent and realistic insight into our financial exposures. The use of fair value is an important aspect to consider when evaluating our capital base and our capital ratios; it is also a factor used to determine the classification of positions into the banking book and trading book.

For additional information regarding the determination of fair value under accounting principles generally accepted in the United States (US GAAP) and controls over valuation of inventory, see “Note 3. Significant Accounting Policies” in Part I, Item 1 “Financial Statements” and “Critical Accounting Policies – Fair Value” in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the firm’s Quarterly Report on Form 10-Q.

Banking Book / Trading Book Classification

In order to determine the appropriate regulatory capital treatment for our exposures, positions must be first classified into either “banking book” or “trading book”. Positions are classified as banking book unless they qualify to be classified as trading book.

Banking book positions may be accounted for at amortised cost, fair value or under the equity method; they are not generally positions arising from client servicing and market making, positions intended to be resold in the short term, or positions intended to benefit from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations¹. Banking book positions are subject to credit risk capital requirements. 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 that we hold.

Trading book positions generally meet the following criteria: they are assets or liabilities that are accounted for at fair value; they are risk managed using a Value-at-Risk (VaR) internal model; they are held as part of our market-making and underwriting businesses and are intended to be resold in the short term, or positions intended to benefit from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations¹. Trading book positions are subject to market risk regulatory capital requirements, as are foreign exchange and commodity positions, whether or not they meet the other criteria for classification as trading book positions. Market risk is the risk of loss in the value of our inventory due to changes in market prices. Some trading book positions, such as derivatives, are also subject to counterparty credit risk capital requirements.

¹ As defined in point (85) of Article 4(1) in CRD IV.

Capital Framework

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

- A capital conservation buffer, consisting entirely of capital that qualifies as CET1, that phases in beginning on January 1, 2016, in increments of 0.625% per year until it reaches 2.5% of RWAs on January 1, 2019.
- A countercyclical capital buffer of up to 2.5% (and also consisting entirely of CET1) in order to counteract excessive credit growth. The buffer only applies to the GSGUK's exposures to certain types of counterparties based in jurisdictions which have announced a countercyclical buffer. Since these exposures are not currently material, the buffer adds less than 0.01% to the capital ratio and has an immaterial impact on the capital of GSGUK. The countercyclical capital buffer applicable to GSGUK could change in the future and, as a result, the minimum ratios could increase.

The UK Financial Policy Committee announced an increase in the countercyclical capital buffer rate for private UK counterparties and issuers from 0% to 0.5%. The rate becomes effective beginning March 29, 2017. Currently, GSGUK does not expect that this change will have a material impact on its capital ratios.

- Individual capital guidance under Pillar 2A (an additional amount to cover risks not adequately captured in Pillar 1). The PRA performs a periodic supervisory review of the GSI's and GSIB's Internal Capital Adequacy Assessment Process (ICAAP), which leads to a final determination by the PRA of individual capital guidance under Pillar 2A. This is a point in time assessment of the minimum amount of capital the PRA considers that an entity should hold.

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

The following table presents GSGUK's minimum required ratios as of March 2016.

Table 1: Minimum Regulatory Capital Ratios

	March 2016 Minimum ratio ¹
CET1 ratio	6.5%
Tier 1 capital ratio	8.5%
Total capital ratio	11.1%

1. Includes the phase-in of the capital conservation buffer and countercyclical capital buffer described above.

These minimum ratios incorporate the Pillar 2A capital guidance received from the PRA and could change in the future. In addition to the Pillar 2A capital guidance, the PRA also defines forward looking capital guidance which represents the PRA's view of the capital that GSGUK would require to absorb losses in stressed market conditions. This is known as Pillar 2B or the "PRA buffer" and is not reflected in the minimum ratios shown in Table 1 above. As the capital conservation buffer phases in, as described, it will fully or partially replace the PRA buffer.

As of March 31, 2016, all of GSGUK's regulated subsidiaries had capital levels in excess of their minimum regulatory capital requirement.

Regulatory Capital

Overview of Ratios

For CRD IV regulatory purposes, a company's total available capital has the following components:

- CET1 capital is comprised of common shareholders' equity, after giving effect to deductions for disallowed items and other adjustments;
- Tier 1 capital which is comprised of CET1 capital and other qualifying capital instruments; and
- Tier 2 capital, which includes long term qualifying subordinated debt.

The following table presents a breakdown of GSGUK's capital ratios under CRD IV as at March 31, 2016, including those for significant subsidiaries GSI and GSIB.

Table 2: Regulatory Capital Ratios

<i>\$ in millions</i>	as of March 2016		
	GSGUK	GSI	GSIB
CET1 Capital	\$ 29,035	\$ 25,253	\$ 2,660
Tier 1 Capital	29,035	25,253	2,660
Tier 2 Capital	9,634	8,958	676
Total Capital	38,669	34,211	3,336
RWAs	\$ 235,929	\$ 218,124	\$ 11,138
CET1 Ratio	12.3%	11.6%	23.9%
Tier 1 Capital Ratio	12.3%	11.6%	23.9%
Total Capital Ratio	16.4%	15.7%	30.0%

In the table above, the CET1 ratio and Total capital ratio include approximately 136 basis points attributable to GSGUK's interim results for the fifteen month period ended March 2016, and 18 basis points and 20 basis points attributable to GSI's and GSIB's results respectively, for the three months ended March 2016.

Leverage Ratio

CRD IV, as amended by the European Commission Delegated Act (the Delegated Act), introduced a new leverage ratio, which compares CRD IV's definition of Tier 1 capital to a measure of leverage exposure, defined as the sum of assets less Tier 1 capital deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures, securities financing transactions and commitments.

The Delegated Act does not currently include a minimum leverage ratio requirement; however, the Basel Committee has proposed a minimum requirement of 3%. Any required minimum ratio is expected to become effective for GSGUK on January 1, 2018. As of March 2016, GSGUK had a leverage ratio of 3.8%. This leverage ratio is based on our current interpretation and understanding of this rule and may evolve as its interpretation and application is discussed with our regulators.

Table 3: Leverage Ratio

<i>\$ in millions</i>	as of March 2016		
	GSGUK	GSI	GSIB
Tier 1 Capital	\$ 29,036	\$ 25,253	\$ 2,660
Leverage Ratio Exposure	757,989	731,551	20,474
Leverage Ratio	3.8%	3.4%	13.0%

Pillar 3 Disclosures**Capital Structure**

Certain components of our regulatory capital are subject to regulatory limits and restrictions under CRD IV. In general, to qualify as Tier 1 or Tier 2 capital, an instrument must be fully paid and unsecured. A qualifying Tier 1 or Tier 2 capital instrument must also be subordinated to all senior indebtedness of the organisation.

Assets that are deducted from capital in computing the numerator of the capital ratios are excluded from the computation of RWAs in the denominator of the ratios. The following tables contain information on the components of our regulatory capital structure based on CRD IV, as implemented by the PRA.

Table 4: Regulatory Capital Resources

<i>\$ in millions</i>	as of March 2016		
	GSGUK	GSI	GSIB
CET1 Capital Before Deductions	\$ 30,302	\$ 26,850	\$ 2,830
Regulatory Adjustments	(1,267)	(1,597)	(170)¹
CET1 Capital After Deductions	29,035	25,253	2,660
Tier 1 Capital After Deductions	29,035	25,253	2,660
Tier 2 Capital Before Deductions	9,784	8,958	826
Regulatory Adjustments	(150)	-	(150)¹
Tier 2 Capital After Deductions	9,634	8,958²	676
Total Capital Resources	\$ 38,669	\$ 34,211	\$ 3,336

1. Other Adjustments within the CET1 and Tier 2 capital of GSIB primarily represent the excess capital attributed to certain branch operations.
2. Tier 2 Capital represents subordinated debt with an original term to maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 Capital is reduced, or discounted, upon reaching a remaining maturity of five years.

Risk-Weighted Assets

CRD IV RWAs are calculated based on measures of credit risk, operational risk and market risk. The table below represents a summary of the capital requirements for GSGUK, GSI and GSIB by type.

Table 5: Risk Weighted Assets

<i>\$ in millions</i>	as of March 2016		
	GSGUK	GSI	GSIB
Credit Risk-Weighted Assets	\$ 135,119	\$ 124,864	\$ 5,580
Market Risk-Weighted Assets	86,375	79,955	5,237
Operational Risk-Weighted Assets	14,435	13,305	321
Total Risk-Weighted Assets	\$ 235,929	\$ 218,124	\$ 11,138

Cautionary Note on Forward-Looking Statements

We have included or incorporated by reference in these disclosures, and from time to time our management may make, statements that may constitute “forward-looking statements.” Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition.

It is possible that actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under “Risk Factors” in Part I, Item 1A in the firm’s Annual Report of Form 10-K for the year ended December 31, 2015. This can be accessed via the following link:

<http://www.goldmansachs.com/investor-relations/financials/current/10k/2015-10-k.pdf>