# Unaudited Half-yearly Financial Report

## June 30, 2018

Goldman Sachs Finance Corp International Ltd

Company Number: 122341

# INDEX

## Introduction

Goldman Sachs Finance Corp International Ltd (GSFCI or the company) has been established to be an issuer of warrants, certificates and notes (securities) in a number of European and Asian markets. The company is exposed to interest rate, equity price, currency rate and credit related risks on the securities issued, and manages these risks by entering into over-the-counter (OTC) derivative transactions with affiliates. The proceeds from these securities are lent to affiliates.

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. In relation to the company, "group undertaking" means Group Inc. or any of its subsidiaries. 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 securities issued by the company are fully and unconditionally guaranteed by Group Inc.

The company was incorporated on October 19, 2016 and its first accounting reference period was 63 weeks ended December 31, 2017. This financial report sets out the results of the company for the six months ended June 30, 2018. Comparatives are presented for the six months ended June 30, 2017 or as of December 31, 2017 or as of June 30, 2017, as the context requires.

References to "the financial statements" are to the unaudited financial statements as presented in Part II of this financial report. All references to June 2018 and June 2017 refer to the periods ended, or the dates, as the context requires, June 30, 2018 and June 30, 2017. All references to December 2017 refer to the date December 31, 2017. All references to "the 2017 Annual Report" are to the company's Annual Report for the period ended December 31, 2017.

All amounts in this annual report are prepared in accordance with United Kingdom Generally Accepted Accounting Practices (U.K. GAAP).

## Executive Overview

### Profit and Loss Account

The profit and loss account is set out on page 5 of this financial report. The company's net result for the first half of 2018 was a loss of $3 million, compared to a gain of $10 million for the first half of 2017. The company's net loss of $3 million for the first half of 2018 was primarily related to net losses from the company's issuance, hedging and lending activity.

### Other Comprehensive Income

The statements of comprehensive income are set out on page 5 of this financial report. The company's other comprehensive income, which relates to the company's debt valuation adjustment, was a gain of $150 million for the first half of 2018, compared with a loss of $9 million for the first half of 2017.

### Balance Sheet

The balance sheet is set out on page 6 of this financial report. As of June 2018, total assets were $6.10 billion, an increase of $3.17 billion from December 2017, mainly reflecting an increase in debtors of $3.03 billion. Debtors increased primarily due to an increase in loans to affiliates as a result of an increase in debt securities issued.

## Business Environment

### Global

During the first half of 2018, real gross domestic product (GDP) growth appeared mixed in most major developed economies, although the pace of GDP growth remained relatively high. Following a year of low volatility for global equity markets, volatility increased substantially during the first half of 2018, particularly in the U.S. Economic activity slowed in several major emerging market economies, and emerging market asset prices declined significantly as concerns arose about the vulnerability of emerging economies to a stronger U.S. dollar and higher U.S. Treasury rates. The U.S. Federal Reserve increased the target federal funds rate in March 2018 and again in June 2018, and the European Central Bank announced in June 2018 a reduction to its future monthly asset purchases.

### Europe

In the Euro area, real GDP growth decreased during the period and measures of inflation were mixed. The European Central Bank maintained its main refinancing operations rate at 0.00% and its deposit rate at (0.40)%, but announced in June 2018 that its monthly asset purchases will continue at a reduced pace of €15 billion per month after September 2018 and through December 2018, after which net asset purchases will end. Measures of unemployment remained high and the Euro depreciated by 3% against the U.S. dollar compared with the end of 2017. The movements in 10-year Euro area government bond yields were generally lower, but significantly higher in Italy. Following a period of significant political uncertainty, a new coalition government was formed in Italy at the end of May 2018. In equity markets, the CAC 40 Index remained flat, and the DAX Index and Euro Stoxx 50 Index decreased by 5% and 3%, respectively, compared with the end of 2017.

In the U.K., real GDP growth increased during the first half of 2018. The Bank of England maintained its official bank rate at 0.50% during the period, and the British pound depreciated by 3% against the U.S. dollar. Yields on 10-year U.K. government bonds increased and, in equity markets, the FTSE 100 Index decreased by 1% compared with the end of 2017.

### Asia

In Japan, real GDP growth decreased in the first half of 2018 compared with the second half of 2017. The Bank of Japan maintained its asset purchase program and continued to target a yield on 10-year Japanese government bonds of approximately 0%. The yield on 10-year Japanese government bonds was essentially unchanged, the U.S. dollar depreciated by 2% against the Japanese yen and the Nikkei 225 decreased by 2% compared with the end of 2017.

In China, real GDP growth decreased during the first half of 2018 compared with the second half of 2017, while measures of inflation increased. The U.S. dollar appreciated by 2% against the Chinese yuan compared with the end of 2017, while in equity markets, the Shanghai Composite Index and the Hang Seng Index decreased by 14% and 3%, respectively.

In India, economic growth increased during the first half of 2018 compared with the second half of 2017. The U.S. dollar appreciated by 7% against the Indian rupee and the BSE Sensex Index increased by 4% compared with the end of 2017.

## Principal Risks and Uncertainties

The company faces a variety of risks that are substantial and inherent in its business, including market, liquidity, credit, operational, model, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2017 Annual Report. For further information about the risk factors that impact GS Group, see GS Group's Annual Report on Form 10-K for the year ended December 31, 2017 in Part 1, Item 1A.

## Directors

J. M. Schneider resigned from the board of directors on September 21, 2018.

There were no other changes in the directorship of the company between the date of issue of this financial report and the 2017 Annual Report.

## Responsibility Statement

The financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting' and Article 5 of the Directive 2004/109/EC as amended by Directive 2013/50/EU. The directors confirm to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- The management report includes an indication of important events that have occurred during the first six months of the financial year, and their impact on the financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

Kevin G. Kochar

**K. G. Kochar**
**Director**
**September 28, 2018**

GOLDMAN SACHS FINANCE CORP INTERNATIONAL LTD

# Profit and Loss Account (Unaudited)

| | | Six Months Ended June | |
|---|---|---|---|
| *$ in thousands* | **Note** | **2018** | 2017 |
| Net revenues | 4 | **$ (2,657)** | $10,598 |
| Administrative expenses | 6 | **(89)** | (280) |
| **Operating profit/(loss)** | | **(2,746)** | 10,318 |
| Tax on profit/(loss) | 8 | **–** | – |
| **Profit/(loss) for the financial period** | | **$ (2,746)** | $10,318 |

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

# Statements of Comprehensive Income (Unaudited)

| | | Six Months Ended June | |
|---|---|---|---|
| *$ in thousands* | **Note** | **2018** | 2017 |
| Profit/(loss) for the financial period | | **$ (2,746)** | $10,318 |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Debt valuation adjustment | 11 | **149,680** | (9,166) |
| Tax attributable to the components of other comprehensive income | | **–** | – |
| **Other comprehensive income/(loss) for the financial period** | | **149,680** | (9,166) |
| **Total comprehensive income for the financial period** | | **$146,934** | $ 1,152 |

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

# Balance Sheet
# (Unaudited)

| *$ in thousands* | Note | As of June 2018 | As of December 2017 |
|---|---|---|---|
| **Current assets** | | | |
| Derivative financial assets | 9 | **$ 196,019** | $ 45,115 |
| Debtors (includes **$4,951,901** and $1,964,877 due after more than one year) | 10 | **5,887,293** | 2,858,613 |
| Cash at bank and in hand | | **13,101** | 19,738 |
| | | **6,096,413** | 2,923,466 |
| **Creditors: amounts falling due within one year** | | | |
| Derivative financial liabilities | 9 | **(231,306)** | (138,803) |
| Other creditors | 11 | **(452,148)** | (39,239) |
| | | **(683,454)** | (178,042) |
| **Net current assets** | | **5,412,959** | 2,745,424 |
| **Total assets less current liabilities** | | **5,412,959** | 2,745,424 |
| **Creditors: amounts falling due after more than one year** | | | |
| Other creditors | 11 | **(5,253,382)** | (2,732,334) |
| | | **(5,253,382)** | (2,732,334) |
| **Net assets** | | **$ 159,577** | $ 13,090 |
| **Capital and reserves** | | | |
| Called up share capital | 12 | **$ 5,000** | $ 5,000 |
| Share premium account | | **25,000** | 25,000 |
| Profit and loss account | | **32,377** | 35,570 |
| Accumulated other comprehensive income/(loss) | | **97,200** | (52,480) |
| **Total shareholder's funds** | | **$ 159,577** | $ 13,090 |

The accompanying notes are an integral part of these financial statements.
Company number: 122341

# Statements of Changes in Equity (Unaudited)

| $ in thousands | Six Months Ended June 2018 | 2017 |
|---|---|---|
| **Called up share capital** | | |
| Beginning balance | **$ 5,000** | $ – |
| Shares issued | **–** | 5,000 |
| Ending balance | **5,000** | 5,000 |
| **Share premium account** | | |
| Beginning balance | **25,000** | – |
| Ending balance | **25,000** | – |
| **Profit and loss account** | | |
| Beginning balance | **35,570** | – |
| Cumulative effect on retained earnings due to the adoption of IFRS 9, net of tax | **(447)** | – |
| Profit/(loss) for the financial period | **(2,746)** | 10,318 |
| Ending balance | **32,377** | 10,318 |
| **Accumulated other comprehensive income** | | |
| Beginning balance | **(52,480)** | – |
| Other comprehensive income/(loss) | **149,680** | (9,166) |
| Ending balance | **97,200** | (9,166) |
| **Total shareholder's funds** | **$159,577** | $ 6,152 |

No dividends were paid for the six months ended June 2018 and June 2017.

# Statements of Cash Flows (Unaudited)

| $ in thousands | Note | Six Months Ended June 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash from/(used in) operations | 14 | **$ (6,401)** | $ 821 |
| Net cash from/(used in) operating activities | | **(6,401)** | 821 |
| **Cash flows from financing activities** | | | |
| Receipts from issuing ordinary share capital | | **–** | 5,000 |
| Net cash from financing activities | | **–** | 5,000 |
| Net increase/(decrease) in cash and cash equivalents | | **(6,401)** | 5,821 |
| Cash and cash equivalents, beginning balance | | **19,738** | – |
| Foreign exchange losses on cash and cash equivalents | | **(236)** | (958) |
| **Cash and cash equivalents, ending balance** | 13 | **$13,101** | $ 4,863 |

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

# Notes to the Financial Statements (Unaudited)

**Note 1.**

## General Information

The company is a registered public limited company incorporated on October 19, 2016 and domiciled in Jersey. The address of its registered office is 22 Grenville Street, St. Helier, Jersey JE4 8PX.

The company's immediate parent undertaking is GS Global Markets, Inc., a company incorporated and domiciled in Delaware, United States of America.

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

**Note 2.**

## Summary of Significant Accounting Policies

### Basis of Preparation

The company prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting' (FRS 104) and Article 5 of the Directive 2004/109/EC as amended by Directive 2013/50/EU. These financial statements should be read in conjunction with the 2017 Annual Report, which has been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

### Accounting Policies

The accounting policies and applicable disclosure exemptions applied are consistent with those described in the 2017 Annual Report, except for the adoption of new accounting standards effective as of January 1, 2018. As required by FRS 104, the nature and effect of these changes are set out below.

### *IFRS 9 'Financial Instruments'*

From January 1, 2018, the company adopted the remaining provisions of IFRS 9 'Financial Instruments' (IFRS 9), having early adopted the requirements related to changes in the fair value of financial liabilities attributable to own credit spreads (debt valuation adjustment or DVA) effective from October 19, 2016. As permitted by IFRS 9, the company has decided to continue to apply the hedge accounting requirements of IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39).

The remaining provisions of IFRS 9 adopted by the company related to classification and measurement and impairment. As permitted by the transitional provisions of IFRS 9, the company has elected to not restate comparative figures. The impact of adopting IFRS 9 has been set out below.

**Classification and Measurement.** IFRS 9 introduces a principles-based approach to the classification of financial assets, resulting in the following categories: fair value through profit or loss; fair value through other comprehensive income; and amortised cost.

IFRS 9 requires debt assets to be classified based on a combination of the company's business models and the nature of the assets' cash flows.

As a result of the adoption of IFRS 9, the company reclassified its derivative financial assets of $45 million from held for trading to mandatorily measured at fair value as of January 1, 2018.

The company's classification and measurement of financial liabilities remained unchanged on adoption of IFRS 9.

**Impairment.** IFRS 9 changes the impairment methodology for applicable financial assets, replacing the incurred loss model of IAS 39 with a forward-looking expected credit loss (ECL) approach.

The company is required to assess expected losses based on the probability of default in the next twelve months, unless there has been a significant increase in credit risk since origination, in which case, the expected credit loss is based on the probability of default over the life of the asset.

The company has developed and tested an impairment model that complies with the key requirements of IFRS 9. The cumulative effect on retained earnings due to adoption of IFRS 9 was $447,000 as of January 1, 2018, which relates to the company's allowance for impairment on certain debtors balances.

**Note 3.**

## Critical Accounting Estimates and Judgements

The critical accounting estimates and judgements are consistent with those described in the 2017 Annual Report.

**Note 4.**

## Net Revenues

Net revenues include non-interest income/(expense) and net interest income. Non-interest income/(expense) includes the net profit/(loss) arising from the issuance of securities, OTC derivative hedges with affiliates, allowances for impairment, and allocations of net revenues from/to affiliates for their participation in the company's activities. Net interest income primarily relates to interest income from loans to affiliates.

The table below presents the company's net revenues.

| | Six Months Ended June | |
|---|---|---|
| *$ in thousands* | **2018** | 2017 |
| **Non-interest income/(expense)** | **$(55,339)** | $ 9,421 |
| **Interest income** | | |
| Interest income from external counterparties | **17** | – |
| Interest income from parent and group undertakings | **52,881** | 1,458 |
| **Total interest income** | **52,898** | 1,458 |
| **Interest expense** | | |
| Interest expense from external counterparties | **(216)** | (281) |
| **Total interest expense** | **(216)** | (281) |
| **Net interest income** | **52,682** | 1,177 |
| **Total net revenues** | **$ (2,657)** | $10,598 |

**Note 5.**

## Segment Reporting

The company is an issuer of securities in a number of European and Asian markets. The proceeds from these securities are onward lent to affiliates on an aggregated basis. As such, the directors manage the company's activities as a single business.

The company believes that a geographic analysis of its unsecured debt securities issued is a meaningful method to evaluate the business environments in which the company operates.

The table below presents the company's unsecured debt securities issued by geographic region based on the location of the market-making desk and the primary market for the underlying security.

| | As of | |
|---|---|---|
| | **June** | December |
| *$ in thousands* | **2018** | 2017 |
| Europe | **$2,838,902** | $1,488,080 |
| Asia | **2,733,214** | 1,265,391 |
| **Total unsecured debt securities issued** | **$5,572,116** | $2,753,471 |

**Note 6.**

## Administrative Expenses

The company incurred administrative expenses of $89,000 and $280,000 for the six months ended June 2018 and June 2017, respectively, which primarily related to professional fees.

**Note 7.**

## Staff Costs

The company has no employees. All persons involved in the company's operations are employed by group undertakings and no costs are borne by the company.

**Note 8.**

## Tax on Profit/(Loss)

The company is domiciled in Jersey and under local laws the standard rate of corporate tax is 0%. As a result, no provision for income taxes has been made.

**Note 9.**

## Derivative Financial Assets and Derivative Financial Liabilities

The table below presents the company's derivative financial assets.

| | As of | |
|---|---|---|
| | **June** | December |
| *$ in thousands* | **2018** | 2017 |
| **Derivative financial assets** | | |
| Interest rates | **$146,748** | $ 14,178 |
| Credit | **582** | – |
| Currencies | **4,584** | 2,586 |
| Equities | **44,105** | 28,351 |
| **Total derivative financial assets** | **$196,019** | $ 45,115 |

The table below presents the company's derivative financial liabilities.

| | As of | |
|---|---|---|
| | **June** | December |
| *$ in thousands* | **2018** | 2017 |
| **Derivative financial liabilities** | | |
| Interest rates | **$ 67,902** | $ 34,821 |
| Credit | **8,134** | 89 |
| Currencies | **108,619** | 64,301 |
| Equities | **46,651** | 39,592 |
| **Total derivative financial liabilities** | **$231,306** | $138,803 |

**Note 10.**

## Debtors

The table below presents the company's debtors balances, all of which are financial assets.

| | As of | |
|---|---|---|
| | **June** | December |
| *$ in thousands* | **2018** | 2017 |
| **Amounts due within one year** | | |
| Amounts due from parent and group undertakings: | | |
| Unsecured loans | **$ 799,702** | $ 779,278 |
| Other debtors | **135,690** | 114,458 |
| **Total** | **$ 935,392** | $ 893,736 |
| | | |
| **Amounts due after more than one year** | | |
| Amounts due from parent and group undertakings: | | |
| Unsecured loans | **$4,951,901** | $1,964,877 |
| **Total** | **$4,951,901** | $1,964,877 |
| **Total debtors** | **$5,887,293** | $2,858,613 |

In the table above, unsecured loans due within one year and unsecured loans due after more than one year included an allowance for impairment of $1 million as of June 2018.

**Note 11.**

## Other Creditors

The table below presents the company's other creditors, all of which are financial liabilities.

| | As of | |
|---|---|---|
| | **June** | December |
| *$ in thousands* | **2018** | 2017 |
| **Amounts falling due within one year** | | |
| Unsecured debt securities issued | **$ 318,798** | $ 21,143 |
| Amounts due to parent and group undertakings: | | |
| Other unsecured creditors | **130,081** | 15,836 |
| Other creditors and accruals | **3,269** | 2,260 |
| **Total** | **$ 452,148** | $ 39,239 |
| | | |
| **Amounts falling due after more than one year** | | |
| Unsecured debt securities issued | **$5,253,318** | $2,732,328 |
| Amounts due to parent and group undertakings: | | |
| Unsecured loans | **64** | 6 |
| **Total** | **$5,253,382** | $2,732,334 |
| **Total other creditors** | **$5,705,530** | $2,771,573 |

In the table above, unsecured debt securities issued falling due after more than one year included instruments that are repayable in more than five years of $3.28 billion and $1.89 billion as of June 2018 and December 2017, respectively. As of June 2018, these instruments have maturities falling due between 2023 and 2048. Payments on these instruments are typically referenced to underlying financial assets, which are predominantly currencies, interest rates, equities and credit-related.

### Debt Valuation Adjustment

The fair value of debt securities issued that are designated at fair value through profit or loss are calculated by discounting future cash flows at a rate which incorporates GS Group's credit spreads. The net DVA on such financial liabilities is a gain of $150 million and a loss of $9 million for the six months ended June 2018 and June 2017, respectively, and has been included in "Debt valuation adjustment" in other comprehensive income.

**Note 12.**

## Share Capital

The table below presents the company's share capital.

| **Allotted, called up and fully paid** | **Ordinary shares of $1 each** | ***$ in thousands*** |
|---|---|---|
| As of December 31, 2017 | **5,000,001** | **$5,000** |
| **As of June 30, 2018** | **5,000,001** | **$5,000** |

**Note 13.**

## Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash at bank and in hand of $13 million and $5 million as of June 2018 and June 2017, respectively.

**Note 14.**

## Reconciliation of Cash Flows From/(Used In) Operating Activities

The table below presents the company's reconciliation of cash flows from/(used in) operating activities.

| | Six Months Ended June | |
|---|---|---|
| *$ in thousands* | **2018** | 2017 |
| Profit/(loss) before taxation | **$ (2,746)** | $ 10,318 |
| **Adjustments for** | | |
| Foreign exchange losses | **236** | 958 |
| Cash generated/(used) before changes in operating assets and liabilities | **(2,510)** | 11,276 |
| **Changes in operating assets** | | |
| Increase in derivative financial assets | **(150,904)** | (21,461) |
| Increase in debtors | **(3,029,127)** | (596,085) |
| Changes in operating assets | **(3,180,031)** | (617,546) |
| **Changes in operating liabilities** | | |
| Increase in derivative financial liabilities | **92,503** | 46,774 |
| Increase in other creditors | **3,083,637** | 560,317 |
| Changes in operating liabilities | **3,176,140** | 607,091 |
| **Cash from/(used in) operations** | **$ (6,401)** | $ 821 |

Cash used in operations included interest paid of $2 million and $9,000 for the six months ended June 2018 and June 2017, respectively, and interest received of $40 million and $3,000 for the six months ended June 2018 and June 2017, respectively.

**Note 15.**

## Financial Commitments and Contingencies

The company had no financial commitments or contingencies outstanding as of June 2018 and December 2017.

**Note 16.**

## Financial Assets and Financial Liabilities

### Financial Assets and Financial Liabilities by Category

The tables below present the carrying value of the company's financial assets and financial liabilities by category. The financial assets tables below have been prepared under IFRS 9 and IAS 39 as of June 2018 and December 2017, respectively. See Note 2 for further information.

| | Financial Assets | | |
|---|---|---|---|
| *$ in thousands* | Mandatorily at fair value | Amortised cost | Total |
| **As of June 2018** | | | |
| Derivative financial assets | **$196,019** | **$ –** | **$ 196,019** |
| Debtors | **–** | **5,887,293** | **5,887,293** |
| Cash at bank and in hand | **–** | **13,101** | **13,101** |
| **Total financial assets** | **$196,019** | **$5,900,394** | **$6,096,413** |

| *$ in thousands* | Held for trading | Loans and receivables | Total |
|---|---|---|---|
| As of December 2017 | | | |
| Derivative financial assets | $ 45,115 | $ – | $ 45,115 |
| Debtors | – | 2,858,613 | 2,858,613 |
| Cash at bank and in hand | – | 19,738 | 19,738 |
| Total financial assets | $ 45,115 | $2,878,351 | $2,923,466 |

| | Financial Liabilities | | | |
|---|---|---|---|---|
| *$ in thousands* | Held for trading | Designated at fair value | Amortised cost | Total |
| **As of June 2018** | | | | |
| **Amounts falling due within one year** | | | | |
| Derivative financial liabilities | **$231,306** | **$ –** | **$ –** | **$ 231,306** |
| Other creditors | **–** | **318,798** | **133,350** | **452,148** |
| **Total** | **231,306** | **318,798** | **133,350** | **683,454** |
| **Amounts falling due after more than one year** | | | | |
| Other creditors | **–** | **4,739,961** | **513,421** | **5,253,382** |
| **Total** | **–** | **4,739,961** | **513,421** | **5,253,382** |
| **Total financial liabilities** | **$231,306** | **$5,058,759** | **$646,771** | **$5,936,836** |
| As of December 2017 | | | | |
| **Amounts falling due within one year** | | | | |
| Derivative financial liabilities | $138,803 | $ – | $ – | $ 138,803 |
| Other creditors | – | 21,143 | 18,096 | 39,239 |
| Total | 138,803 | 21,143 | 18,096 | 178,042 |
| **Amounts falling due after more than one year** | | | | |
| Other creditors | – | 2,353,101 | 379,233 | 2,732,334 |
| Total | – | 2,353,101 | 379,233 | 2,732,334 |
| Total financial liabilities | $138,803 | $2,374,244 | $397,329 | $2,910,376 |

In the tables above, derivative financial assets included $8 million and $4 million as of June 2018 and December 2017, respectively, and derivative financial liabilities included $nil and $87,000 as of June 2018 and December 2017, respectively, of derivative instruments designated as hedges.

### Fair Value Hierarchy

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

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

The fair value hierarchy is as follows:

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

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

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

The fair values for the majority of the company's financial assets and financial liabilities that are fair valued on a recurring basis are based on observable prices and inputs and are classified in level 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 GS Group's credit quality, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

### Valuation Techniques and Significant Inputs

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

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialised nations are characterised by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.

- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.

- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialised nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

- **Equity.** Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

Liquidity is essential to observability of all product types. If transaction volumes decline, previously transparent prices and other inputs may become unobservable. Conversely, even highly structured products may at times have trading volumes large enough to provide observability of prices and other inputs.

### Level 2 Derivatives

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence. In evaluating the significance of a valuation input, the company considers, among other factors, a portfolio's net risk exposure to that input.

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

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

### Level 3 Derivatives

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

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

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

### Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments mainly incorporate bid/offer spreads and the cost of liquidity. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

**Other Creditors.** Other creditors comprise debt securities issued, which are hybrid financial instruments, and are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified in level 2 because the inputs are observable. Valuation adjustments may be made for liquidity and GS Group's credit quality.

The significant inputs to the valuation of unsecured other creditors measured at fair value are the amount and timing of expected future cash flows, interest rates, and the credit spreads of GS Group. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the company's other derivative instruments. See "Derivative Instruments" above.

## Fair Value of Financial Assets and Financial Liabilities by Level

The table below presents, by level within the fair value hierarchy, financial assets and financial liabilities measured at fair value on a recurring basis.

| | Financial Assets and Financial Liabilities at Fair Value as of June 2018 | | | |
|---|---|---|---|---|
| *$ in thousands* | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial Assets** | | | | |
| Derivative financial assets | **$ –** | **$ 195,753** | **$ 266** | **$ 196,019** |
| **Total financial assets** | **$ –** | **$ 195,753** | **$ 266** | **$ 196,019** |
| **Financial Liabilities** | | | | |
| **Amounts falling due within one year** | | | | |
| Derivative financial liabilities | **$ –** | **$ 192,818** | **$ 38,488** | **$ 231,306** |
| Other creditors | **–** | **248,097** | **70,701** | **318,798** |
| **Total** | **–** | **440,915** | **109,189** | **550,104** |
| **Amounts falling due after more than one year** | | | | |
| Other creditors | **–** | **4,151,840** | **588,121** | **4,739,961** |
| **Total** | **–** | **4,151,840** | **588,121** | **4,739,961** |
| **Total financial liabilities** | **$ –** | **$4,592,755** | **$697,310** | **$5,290,065** |
| **Net derivative instruments** | **$ –** | **$ 2,935** | **$ (38,222)** | **$ (35,287)** |

| | Financial Assets and Financial Liabilities at Fair Value as of December 2017 | | | |
|---|---|---|---|---|
| *$ in thousands* | Level 1 | Level 2 | Level 3 | Total |
| **Financial Assets** | | | | |
| Derivative financial assets | $ – | $ 43,297 | $ 1,818 | $ 45,115 |
| Total financial assets | $ – | $ 43,297 | $ 1,818 | $ 45,115 |
| **Financial Liabilities** | | | | |
| **Amounts falling due within one year** | | | | |
| Derivative financial liabilities | $ – | $ 109,386 | $ 29,417 | $ 138,803 |
| Other creditors | – | 9,760 | 11,383 | 21,143 |
| Total | – | 119,146 | 40,800 | 159,946 |
| **Amounts falling due after more than one year** | | | | |
| Other creditors | – | 2,056,773 | 296,328 | 2,353,101 |
| Total | – | 2,056,773 | 296,328 | 2,353,101 |
| Total financial liabilities | $ – | $2,175,919 | $337,128 | $2,513,047 |
| Net derivative instruments | $ – | $ (66,089) | $ (27,599) | $ (93,688) |

## Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The company's level 3 debt securities issued are economically hedged with OTC derivatives. The significant unobservable inputs used in level 3 fair value measurements have not been disclosed as the net effect of the measurements on profit or loss or other comprehensive income as of June 2018 and December 2017 was not material.

## Level 3 Rollforward

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

| | Six Months Ended June | |
|---|---|---|
| *$ in thousands* | **2018** | 2017 |
| **Total financial assets** | | |
| Beginning balance | **$ 1,818** | $ – |
| Gains/(losses) | **(1,560)** | – |
| Purchases | **–** | – |
| Settlements | **209** | – |
| Transfers out of level 3 | **(201)** | – |
| **Ending balance** | **$ 266** | $ – |
| **Total financial liabilities** | | |
| Beginning balance | **$(337,128)** | $ – |
| Gains/(losses) | **9,959** | (5,366) |
| Sales | **(8,240)** | (3,090) |
| Issuances | **(556,510)** | (87,961) |
| Settlements | **115,043** | 811 |
| Transfers out of level 3 | **79,566** | – |
| **Ending balance** | **$(697,310)** | $(95,606) |

In the table above:

- Financial assets consist of derivative financial assets.
- If a financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. For level 3 financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Transfers between levels are recognised at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses for level 3 financial liabilities that were transferred out of level 3 prior to the end of the period.
- Level 3 financial liabilities are economically hedged with level 3 financial assets and financial liabilities. Accordingly, level 3 gains or losses that are reported in the table below for a particular class of financial liability can be partially offset by gains or losses attributable to level 3 in a different class of financial asset or financial liability.
- The net gains on level 3 financial liabilities of $10 million for the six months ended June 2018 included gains of $16 million reported in "Debt valuation adjustment" in the statements of comprehensive income and losses of $6 million reported in "Net revenues" in the profit and loss account. The net losses on level 3 financial liabilities of $5 million for the six months ended June 2017 included losses of $3 million reported in "Debt valuation adjustment" in the statements of comprehensive income and losses of $2 million reported in "Net revenues" in the profit and loss account.

The table below disaggregates, by the balance sheet line items, the information for financial liabilities included in the summary table above.

| | Six Months Ended June | |
|---|---|---|
| *$ in thousands* | **2018** | 2017 |
| **Derivative financial liabilities** | | |
| Beginning balance | **$ (29,417)** | $ – |
| Losses | **(14,003)** | (14,588) |
| Sales | **(8,240)** | (3,090) |
| Settlements | **11,504** | – |
| Transfers out of level 3 | **1,668** | – |
| **Ending balance** | **$ (38,488)** | $(17,678) |
| **Other creditors** | | |
| Beginning balance | **$(307,711)** | $ – |
| Gains | **23,962** | 9,222 |
| Issuances | **(556,510)** | (87,961) |
| Settlements | **103,539** | 811 |
| Transfers out of level 3 | **77,898** | – |
| **Ending balance** | **$(658,822)** | $(77,928) |

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

**Six Months Ended June 2018.** Transfers out of level 3 financial liabilities primarily reflected transfers of certain equity products to level 2, principally due to unobservable volatility and correlation inputs no longer being significant to the valuation of these products.

**Six Months Ended June 2017.** There were no transfers between level 2 and level 3 during the six months ended June 2017.

### Fair Value Financial Assets and Financial Liabilities Valued Using Techniques That Incorporate Unobservable Inputs

The fair value of financial assets and financial liabilities may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. For those financial assets and financial liabilities that are valued using unobservable inputs, the net potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs, was not material as of both June 2018 and June 2017, as the company's level 3 debt securities issued are economically hedged with OTC derivatives.

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

The company had financial assets that are not measured at fair value of $5.90 billion and $2.88 billion as of June 2018 and December 2017, respectively, which predominately relate to intercompany loans. The interest rates of these loans are variable in nature and approximate prevailing market interest rates for instruments with similar terms and characteristics. As such, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

The company had financial liabilities that are not measured at fair value of $647 million and $397 million as of June 2018 and December 2017, respectively. These predominantly relate to fixed-rate long-term borrowings of $513 million and $379 million as of June 2018 and December 2017, respectively, for which the fair value was $479 million and $382 million as of June 2018 and December 2017, respectively.