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# Annual Report

## December 31, 2017

Goldman Sachs Finance Corp International Ltd  
Company Number: 122341

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## Management Report

### 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 and currency rate 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 (Federal Reserve Board or FRB). 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 the accounting reference period has been extended to 63 weeks ending December 31, 2017. This annual report sets out the results of the company for the 63 week period ended December 31, 2017.

References to "the financial statements" are to the audited financial statements as presented in Part II of this annual report. All references to December 2017 refer to the period from the company's incorporation on October 19, 2016 to December 31, 2017, or the date, as the context requires, 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

The profit and loss account is set out on page 10 of this annual report. The company's net revenues and profit for the period ended December 2017 was \$36 million.

#### Other Comprehensive Income

The statement of comprehensive income is set out on page 10 of this annual report. The company's other comprehensive income was a loss of \$52 million for the period ended December 2017, which relates to the company's debt valuation adjustment.

#### Balance Sheet

The balance sheet is set out on page 11 of this annual report. As of December 2017, total assets were \$2.92 billion.

#### Future Outlook

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

## Management Report

### 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. The following are some of the more important factors that could affect the company's businesses. 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.

#### Economic and Market Conditions

The company is primarily involved in the issuance of securities in a number of markets and the proceeds from these securities are lent to affiliates. The company also enters into derivative transactions with affiliates for hedging purposes. The activity of the company and its annual issuance volume is affected both by positive and negative developments in the markets where it carries out its business activity. A difficult general economic situation may lead to a lower issuance volume and negatively affect the company's earnings. The market of these securities depends particularly on the development of capital markets, which are in turn affected by the general situation of the world economy, as well as the economic and political conditions in the respective countries.

#### Commercial Activity

The company was established only for the purpose of issuing securities, lending these proceeds to affiliates and entering into derivative transactions with affiliates for hedging purposes, and does not carry out any other operating business activities.

If the company fails or goes bankrupt, an investment in a security may mean a complete loss of the invested amount if the loss cannot be satisfied by the guarantee from Group Inc. The securities are not covered by a deposit protection fund or similar safety system in relation to the claims of holders of securities in the case of an insolvency of the company.

### Liquidity

The company is an indirect, wholly-owned subsidiary of Group Inc. and depends on Group Inc. for capital. All of the company's unsecured debt issuances are guaranteed by Group Inc. The credit ratings of Group Inc. are important to the company's liquidity. A reduction in Group Inc.'s credit ratings could adversely affect the company's liquidity and competitive position, increase borrowing costs or limit access to the capital markets. There is no rating of the company regarding its credit risk by renowned rating agencies such as Moody's Investors Service or Standard & Poor's Ratings Services.

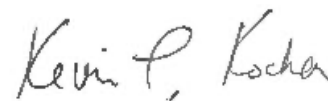
The company's liquidity could be impaired by an inability to access unsecured debt markets, an inability to access funds from Group Inc., or unforeseen outflows of cash.

### Credit Markets

Widening credit spreads for Group Inc., as well as significant declines in the availability of credit, could adversely affect the company's ability to borrow on an unsecured basis. The company issues securities, the proceeds of which are onward lent to Group Inc. and/or its subsidiaries. Any disruptions in the credit markets may make it harder and more expensive to obtain funding for GS Group's businesses.

### Date of Authorisation of Issue

The management report was authorised for issue by the Board of Directors on April 30, 2018.



**By order of the board**  
**K. G. Kochar**  
**Director**  
**April 30, 2018**

**Directors' Report**

The directors present their report and the audited financial statements for the period ended December 2017.

**Dividends**

The directors do not recommend the payment of an ordinary dividend for the period ended December 2017.

**Independent Auditors**

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as auditors of the company.

**Statement of Directors' Responsibilities**

The directors are responsible for preparing the management report, the directors' report and the financial statements in accordance with applicable law and regulations. The Companies (Jersey) Law 1991 requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the company 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 company and to enable them to ensure that the accounts comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that the company faces.

**Directors**

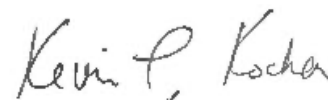
The directors of the company who served throughout the period and to the date of this report, except where noted, were:

<b>Name</b>	<b>Appointed</b>	<b>Resigned</b>
J. A. Burgess	January 12, 2017	February 21, 2018
T. Degn-Petersen	February 24, 2017	February 22, 2018
A. B. Fontein	October 19, 2016	June 30, 2017
J. M. Kelsey	October 19, 2016	
K. G. Kochar	February 28, 2018	
M. S. J. Mertz	October 19, 2016	
J. M. Schneider	October 19, 2016	
M. Sunaga	January 12, 2017	

No director had, at the period end, any interest requiring note herein.

**Date of Authorisation of Issue**

The financial statements were authorised for issue by the Board of Directors on April 30, 2018.



**By order of the board**  
**K. G. Kochar**  
**Director**  
**April 30, 2018**

# Independent auditors' report to the members of Goldman Sachs Finance Corp International Ltd

## Report on the audit of the financial statements

### Opinion

In our opinion, Goldman Sachs Finance Corp International Ltd's ("the company") financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the 63 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2017; the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the Financial Reporting Council's ("FRC") Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Our audit approach

#### Overview

<i>Materiality</i>	<ul style="list-style-type: none"><li>• Overall materiality: \$29.2 million.</li><li>• Based on: 1% of total assets.</li></ul>
<i>Audit scope</i>	<ul style="list-style-type: none"><li>• We perform a full scope audit of the financial statements of the company as a whole.</li></ul>
<i>Key audit matter</i>	<ul style="list-style-type: none"><li>• Valuation of debt securities issued designated at fair value through profit and loss and the associated derivative hedges recorded at fair value.</li></ul>

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

# Independent auditors' report to the members of Goldman Sachs Finance Corp International Ltd

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## **Key audit matter**

### **Valuation of debt securities issued designated at fair value through profit and loss and the associated derivative hedges recorded at fair value.**

In accordance with the accounting policies set out in Note 2 'Summary of Significant Accounting Policies' to the financial statements, the directors designate certain of the company's debt securities issued at fair value through profit and loss and they are recorded in the balance sheet at fair value with changes in fair value recorded in net revenues.

As set out in Note 17 'Financial Assets and Financial Liabilities', the company economically hedges the debt securities issued with derivatives. Derivative assets and liabilities are classified as held for trading and are recorded in the balance sheet at fair value with changes in fair value recorded in net revenues.

As the debt securities issued are economically hedged with derivatives, the net impact to the profit and loss account of changes in fair values is limited. This key audit matter relates to the balance sheet valuation of debt securities issued designated at fair value through profit and loss and the associated derivative hedges recorded at fair value.

The valuations of debt securities issued designated at fair value and derivative financial assets and liabilities held at fair value are produced by financial models using a variety of inputs. Estimation uncertainty can be high for those instruments where significant valuation inputs are unobservable (i.e. Level 3 instruments).

Total derivative financial assets, derivative financial liabilities and debt securities issued designated at fair value were \$45 million, \$139 million, \$2.37 billion, respectively, at December 31, 2017. The net impact of changes in fair values in the profit and loss account for the 63 week period ended December 31, 2017 was \$16 million.

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## **How our audit addressed the key audit matter**

We understood and evaluated the design and tested the operational effectiveness of the controls over management's valuation of financial instruments.

These controls included:

- Validation of new and existing models by a specialist team within the risk function, as well as access and change management controls in respect of models in use.
- The monthly price verification process performed by the controller's function using prices and model valuation inputs sourced from third parties.
- Calculation and approval of key valuation adjustments.

We noted no significant exceptions in the design or operating effectiveness of these controls and we determined we could rely on these controls for the purposes of our audit.

We utilised valuation specialists to revalue a sample of debt securities issued using independent models and, to the extent available, independently sourced inputs.

We also tested external inputs used within management's price verification process and evaluated the appropriateness of the sources.

For a sample of debt securities issued we confirmed that they were economically hedged by derivative financial assets or liabilities and that the residual risk within the company was limited.

We evaluated the methodology and underlying assumptions used to determine material valuation adjustments. We tested a sample of valuation adjustments at the period end.

Based on the work performed, we found management's judgements in relation to the valuation of debt securities issued and derivative financial assets and liabilities at fair value to be supported by the evidence obtained.

We performed testing to validate that management had allocated financial instruments to the appropriate level (1, 2 or 3) within the fair value hierarchy in line with the established policy, and that the policy classifications were appropriate.

We read and assessed the disclosures in Note 17 'Financial Assets and Financial Liabilities' regarding significant unobservable inputs and the fair value hierarchy and found them to be appropriate.

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# Independent auditors' report to the members of Goldman Sachs Finance Corp International Ltd

## **How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company issues warrants, certificates and notes to investors in a number of European and Asian markets. We consider that the company is a single audit component. There are a number of centralised functions operated by the ultimate parent company, The Goldman Sachs Group, Inc., in the U.S. or in group shared service centres in other locations which are relevant to the audit of the company. We determined the scope of the work required in each of these locations and we issued instructions to PwC network firms. We concluded that the procedures performed on our behalf were sufficient for the purposes of issuing our opinion.

## **Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	\$29.2 million.
<b>How we determined it</b>	1% of total assets.
<b>Rationale for benchmark applied</b>	The company's main activity is to issue warrants, certificates and notes to investors in a number of European and Asian markets and lend the proceeds to affiliates. The company is not run for profit. As such total assets is considered an appropriate benchmark. Where total assets is used, if the company is a public interest entity, a rule of thumb of up to 1% can be applied. We have deemed this to be a public interest entity and have therefore applied 1% due to the fact the entity has listed debt.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above \$1.46 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

## **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

## **Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the period ended 31 December 2017 is consistent with the financial statements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.



# Independent auditors' report to the members of Goldman Sachs Finance Corp International Ltd

## Responsibilities for the financial statements and the audit

### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, 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 save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

### **Accounting records and information and explanations received**

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Nick Morrison  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Recognized Auditor  
London  
**April 30, 2018**

**Profit and Loss Account**

<i>\$ in thousands</i>		Period Ended
	Note	December 2017
Net revenues	4	\$ 36,154
Administrative expenses	6	(584)
<b>Operating profit</b>		<b>35,570</b>
Tax on profit	8	-
<b>Profit for the financial period</b>		<b>\$ 35,570</b>

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

**Statement of Comprehensive Income**

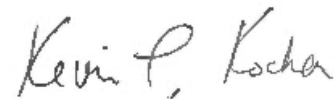
<i>\$ in thousands</i>		Period Ended
	Note	December 2017
Profit for the financial period		\$ 35,570
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Debt valuation adjustment	11	(52,480)
Tax attributable to the components of other comprehensive income		-
<b>Other comprehensive loss for the financial period</b>		<b>(52,480)</b>
<b>Total comprehensive loss for the financial period</b>		<b>\$(16,910)</b>

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

**Balance Sheet**

<i>\$ in thousands</i>	Note	As of December 2017
<b>Current assets</b>		
Derivative financial assets	9	\$ 45,115
Debtors (includes <b>\$1,964,877</b> due after more than one year)	10	2,858,613
Cash at bank and in hand		19,738
		<b>2,923,466</b>
<b>Creditors: amounts falling due within one year</b>		
Derivative financial liabilities	9	(138,803)
Other creditors	11	(39,239)
		<b>(178,042)</b>
<b>Net current assets</b>		<b>2,745,424</b>
<b>Total assets less current liabilities</b>		<b>2,745,424</b>
<b>Creditors: amounts falling due after more than one year</b>		
Other creditors	11	(2,732,334)
		<b>(2,732,334)</b>
<b>Net assets</b>		<b>\$ 13,090</b>
<b>Capital and reserves</b>		
Called up share capital	12	\$ 5,000
Share premium account		25,000
Profit and loss account		35,570
Accumulated other comprehensive income		(52,480)
<b>Total shareholder's funds</b>		<b>\$ 13,090</b>

The financial statements were approved by the Board of Directors on April 30, 2018 and signed on its behalf by:



**K. G. Kochar**  
Director

**Statement of Changes in Equity**

<i>\$ in thousands</i>	Note	Period Ended December 2017
<b>Called up share capital</b>		
Beginning balance		\$ –
Shares issued	12	5,000
Ending balance		5,000
<b>Share premium account</b>		
Beginning balance		–
Shares issued	12	25,000
Ending balance		25,000
<b>Profit and loss account</b>		
Beginning balance		–
Profit for the financial period		35,570
Ending balance		35,570
<b>Accumulated other comprehensive income</b>		
Beginning balance		–
Other comprehensive loss		(52,480)
Ending balance		(52,480)
<b>Total shareholder's funds</b>		<b>\$ 13,090</b>

No dividends were paid for the period ended December 2017.

**Statement of Cash Flows**

<i>\$ in thousands</i>	Note	Period Ended December 2017
<b>Cash flows from operating activities</b>		
Cash used in operations	14	\$ (9,690)
Net cash used in operating activities		(9,690)
<b>Cash flows from financing activities</b>		
Receipts from issuing ordinary share capital	12	30,000
Net cash from financing activities		30,000
Net increase in cash and cash equivalents		20,310
Cash and cash equivalents, beginning balance		–
Foreign exchange losses on cash and cash equivalents		(572)
<b>Cash and cash equivalents, ending balance</b>	13	<b>\$19,738</b>

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

**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/](http://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 101 'Reduced Disclosure Framework' (FRS 101).

These financial statements have been prepared on the going concern basis, under the historical cost convention (modified as explained in "Financial Assets and Financial Liabilities" below), and in accordance with the Companies (Jersey) Law 1991.

The following exemptions from the disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the E.U. have been applied in the preparation of these financial statements in accordance with FRS 101:

- IAS 1 'Presentation of Financial Statements' paragraph 38 to present comparative information in respect of IAS 1 'Presentation of Financial Statements' paragraph 79(a)(iv);
- IAS 1 'Presentation of Financial Statements' paragraphs 10(f), 16, and 40A-D;
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31;
- IAS 24 'Related Party Disclosures' paragraph 17; and
- IAS 24 'Related Party Disclosures' requirements to disclose transactions with companies also wholly owned within GS Group.

## **Accounting Policies**

**Revenue Recognition.** Net revenues have been disclosed instead of turnover as this reflects more meaningfully the nature and results of the company's activities. Net revenues include non-interest income and net interest income. Non-interest income includes the net profit arising from the issuance of securities, OTC derivative hedges with affiliates, 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.

Securities issued by the company are either designated at fair value, or are measured at amortised cost where the host instrument is classified as a hedged item (see "Financial Assets and Financial Liabilities — Hedge Accounting" below). Securities 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 expenses included in net revenues, with the exception of changes in fair value attributable to own credit risk, which are recognised in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Securities measured at amortised cost are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. Finance costs, including discounts allowed on issue, are recorded in net revenues.

The company enters into OTC derivative instruments for hedging purposes. The net of the gains and losses of these instruments are included in net revenues for the period. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

Interest income and interest expense from loans and securities measured at amortised cost are included in net revenues using the effective interest method.

**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.

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

**Foreign Currencies.** The company's financial statements are presented in U.S. dollars, which is also the company'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 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.

## **Financial Assets and Financial Liabilities. Recognition and Derecognition**

Financial assets and financial liabilities are recognised when the company 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 company 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 company 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 derivative financial assets and derivative financial liabilities, which are initially recognised at fair value with transaction costs expensed in profit or loss. Such financial instruments are carried on the balance sheet at fair value and all subsequent gains or losses are recognised in net revenues.
- **Financial liabilities designated at fair value through profit or loss.** The company designates certain of its other creditors at fair value through profit or loss. 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 risk (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 liabilities at fair value through profit or loss are:
  - The group of financial liabilities 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.

## Notes to the Financial Statements

Financial liabilities designated at fair value through profit or loss includes debt securities issued, which are hybrid financial instruments.

Hybrid financial instruments are instruments that contain bifurcated embedded derivatives. If the company 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 company does not elect to bifurcate, the entire hybrid financial instrument is designated at fair value through profit or loss. These 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 in 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 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 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.

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 company 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 company 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.

### **Fair Value Measurement**

See Note 17 for details about the fair value measurement of the company's financial assets and financial liabilities.

### **Hedge Accounting**

The company applies hedge accounting for certain interest rate swaps used to manage the interest rate exposure of its fixed-rate unsecured long-term borrowings. To qualify for hedge accounting, the derivative hedge must be highly effective at reducing the risk from the exposure being hedged. Additionally, the company 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.

**Note 3.**

**Critical Accounting Estimates and Judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in these financial statements. The nature of estimation means that actual outcomes could differ from those estimates. The following judgement has had the most significant effect on amounts recognised in the financial statements:

**Fair Value Measurement**

Certain of the company's financial liabilities, which are economically hedged, include significant unobservable inputs (i.e., level 3). See Note 17 for information about the carrying value and valuation techniques of these instruments.

**Note 4.**

**Net Revenues**

Net revenues include non-interest income and net interest income. Non-interest income includes the net profit arising from the issuance of securities, OTC derivative hedges with affiliates, 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.

<i>\$ in thousands</i>	<b>Period Ended December 2017</b>
<b>Non-interest income</b>	<b>\$16,036</b>
<b>Interest income</b>	
Interest income from external counterparties	11
Interest income from parent and group undertakings	20,158
<b>Total interest income</b>	<b>20,169</b>
<b>Interest expense</b>	
Interest expense from external counterparties	51
<b>Total interest expense</b>	<b>51</b>
<b>Net interest income</b>	<b>20,118</b>
<b>Total net revenues</b>	<b>\$36,154</b>

In the table above, non-interest income includes net gains of \$99 million for the period ended December 2017 in relation to financial liabilities designated at fair value through profit or loss. These gains are partially offset with losses on OTC derivative hedges with affiliates, which are financial assets and financial liabilities held for trading, and allocations of net revenues from/to affiliates for their participation in the company's activities.

**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.

<i>\$ in thousands</i>	<b>As of December 2017</b>
Europe	\$1,488,080
Asia	1,265,391
<b>Total unsecured debt securities issued</b>	<b>\$2,753,471</b>

**Note 6.**

**Administrative Expenses**

The company incurred administrative expenses of \$584,000 for the period ended December 2017, 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**

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.

<i>\$ in thousands</i>	As of December 2017
<b>Derivative financial assets</b>	
Interest rates	\$ 14,178
Currencies	2,586
Equities	28,351
<b>Total derivative financial assets</b>	<b>\$ 45,115</b>

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

<i>\$ in thousands</i>	As of December 2017
<b>Derivative financial liabilities</b>	
Interest rates	\$ 34,821
Credit	89
Currencies	64,301
Equities	39,592
<b>Total derivative financial liabilities</b>	<b>\$138,803</b>

**Note 10.**

**Debtors**

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

<i>\$ in thousands</i>	As of December 2017
<b>Amounts due within one year</b>	
Amounts due from parent and group undertakings:	
Unsecured loans	\$ 779,278
Other debtors	114,458
<b>Total</b>	<b>\$ 893,736</b>
<b>Amounts due after more than one year</b>	
Amounts due from parent and group undertakings:	
Unsecured loans	\$1,964,877
<b>Total</b>	<b>\$1,964,877</b>
<b>Total debtors</b>	<b>\$2,858,613</b>

**Note 11.**

**Other Creditors**

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

<i>\$ in thousands</i>	As of December 2017
<b>Amounts falling due within one year</b>	
Unsecured debt securities issued	\$ 21,143
Amounts due to parent and group undertakings:	
Other unsecured creditors	15,836
Other creditors and accruals	2,260
<b>Total</b>	<b>\$ 39,239</b>
<b>Amounts falling due after more than one year</b>	
Unsecured debt securities issued	\$2,732,328
Amounts due to parent and group undertakings:	
Unsecured borrowings	6
<b>Total</b>	<b>\$2,732,334</b>
<b>Total other creditors</b>	<b>\$2,771,573</b>

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 \$1.89 billion as of December 2017. As of December 2017, these instruments have maturities falling due between 2023 and 2047. Payments on these instruments are typically referenced to underlying financial assets, which are predominantly currencies, interest rates and equities-related.

**Debt Valuation Adjustment**

The fair value of debt securities issued that are designated at fair value through profit or loss are calculated by discounting future cash flows at a rate which incorporates GS Group's credit spreads. The net DVA on such financial liabilities is a loss of \$52 million for the period ended December 2017, 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.

<i>\$ in thousands</i>	Ordinary shares of \$1 each	<i>\$ in thousands</i>
<b>Allotted, called up and fully paid</b>		
As of October 19, 2016	-	\$ -
Allotted during the period	5,000,001	5,000
<b>As of December 31, 2017</b>	<b>5,000,001</b>	<b>\$5,000</b>

On January 10, 2017, 5,000,000 ordinary shares of \$1 each were allotted to GS Global Markets, Inc. for \$5,000,000. On December 29, 2017, 1 ordinary share of \$1 was allotted to GS Global Markets, Inc. for \$25,000,000. The total consideration received during the period was \$30,000,000 in cash incorporating a share premium of \$24,999,999.

**Note 13.**

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand of \$20 million.

**Note 14.**

**Reconciliation of Cash Flows From Operating Activities**

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

<i>\$ in thousands</i>	<b>Period Ended December 2017</b>
Profit before taxation	\$ 35,570
<b>Adjustments for:</b>	
Foreign exchange losses	572
Cash generated before changes in operating assets and liabilities	36,142
<b>Changes in operating assets</b>	
Increase in derivative financial assets	(45,115)
Increase in debtors	(2,858,613)
Changes in operating assets	(2,903,728)
<b>Changes in operating liabilities</b>	
Increase in derivative financial liabilities	138,803
Increase in other creditors	2,719,093
Changes in operating liabilities	2,857,896
<b>Cash used in operations</b>	<b>\$ (9,690)</b>

Cash used in operations includes interest paid and interest received of \$1.4 million and \$41,000, respectively, for the period ended December 2017.

**Note 15.**

**Financial Commitments and Contingencies**

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

**Note 16.**

**Financial Risk Management and Capital Management**

The company monitors its capital on an ongoing basis. The company's objective is to be prudently capitalised in terms of the amount and composition of its equity base (see Note 12) compared to the company's risk exposures. The appropriate level and composition of equity capital is determined by considering multiple factors including the business environment, conditions in the financial markets and assessments of future losses due to adverse changes in market environments.

The company is not subject to any externally imposed capital requirements.

The company is exposed to financial risk through its financial assets and financial liabilities. Due to the nature of the company's business and the assets and liabilities contained within the company's balance sheet, the most important components of financial risk the directors consider relevant to the company are market risk, credit risk and liquidity risk. The company, as part of a global group, adheres to global risk management policies and procedures.

**Market Risk**

Market risk is the risk of loss in the value of the company's financial assets and financial liabilities due to changes in market conditions. Risks are monitored and controlled through strong GS Group oversight and independent control and support functions across the company's businesses. Categories of market risk include the following:

- Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates and credit spreads;
- Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices; and
- Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates.

The company is exposed to interest rate, equity price and currency rate risks on its debt securities issued. The company manages these risks by entering into OTC derivative instruments for hedging purposes.

The company is exposed to interest rate risk on its unsecured loans due from parent and group undertakings. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the company's interest income from parent and group undertakings for the period ended December 2017 would have been \$17 million higher/lower. This has been determined by assuming that the company's exposure to interest rate risk at the balance sheet date was consistent for the whole period.

The company is exposed to changes in GS Group's credit spreads on its debt securities issued that are designated at fair value through profit or loss. The estimated sensitivity to a 1 basis point increase in GS Group's credit spreads on such financial liabilities was a gain of \$2 million as of December 2017.

### Credit Risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty. Credit risk is managed by reviewing the credit quality of the counterparties and reviewing, if applicable, the underlying collateral against which the financial assets are secured. The company's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is equivalent to the carrying value of its financial assets as of December 2017.

The company's credit exposures are described further below.

**Derivative Financial Assets.** Derivatives are reported at fair value on a gross by counterparty basis in the company's financial statements, unless it has a current legal right of set-off and also intends to settle on a net basis. The company enters into derivative transactions with affiliates for hedging purposes. The company's gross exposure of \$45 million is mitigated by counterparty netting (i.e., the netting of financial assets and financial liabilities for a given counterparty when a legal right of set-off exists under an enforceable netting agreement) of \$42 million resulting in a net credit exposure of \$3 million as of December 2017.

**Debtors.** Debtors primarily relate to unsecured loans to affiliates and cash collateral paid to affiliates in respect of derivative financial instruments. The company's gross and net credit exposure of \$2.86 billion and \$2.77 billion, respectively, mainly relates to the company's unsecured loans to affiliates. The cash collateral paid to affiliates of \$91 million is mitigated by cash collateral netting of \$91 million.

**Cash at Bank and in Hand.** Cash at bank and in hand includes both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, the company places substantially all of its deposits with highly-rated banks. The company's gross and net credit exposure is \$20 million as of December 2017.

As of December 2017, there were no financial assets past due or impaired.

### Liquidity Risk

Liquidity risk is the risk that the company does not have sufficient cash or collateral to make payments to its counterparties as they fall due. The company manages its liquidity risk in accordance with GS Group's comprehensive and conservative set of liquidity and funding policies to address both company-specific and broader industry or market liquidity events.

### Note 17.

## Financial Assets and Financial Liabilities

### Financial Assets and Financial Liabilities by Category

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

\$ in thousands	Financial Assets			Total
	Held for trading	Designated at fair value	Loans and receivables	
<b>As of December 2017</b>				
Derivative financial assets	\$ 45,115	\$ -	\$ -	\$ 45,115
Debtors	-	-	2,858,613	2,858,613
Cash at bank and in hand	-	-	19,738	19,738
<b>Total financial assets</b>	<b>\$ 45,115</b>	<b>\$ -</b>	<b>\$ 2,878,351</b>	<b>\$ 2,923,466</b>

\$ in thousands	Financial Liabilities			Total
	Held for trading	Designated at fair value	Amortised cost	
<b>As of December 2017</b>				
<b>Amounts falling due within one year</b>				
Derivative financial	\$138,803	\$ -	\$ -	\$ 138,803
Other creditors	-	21,143	18,096	39,239
<b>Total</b>	<b>138,803</b>	<b>21,143</b>	<b>18,096</b>	<b>178,042</b>
<b>Amounts falling due after more than one year</b>				
Other creditors	-	2,353,101	379,233	2,732,334
<b>Total</b>	<b>-</b>	<b>2,353,101</b>	<b>379,233</b>	<b>2,732,334</b>
<b>Total financial liabilities</b>	<b>\$138,803</b>	<b>\$2,374,244</b>	<b>\$ 397,329</b>	<b>\$2,910,376</b>

In the table above, as of December 2017, derivative financial assets include \$14,000 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).

## Notes to the Financial Statements

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 counterparty and GS Group's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

### Valuation Techniques and Significant Inputs

**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.

- **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 incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralised portion of derivative portfolios. The company also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the company to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

**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 for counterparty 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.

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

### 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 for the period ended 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.

\$ in thousands	Period Ended December 2017
<b>Total financial assets</b>	
Beginning balance	\$ –
Losses	(1,848)
Purchases	3,666
<b>Ending balance</b>	<b>\$ 1,818</b>
<b>Total financial liabilities</b>	
Beginning balance	\$ –
Losses	(4,225)
Sales	(17,007)
Issuances	(327,824)
Settlements	11,928
<b>Ending balance</b>	<b>\$(337,128)</b>

In the table above:

- Financial assets consists 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 losses on level 3 financial liabilities of \$4 million for the period ended December 2017 included losses of \$4 million reported in “Debt valuation adjustment” in the statement of comprehensive income.

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

<i>\$ in thousands</i>	<b>Period Ended December 2017</b>
<b>Derivative financial liabilities</b>	
Beginning balance	\$ -
Losses	(12,410)
Sales	(17,007)
<b>Ending balance</b>	<b>\$ (29,417)</b>
<b>Other creditors</b>	
Beginning balance	\$ -
Gains	8,185
Issuances	(327,824)
Settlements	11,928
<b>Ending balance</b>	<b>\$(307,711)</b>

### **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 December 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 \$2.88 billion of financial assets that are not measured at fair value as of December 2017, 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 \$397 million of financial liabilities that are not measured at fair value as of December 2017. These predominantly relate to fixed-rate long-term borrowings of \$379 million for which the fair value is \$382 million.

### Maturity of Financial Liabilities

The table below presents the cash flows of the company's financial liabilities by contractual maturity including interest that will accrue, except for derivative financial liabilities. Derivative financial liabilities are classified as trading/on demand. Financial liabilities, with the exception of those that are held for trading or designated at fair value through profit and loss, are disclosed at their undiscounted cash flows.

The fair values of financial liabilities held for trading and financial liabilities designated at fair value through profit and loss have been disclosed as this is consistent with the values used in the liquidity risk management of these instruments. Liquidity risk on derivatives is mitigated through master netting agreements and cash collateral arrangements.

	Financial Liabilities						Total
	Trading/ on demand	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	Greater than five years	
<i>\$ in thousands</i>							
<b>As of December 2017</b>							
<b>Amounts falling due within one year</b>							
Derivative financial liabilities	\$138,803	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 138,803
Other creditors	18,096	-	2,962	18,181	-	-	39,239
<b>Total</b>	<b>156,899</b>	<b>-</b>	<b>2,962</b>	<b>18,181</b>	<b>-</b>	<b>-</b>	<b>178,042</b>
<b>Amounts falling due after more than one year</b>							
Other creditors	6	789	1,410	6,573	879,206	1,961,336	2,849,320
<b>Total</b>	<b>6</b>	<b>789</b>	<b>1,410</b>	<b>6,573</b>	<b>879,206</b>	<b>1,961,336</b>	<b>2,849,320</b>
<b>Total financial liabilities</b>	<b>\$156,905</b>	<b>\$789</b>	<b>\$4,372</b>	<b>\$24,754</b>	<b>\$879,206</b>	<b>\$1,961,336</b>	<b>\$3,027,362</b>

### Collateral Received and Pledged

The company has posted cash collateral in respect of derivative financial liabilities of \$91 million as of December 2017.

### Hedge Accounting

The company designates certain interest rate swaps as fair value hedges of its fixed-rate unsecured long-term borrowings. These interest rate swaps hedge changes in fair value attributable to the designated benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting fixed-rate obligations into floating-rate obligations.

The company applies a statistical method that utilises regression analysis when assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and the risk being hedged (i.e., interest rate risk). An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

For qualifying fair value hedges, gains or losses on derivatives and the change in fair value of the hedged item attributable to the hedged risk are included in net revenues. When a derivative is no longer designated as a hedge, any remaining difference between the carrying value and par value of the hedged item is amortised over the remaining life of the hedged item using the effective interest method.

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged borrowings and the hedge ineffectiveness on these derivatives.

	Period Ended December 2017
<i>\$ in thousands</i>	
Interest rate hedges	\$(2,716)
Hedged borrowings	3,651
<b>Hedge ineffectiveness</b>	<b>\$ 935</b>

The gross fair value of derivative financial assets designated as hedges was \$14,000 as of December 2017.

**Note 18.**

**Offsetting of Financial Assets and Financial Liabilities**

The table below presents the company's financial assets and financial liabilities that are subject to enforceable netting agreements and offsetting. Amounts are only offset in the balance sheet when the company currently has a legally enforceable right to set-off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. In the table below:

- Gross amounts exclude the effects of both counterparty netting and collateral, and therefore are not representative of the company's economic exposure.

- Amounts not offset in the balance sheet include counterparty netting (i.e., the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting agreement), and cash and security collateral received and posted under enforceable credit support agreements, that do not meet the criteria for offsetting under U.K. GAAP.

- Where the company has received or posted collateral under credit support agreements, but has not yet determined whether such agreements are enforceable, the related collateral has not been included in the amounts not offset in the balance sheet.

	As of December 2017						
	Gross amounts	Amounts offset in the balance sheet	Net amount presented in the balance sheet	Amounts not offset in the balance sheet			Net amount
				Counterparty netting	Cash collateral	Security collateral	
<i>\$ in thousands</i>							
<b>Financial Assets</b>							
Derivative financial assets	\$ 45,115	\$ –	\$ 45,115	\$(42,100)	\$ –	\$ –	\$ 3,015
Debtors	91,280	–	91,280	–	(91,280)	–	–
Financial assets subject to enforceable netting agreements	136,395	–	136,395	(42,100)	(91,280)	–	3,015
Financial assets not subject to enforceable netting agreements	2,787,071	–	2,787,071	–	–	–	2,787,071
<b>Total financial assets</b>	<b>\$2,923,466</b>	<b>\$ –</b>	<b>\$2,923,466</b>	<b>\$(42,100)</b>	<b>\$(91,280)</b>	<b>\$ –</b>	<b>\$2,790,086</b>
<b>Financial Liabilities</b>							
<b>Amounts falling due within one year</b>							
Derivative financial liabilities	\$ 138,803	\$ –	\$ 138,803	\$(42,100)	\$(91,280)	\$ –	\$ 5,423
Financial liabilities subject to enforceable netting agreements	138,803	–	138,803	(42,100)	(91,280)	–	5,423
Financial liabilities not subject to enforceable netting agreements	2,771,573	–	2,771,573	–	–	–	2,771,573
<b>Total financial liabilities</b>	<b>\$2,910,376</b>	<b>\$ –</b>	<b>\$2,910,376</b>	<b>\$(42,100)</b>	<b>\$(91,280)</b>	<b>\$ –</b>	<b>\$2,776,996</b>