

Consolidated Financial Information

December 31, 2017

INDEX	Page No.
Introduction	2
Company Information	2
Statement of Directors' Responsibilities	2
Independent Auditors' Report	3
Consolidated Profit and Loss Account	5
Consolidated Statement of Comprehensive Income	5
Consolidated Balance Sheet	6
Consolidated Statement of Changes in Equity	7
Notes to the Consolidated Financial Information	8

Introduction

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

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

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

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

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

Company Information

For the year ended 31 December 2017

Directors

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

Secretary

M. Pearce

Registered Office

Peterborough Court
133 Fleet Street
London
EC4A 2BB

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Statement of Directors’ Responsibilities

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

In preparing the consolidated financial information, the directors have:

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

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

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



By order of the board

R. J. Taylor
Director

June 26, 2018

Report on the audit of the non-statutory consolidated financial information

Opinion

In our opinion, Goldman Sachs Group UK Limited's non-statutory consolidated financial information for the year ended 31 December 2017 have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in the Summary of Significant Accounting Policies set out in Note 1.

We have audited the non-statutory consolidated financial information, included within the Consolidated Financial Information, which comprise: the Consolidated Balance Sheet as at 31 December 2017; the Consolidated Profit and Loss Account and Consolidated Statement of Comprehensive Income, and the Consolidated Statement of Changes in Equity for the year then ended; the accounting policies; and the notes to the non-statutory consolidated financial information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, 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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the non-statutory consolidated financial information, which is not modified, we draw attention to the Summary of Significant Accounting Policies set out in Note 1 which include a description of the basis of preparation, and in particular, the fact that the non-statutory consolidated financial information does not include all disclosures required by International Financial Reporting Standards (IFRSs) as adopted by the European Union. The non-statutory consolidated financial information are prepared in accordance with a special purpose framework for the directors for the specific purpose as described in the Use of this report paragraph below. As a result, the non-statutory consolidated financial information may not be suitable for another purpose.

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

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 non-statutory consolidated financial information is not appropriate; or
- the directors' have not disclosed in the non-statutory consolidated financial information any identified material uncertainties that may cast significant doubt about the group'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 non-statutory consolidated financial information are authorised for issue.

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

Responsibilities for the non-statutory consolidated financial information and the audit

Responsibilities of the directors for the non-statutory consolidated financial information

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the non-statutory consolidated financial information in accordance with the basis of preparation and accounting policies in the Summary of Significant Accounting Policies and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of non-statutory consolidated financial information that are free from material misstatement, whether due to fraud or error.

In preparing the non-statutory consolidated financial information, the directors are responsible for assessing the group'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 group 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 non-statutory consolidated financial information 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 non-statutory consolidated financial information.

A further description of our responsibilities for the audit of the non-statutory consolidated financial information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors as a body for management purposes and in support of the consolidated Pillar III reporting of the U.K. regulated group in accordance with our engagement letter dated 2 May 2018 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
June 26, 2018

Consolidated Profit and Loss Account

<i>\$ in millions</i>	Note	Year Ended December	
		2017	2016
Net revenues		\$ 7,907	\$ 7,546
Administrative expenses	3	(4,771)	(4,792)
Operating profit		3,136	2,754
Interest payable and similar expenses		(337)	(378)
Net finance income		3	9
Profit before taxation		2,802	2,385
Tax on profit	4	(624)	(538)
Profit for the financial year		\$ 2,178	\$ 1,847
Attributable to:			
Owners of the company		2,158	1,843
Non-controlling interests		20	4
		\$ 2,178	\$ 1,847

Consolidated Statement of Comprehensive Income

<i>\$ in millions</i>	Year Ended December	
	2017	2016
Profit for the financial year	\$ 2,178	\$ 1,847
Other comprehensive income		
Items that will not be reclassified subsequently to consolidated profit or loss		
Actuarial gain/(loss) relating to the pension scheme	198	(189)
Debt valuation adjustment	(267)	(178)
U.K. deferred tax attributable to components of other comprehensive income	18	91
U.K. current tax attributable to components of other comprehensive income	2	3
Total items that will not be reclassified subsequently to consolidated profit or loss	(49)	(273)
Items that will be reclassified subsequently to consolidated profit or loss		
Currency translation differences	198	(106)
Total items that will be reclassified subsequently to consolidated profit or loss	198	(106)
Other comprehensive income/(loss) for the financial year, net of tax	149	(379)
Total comprehensive income for the financial year	\$ 2,327	\$ 1,468
Attributable to:		
Owners of the company	2,300	1,470
Non-controlling interests	27	(2)
	\$ 2,327	\$ 1,468

Consolidated Balance Sheet

\$ in millions	Note	As of December	
		2017	2016
Fixed assets			
Intangible assets		\$ 186	\$ 105
Tangible assets		413	239
		599	344
Current assets			
Financial instruments owned	5	644,674	667,503
Collateralised agreements	6	207,416	182,961
Investments		1,901	1,642
Debtors	7	78,512	70,604
Cash at bank and in hand		24,724	18,025
		957,227	940,735
Creditors: amounts falling due within one year			
Financial instruments sold, but not yet purchased	5	(595,815)	(620,390)
Collateralised financings	8	(135,632)	(116,922)
Other creditors	9	(128,261)	(122,647)
		(859,708)	(859,959)
Net current assets		97,519	80,776
Total assets less current liabilities		98,118	81,120
Creditors: amounts falling due after more than one year			
Collateralised financings	8	(14,550)	(7,366)
Other creditors	9	(46,995)	(42,398)
		(61,545)	(49,764)
Provisions for liabilities		(10)	–
Net assets excluding pension surplus		36,563	31,356
Pension surplus		321	53
Net assets including pension surplus		\$ 36,884	\$ 31,409
Capital and reserves			
Called up share capital		\$ 2,135	\$ 4,935
Share premium account		388	388
Preferred shares		300	–
Other equity instruments		5,800	–
Other reserves		183	183
Capital redemption reserve		–	305
Profit and loss account		28,319	26,008
Accumulated other comprehensive income		(314)	(456)
Equity attributable to owners of the parent company		\$ 36,811	\$ 31,363
Non-controlling interests		73	46
Total shareholder's funds		\$ 36,884	\$ 31,409

The consolidated financial information was approved by the Board of Directors on June 26, 2018 and signed on its behalf by:



R. J. Taylor
Director

Consolidated Statement of Changes in Equity

<i>\$ in millions</i>	Year Ended December	
	2017	2016
Called up share capital		
Beginning balance	\$ 4,935	\$ 4,893
Shares issued	–	42
Capital reduction	(2,800)	–
Ending balance	2,135	4,935
Share premium account		
Beginning balance	388	221
Shares issued	–	167
Ending balance	388	388
Preferred shares		
Beginning balance	–	–
Preferred shares issued	300	–
Ending balance	300	–
Other equity instruments		
Beginning balance	–	–
Additional Tier 1 notes issued	5,800	–
Ending balance	5,800	–
Other reserves		
Beginning balance	183	133
Shares issued	–	50
Ending balance	183	183
Capital redemption reserve		
Beginning balance	305	305
Transfers to profit and loss account	(305)	–
Ending balance	–	305
Profit and loss account		
Beginning balance	26,008	24,165
Profit for the financial year	2,158	1,843
Capital reduction	2,800	–
Transfers from capital redemption reserve	305	–
Distributions paid	(2,800)	–
Preferred dividend paid	(6)	–
Interest on Additional Tier 1 notes, net of tax	(146)	–
Ending balance	28,319	26,008
Accumulated other comprehensive income		
Beginning balance	(456)	(83)
Other comprehensive income/(loss)	142	(373)
Ending balance	(314)	(456)
Non-controlling interests		
Beginning balance	46	–
Acquisitions	–	48
Profit for the financial year	20	4
Other comprehensive income/(loss)	7	(6)
Ending balance	73	46
Total shareholder's funds	\$36,884	\$31,409

Notes to the Consolidated Financial Information

Note 1.

Summary of Significant Accounting Policies

Basis of Preparation

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

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

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

Consolidation

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

Accounting Policies

Revenue Recognition. Net revenues have been disclosed instead of turnover as this reflects more meaningfully the nature and results of the group’s activities. Net revenues includes the net profit arising from transactions, with both third parties and affiliates, in securities, foreign exchange and other financial instruments, and fees and commissions. This is inclusive of associated interest and dividends.

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

Financial assets and financial liabilities held for trading or designated at fair value through profit or loss are recognised at fair value with realised and unrealised gains and losses as well as associated interest and dividend income and expenses included in net revenues. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The group measures certain financial assets and financial liabilities as a portfolio (i.e. based on its net exposure to market and/or credit risks).

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

Investment Banking

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

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

Notes to the Consolidated Financial Information

Investment Management

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

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

Commissions and Fees

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

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

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

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

Group Inc. generally issues new shares of common stock upon delivery of share-based awards. Cash dividend equivalents, unless prohibited by regulation, are generally paid on outstanding RSUs. The group has also entered into a chargeback agreement with Group Inc. under which it is committed to pay the grant-date fair value as well as subsequent movements in fair value of those awards to Group Inc. at the time of delivery to its employees. As a result, the share-based payment transaction and chargeback agreement creates a total charge to the consolidated profit and loss account based on the grant-date fair value of the awards adjusted for subsequent movements in the fair value of those awards prior to delivery.

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

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

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

Notes to the Consolidated Financial Information

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

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

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

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

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

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

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

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

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

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

Financial Assets and Financial Liabilities.

Recognition and Derecognition

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

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

Notes to the Consolidated Financial Information

Classification and Measurement

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

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

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

- **Financial assets and financial liabilities designated at fair value through profit or loss.** The group designates certain of its other financial assets and financial liabilities at fair value through profit or loss. Financial assets and financial liabilities designated at fair value through profit or loss are initially recognised at fair value with transaction costs expensed in profit or loss. Such financial assets are measured in the balance sheet at fair value and all subsequent gains and losses are recognised in net revenues. Such financial liabilities are measured in the balance sheet at fair value, with changes in fair value attributable to own credit spreads (debt valuation adjustment or DVA) being recognised in other comprehensive income, if it does not create or enlarge an accounting mismatch, and the remaining changes in the fair value being recognised in net revenues. The primary reasons for designating such financial assets and financial liabilities at fair value through profit or loss are:
 - The group of financial assets, financial liabilities or both is managed and its performance evaluated on a fair value basis; and
 - To eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

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

- Resale agreements and repurchase agreements;
- Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;
- Secured debt securities issued and other borrowings, which consist of hybrid financial instruments and transfers of assets accounted for as financings rather than sales;
- Certain unsecured debt securities issued and other borrowings, including certain hybrid financial instruments;
- Certain balances related to lending activities included in debtors;
- Certain balances related to deposit-taking activities included in other creditors;
- Certain private equity investments (see “Current Asset Investments”);
- Certain financial guarantee contracts written;
- Certain other creditors, which consist of certain loans with GS Group undertakings and prepaid commodity contracts; and
- Certain debtors, which consist of transfers of assets accounted for as secured loans rather than purchases and prepaid commodity contracts.

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

These financial assets and financial liabilities designated 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.

Notes to the Consolidated Financial Information

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

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

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

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

Classification of Financial Liabilities and Equity

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

Offsetting Financial Assets and Financial Liabilities

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

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

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

Hedge Accounting

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

Notes to the Consolidated Financial Information

Collateralised Agreements and Collateralised Financings.

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

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

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

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

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

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

New Accounting Standards.

IFRS 9 ‘Financial Instruments’

In July 2014, the International Accounting Standards Board (IASB) issued IFRS 9 ‘Financial Instruments’ (IFRS 9), which replaces IAS 39 ‘Financial Instruments: Recognition and Measurement’ (IAS 39) for annual periods beginning on or after January 1, 2018. In November 2016, the E.U. endorsed IFRS 9.

Key changes as a result of the new standard include:

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 group’s business models and the nature of the assets’ cash flows. Whilst the group expects to reclassify certain financial assets from fair value through profit or loss to amortised cost and vice-versa, it does not expect there to be a significant change in the carrying value of these financial assets on the date of adoption.

Accounting for financial liabilities remains largely unchanged from IAS 39, except for the requirements related to changes in the fair value of financial liabilities attributable to own credit spreads (debt valuation adjustment or DVA). The group early adopted the DVA requirements, effective from January 2016.

Notes to the Consolidated Financial Information

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 group 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 loss is based on the probability of default over the life of the asset.

The group has developed and tested an impairment model that complies with the key requirements of IFRS 9. The expected credit losses generated from the model as of December 2017 are negligible, consistent with the incurred losses currently recorded under IAS 39.

Hedge Accounting. IFRS 9 allows entities to continue with the hedge accounting requirements under IAS 39 even when other elements of IFRS 9 became mandatory on January 1, 2018. Based on the group's analysis, the impact from adopting hedge accounting under IFRS 9 would be insignificant and it has decided to continue to apply hedge accounting under IAS 39.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. This standard, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures.

The standard became effective for the group in January 2018, and was implemented under the cumulative effect transition approach. As a result of adopting this standard, the group will delay recognition of non-refundable and milestone payments on financial advisory assignments until the assignments are completed.

The group will also prospectively change the presentation of certain costs from a net presentation within net revenues to a gross basis. Whilst this presentational change will not change the group's operating profit, it is expected to increase the group's net revenues and administrative expenses, in comparison to the group's current presentation.

The implementation of this standard did not have a significant impact on the group's balance sheet and statement of comprehensive income on the date of adoption.

Note 2.

Presentational Changes

The group has changed the presentation of its borrowings as follows:

- Certain borrowings have been reclassified from creditors: amounts falling due within one year to creditors: amounts falling due after more than one year, based on their contractual maturity in accordance with the provisions of Schedule 10 of SI 2008/410; and
- Secured borrowings previously included within other creditors have been reclassified to collateralised financings, which better reflects the inherent nature of the balances.

As a result, the following balances as of December 2016 have been reclassified in order to align to the current period presentation:

- Other creditors falling due within one year decreased by \$6.43 billion;
- Collateralised financings falling due within one year increased by \$2.73 billion;
- Collateralised financings falling due after more than one year increased by \$1.46 billion; and
- Other creditors falling due after more than one year increased by \$2.24 billion.

Comparatives in Notes 8 and 9 have been updated to conform to the current period presentation.

Note 3.

Administrative Expenses

The table below presents the group's administrative expenses.

<i>\$ in millions</i>	Year Ended December	
	2017	2016
Direct costs of employment	\$2,454	\$2,983
Brokerage, clearing, exchange and distribution fees	623	656
Market development	81	65
Communications and technology	97	85
Depreciation and amortisation	39	7
Occupancy	157	161
Professional fees	138	118
Other expenses	1,182	717
Total non-compensation expenses	2,317	1,809
Total administrative expenses	\$4,771	\$4,792

Notes to the Consolidated Financial Information

Note 4.

Tax on Profit

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

\$ in millions	Year Ended December	
	2017	2016
Current tax		
U.K. corporation tax	\$327	\$488
Adjustments in respect of prior periods	(5)	(18)
Overseas taxation	150	108
Total current tax	472	578
Deferred tax		
Origination and reversal of temporary differences	127	(48)
Effect of decreased U.K. corporate tax rates	–	5
Adjustments in respect of prior periods	25	3
Total deferred tax	152	(40)
Total tax on profit	\$624	\$538

The table below presents a reconciliation between tax on profit and the amount calculated by applying the weighted average rate of U.K. corporation tax applicable to the group for the year of 25.69% (2016: 26.97%) to the profit before taxation.

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

\$ in millions	Year Ended December	
	2017	2016
Profit before taxation	\$2,802	\$2,385
Profit multiplied by		
U.K. corporate tax rate of 25.69% (2016: 26.97%)	720	643
Changes in recognition and measurement of deferred tax assets	9	11
Permanent differences	(76)	(66)
Tax losses surrendered from GS Group undertakings for nil consideration	(50)	(22)
Effect of higher taxes on overseas earnings	4	–
Exchange differences and other	(3)	(18)
Adjustments in respect of prior periods	20	(15)
Effect of decreased U.K. corporation tax rates	–	5
Total tax on profit	\$ 624	\$ 538

Note 5.

Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased

Financial instruments owned and financial instruments sold, but not yet purchased comprise financial instruments and investments within the operating activities of the group. Financial instruments owned includes financial instruments owned pledged as collateral.

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

\$ in millions	As of December	
	2017	2016
Cash instruments		
Money market instruments	\$ 434	\$ 211
Government and agency obligations	23,832	21,213
Mortgage and other asset-backed loans and securities	755	773
Corporate loans and debt securities and other debt obligations	16,139	12,719
Equity securities	36,001	31,600
Commodities	432	274
Total cash instruments	77,593	66,790
Derivative instruments		
Interest rates	357,968	372,989
Credit	29,935	33,930
Currencies	108,612	127,310
Commodities	11,241	9,928
Equities	59,325	56,556
Total derivative instruments	567,081	600,713
Total financial instruments owned	\$644,674	\$667,503

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

\$ in millions	As of December	
	2017	2016
Cash instruments		
Government and agency obligations	\$ 17,967	\$ 15,203
Corporate loans and debt securities and other debt obligations	2,430	2,132
Equity securities	18,637	14,993
Commodities	3	7
Total cash instruments	39,037	32,335
Derivative instruments		
Interest rates	350,012	366,696
Credit	28,095	31,501
Currencies	110,608	126,887
Commodities	11,220	9,797
Equities	56,843	53,174
Total derivative instruments	556,778	588,055
Total financial instruments sold, but not yet purchased	\$595,815	\$620,390

Notes to the Consolidated Financial Information

Note 6.

Collateralised Agreements

The table below presents the group's collateralised agreements.

\$ in millions	As of December	
	2017	2016
Resale agreements	\$123,576	\$118,366
Securities borrowed	83,840	64,595
Total collateralised agreements	\$207,416	\$182,961

In the table above:

- Total collateralised agreements included amounts due from GS Group undertakings of \$122.10 billion and \$119.82 billion as of December 2017 and December 2016, respectively.
- Total collateralised agreements included balances due in more than one year of \$94 million and \$40 million as of December 2017 and December 2016, respectively.

Note 7.

Debtors

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

\$ in millions	As of December	
	2017	2016
Amounts due from broker/dealers and customers	\$67,860	\$59,517
Amounts due from GS Group undertakings	9,920	10,179
Group relief receivable from GS Group undertakings	6	6
Corporation tax receivable	2	17
Deferred tax	602	730
Other debtors	82	65
Prepayments and accrued income	40	90
Total debtors	\$78,512	\$70,604

In the table above:

- Amounts due from broker/dealers and customers included balances due in more than one year relating to prepaid commodity contracts and bank loans of \$46 million and \$278 million as of December 2017 and December 2016, respectively.
- Total debtors included financial assets of \$77.86 billion and \$69.87 billion as of December 2017 and December 2016, respectively, and non-financial assets of \$649 million and \$730 million as of December 2017 and December 2016, respectively.

Note 8.

Collateralised Financings

The table below presents the group's collateralised financings.

\$ in millions	As of December	
	2017	2016
Amounts falling due within one year		
Repurchase agreements	\$ 76,690	\$ 60,630
Securities loaned	56,038	53,559
Debt securities issued	1,253	1,101
Other borrowings	1,651	1,632
Total	\$135,632	\$116,922
Amounts falling due after more than one year		
Repurchase agreements	\$ 9,131	\$ 5,406
Securities loaned	2,063	499
Debt securities issued	894	590
Other borrowings	2,462	871
Total	\$ 14,550	\$ 7,366
Total collateralised financings	\$150,182	\$124,288

In the table above:

- Repurchase agreements falling due after more than one year included instruments that are repayable in more than five years of \$83 million and \$75 million as of December 2017 and December 2016, respectively, which had maturities falling due in 2030.
- Debt securities issued and other borrowings falling due after more than one year included instruments that are repayable in more than five years of \$823 million as of December 2017 and \$nil as of December 2016. As of December 2017, these instruments have maturities falling due between 2026 and 2030. Payments on these instruments are typically referenced to underlying financial assets, which are predominately interest rates, equities and credit-related.
- Total collateralised financings includes amounts due to GS Group undertakings of \$94.60 billion and \$74.13 billion as of December 2017 and December 2016, respectively, of which \$93.96 billion and \$74.13 billion as of December 2017 and December 2016, respectively, are due within one year.
- Debt securities issued and other borrowings are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within "Financial instruments owned" or sourced through collateralised agreements.

Notes to the Consolidated Financial Information

Note 9.

Other Creditors

The table below presents the group's other creditors.

\$ in millions	As of December	
	2017	2016
Amounts falling due within one year		
Unsecured borrowings	\$ 27,417	\$ 7,994
Amounts due to broker/dealers and customers	57,985	54,296
Amounts due to GS Group undertakings:		
Other unsecured creditors	15,928	39,696
Share-based compensation	702	920
Customer deposits	24,584	18,050
Corporation tax payable	111	263
Group relief payable to GS Group undertakings	3	2
Other taxes and social security costs	313	235
Other creditors and accruals	1,218	1,191
Total	\$128,261	\$122,647
Amounts falling due after more than one year		
Unsecured borrowings	42,326	40,527
Amounts due to GS Group undertakings:		
Other unsecured creditors	44	277
Share-based compensation	697	745
Customer deposits	3,863	794
Other creditors	65	55
Total	\$ 46,995	\$ 42,398
Total other creditors	\$175,256	\$165,045

In the table above, amounts falling due within one year included financial liabilities of \$127.84 billion and \$122.15 billion as of December 2017 and December 2016, respectively, and non-financial liabilities of \$424 million and \$498 million as of December 2017 and December 2016, respectively. All amounts falling due after more than one year are financial liabilities as of both December 2017 and December 2016.

Note 10.

Financial Assets and Financial Liabilities

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

\$ in millions	Financial Assets			Total
	Held for trading	Designated at fair value	Loans and receivables	
As of December 2017				
Financial instruments owned	\$644,674	\$ –	\$ –	\$644,674
Collateralised agreements	–	142,957	64,459	207,416
Investments	–	1,901	–	1,901
Debtors	–	977	76,886	77,863
Cash at bank and in hand	–	–	24,724	24,724
Total financial assets	\$644,674	\$145,835	\$166,069	\$956,578

As of December 2016				
Financial instruments owned	\$667,503	\$ –	\$ –	\$667,503
Collateralised agreements	–	138,093	44,868	182,961
Investments	–	1,641	–	1,641
Debtors	–	1,591	68,283	69,874
Cash at bank and in hand	–	–	18,025	18,025
Total financial assets	\$667,503	\$141,325	\$131,176	\$940,004

\$ in millions	Financial Liabilities			Total
	Held for trading	Designated at fair value	Amortised cost	
As of December 2017				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$595,648	\$ 167	\$ –	\$595,815
Collateralised financings	–	91,511	44,121	135,632
Other creditors	–	22,851	104,986	127,837
Total	595,648	114,529	149,107	859,284
Amounts falling due after more than one year				
Collateralised financings	–	14,550	–	14,550
Other creditors	–	25,196	21,799	46,995
Total	–	39,746	21,799	61,545
Total financial liabilities	\$595,648	\$154,275	\$170,906	\$920,829

As of December 2016				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$620,390	\$ –	\$ –	\$620,390
Collateralised financings	–	75,723	41,199	116,922
Other creditors	–	15,064	107,085	122,149
Total	620,390	90,787	148,284	859,461

Amounts falling due after more than one year				
Collateralised financings	–	7,366	–	7,366
Other creditors	–	22,369	20,029	42,398
Total	–	29,735	20,029	49,764
Total financial liabilities	\$620,390	\$120,522	\$168,313	\$909,225