Unaudited Half-yearly Financial Report

June 30, 2018

Goldman Sachs International Bank (unlimited company)

Company Number: 01122503

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Management Report

Introduction

Goldman Sachs International Bank (the bank) is involved in lending and deposit-taking activities, securities lending and acts as a primary dealer for European government bonds. In March 2018 the bank's European government bond market-making activities was transferred to a group undertaking. The bank continues to focus on the expansion of its lending and deposit-taking activities while remaining as a primary dealer for European government bonds.

The bank's primary regulators are the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The bank's ultimate parent undertaking and controlling entity is The Goldman Sachs Group, Inc. (Group Inc.). Group Inc. is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System. In relation to the bank, "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. GS Group has a presence in Europe, the Middle East and Africa through a number of subsidiaries, including the bank.

The bank's principal office is in the U.K., but the bank also operates a branch in Germany (the Frankfurt branch), which is involved in lending activities, and has a representative office in China (the Beijing rep office).

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

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

Executive Overview

Profit and Loss Account

The profit and loss account is set out on page 5 of this financial report. For the first half of 2018, the bank's profit for the financial period was $59 million, compared with $56 million for the first half of 2017.

Total operating income was $157 million for the first half of 2018, compared with $112 million for the first half of 2017. This increase reflects the bank's continued focus on the expansion of its lending activities, the diversification of funding sources and management of excess liquidity, partially offset by the transfer of the bank's European government bond market-making activities.

Administrative expenses were $76 million for the first half of 2018, compared with $36 million for the first half of 2017. This increase reflects increased management charges by group undertakings.

Balance Sheet

The balance sheet is set out on page 6 of this financial report.

As of June 2018, total assets were $40.53 billion, a decrease of $13.91 billion from December 2017, primarily reflecting decreases in financial instruments owned of $7.58 billion and collateralised agreements with group undertakings of $7.36 billion, partially offset by an increase in customer accounts receivable of $1.18 billion. Financial instruments owned and collateralised agreements with group undertakings decreased primarily due to the transfer of the bank's European government bond market-making activities. Customer accounts receivable increased primarily due to an increase in lending activities.

As of June 2018, total liabilities were $37.43 billion, a decrease of $13.98 billion from December 2017, primarily reflecting decreases in financial instruments sold, but not yet purchased of $9.17 billion and collateralised financings with group undertakings of $7.66 billion, partially offset by an increase in customer accounts payable of $3.60 billion. Financial instruments sold, but not yet purchased and collateralised financings with group undertakings decreased primarily due to the transfer of the bank's European government bond market-making activities. Customer accounts payable increased primarily due to an increase in deposit-taking activities.

Key Metrics

The balance sheet includes the following amounts related to lending and deposit-taking activities.

	As of	
$ in thousands	**June 2018**	December 2017
Lending activities		
Included in customer accounts receivable:		
Bank loans	**$ 4,651,528**	$ 3,727,884
Mortgage-backed loans	**157,218**	118,998
Included in debt securities	**655,564**	621,072
Included in financial instruments owned:		
Bank loans	**84,642**	33,091
Mortgage-backed loans	**29,519**	32,074
Total lending activities	**$ 5,578,471**	$ 4,533,119
Deposit-taking activities		
Included in customer accounts payable:		
Customer deposits	**$29,916,383**	$25,814,493
Deposits from group undertakings	**1,156,632**	1,192,335
Included in deposits by banks	**1,130,855**	1,440,949
Total deposit-taking activities	**$32,203,870**	$28,447,777

The unfunded portion of bank loans held as principal risk was $3.85 billion and $3.89 billion as of June 2018 and December 2017, respectively.

In addition to the lending activities detailed above, the bank reinvests funds generated from deposit-taking activities on both a secured and unsecured basis with group undertakings.

Business Environment

Global

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

Europe

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

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

Principal Risks and Uncertainties

The bank faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2017 Annual Report.

Credit Ratings

The table below presents the unsecured credit ratings and outlook of the bank by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services (S&P).

	As of June 2018		
	Fitch	**Moody's**	**S&P**
Short-term Bank Deposits	**F1**	**P-1**	**N/A**
Short-term Debt	**F1**	**P-1**	**A-1**
Long-term Bank Deposits	**A**	**A1**	**N/A**
Long-term Debt	**A**	**A1**	**A+**
Ratings Outlook	**Stable**	**Negative**	**Stable**

Directors

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

Responsibility Statement

The financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting' and the interim management report herein includes a fair review of the information required by 4.2.7R of the FCA's Disclosure and Transparency Rules.

D. M. Bicarregui
Director
August 10, 2018

Unaudited Financial Statements

GOLDMAN SACHS INTERNATIONAL BANK (UNLIMITED COMPANY)

Profit and Loss Account
(Unaudited)

		Six Months Ended June	
$ in thousands	**Note**	**2018**	2017
Interest receivable and similar income	5	**$ 359,352**	$ 160,086
Interest payable and similar expenses	6	**(176,588)**	(109,011)
Net interest income		**182,764**	51,075
Net (losses)/gains on financial instruments measured at fair value	7	**(14,202)**	77,226
Impairments on financial assets		**(11,131)**	(15,821)
Total operating income	4	**157,431**	112,480
Administrative expenses	8	**(75,502)**	(35,507)
Profit before taxation		**81,929**	76,973
Tax on profit	9	**(22,509)**	(20,588)
Profit for the financial period		**$ 59,420**	$ 56,385

Total operating income of the bank is derived from continuing operations in the current and prior periods.

Statements of Comprehensive Income
(Unaudited)

	Six Months Ended June	
$ in thousands	**2018**	2017
Profit for the financial period	**$ 59,420**	$ 56,385
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Debt valuation adjustment	**(7,274)**	(1,979)
U.K. deferred tax attributable to components of other comprehensive income	**1,964**	542
Total items that will not be reclassified subsequently to profit or loss	**(5,310)**	(1,437)
Items that will be reclassified subsequently to profit or loss		
Translation (losses)/gains	**(128)**	471
Total items that will be reclassified subsequently to profit or loss	**(128)**	471
Other comprehensive loss for the financial period, net of tax	**(5,438)**	(966)
Total comprehensive income for the financial period	**$ 53,982**	$ 55,419

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

Balance Sheet
(Unaudited)

		As of	
		June	December
$ in thousands	**Note**	**2018**	2017
Assets			
Cash at bank and in hand		**$ 2,979,431**	$ 3,227,390
Customer accounts receivable	10	**5,830,585**	4,649,371
Debt securities		**655,564**	621,072
Financial instruments owned (includes **$0** and $5,355,680 pledged as collateral)	11	**642,127**	8,222,671
Collateralised agreements with group undertakings	12	**29,548,884**	36,909,581
Other assets	13	**876,279**	816,746
Total assets		**$40,532,870**	$54,446,831
Liabilities and shareholder's funds			
Customer accounts payable	14	**$31,416,022**	$27,818,016
Deposits by banks	15	**1,130,855**	1,440,949
Financial instruments sold, but not yet purchased	11	**850,377**	10,020,454
Collateralised financings with group undertakings	16	**1,926,190**	9,586,952
Other liabilities	17	**1,278,913**	1,720,762
Long-term subordinated loan from group undertakings	18	**826,000**	826,000
Total liabilities		**$37,428,357**	$51,413,133
Called up share capital	19	**62,558**	62,558
Share premium account		**2,094,303**	2,094,303
Accumulated other comprehensive income		**(8,772)**	(3,334)
Profit and loss account		**956,424**	880,171
Total shareholder's funds		**3,104,513**	3,033,698
Total liabilities and shareholder's funds		**$40,532,870**	$54,446,831
Memorandum items			
Financial commitments	20	**$ 5,877,318**	$ 5,633,208
Contingent liabilities	20	**$ 3,043,440**	$ 1,954,234

The accompanying notes are an integral part of these financial statements.
Company number: 01122503

Statements of Changes in Equity (Unaudited)

	Six Months Ended June	
$ in thousands	**2018**	2017
Called up share capital		
Beginning balance	**$ 62,558**	$ 62,558
Ending balance	**62,558**	62,558
Share premium account		
Beginning balance	**2,094,303**	2,094,303
Ending balance	**2,094,303**	2,094,303
Accumulated other comprehensive income		
Beginning balance	**(3,334)**	1,690
Other comprehensive loss	**(5,438)**	(966)
Ending balance	**(8,772)**	724
Profit and loss account		
Beginning balance	**880,171**	761,440
Cumulative effect on retained earnings due to adoption of IFRS 9, net of tax	**16,833**	–
Profit for the financial period	**59,420**	56,385
Share-based payments	**108**	29
Management recharge related to share-based payments	**(108)**	(29)
Ending balance	**956,424**	817,825
Total shareholder’s funds	**$3,104,513**	$2,975,410

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

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

Note 1.

General Information

The bank is a private unlimited company and is incorporated and domiciled in England and Wales. The address of its registered office is Peterborough Court, 133 Fleet Street, London, EC4A 2BB, United Kingdom.

The bank's immediate parent undertaking is Goldman Sachs Group UK Limited (GSG UK), a company incorporated and domiciled in England and Wales. GSG UK together with its consolidated subsidiaries form "GSG UK Group".

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 additional information about GS Group and its business activities, can be obtained from Investor Relations, 200 West Street, New York, NY 10282, United States of America, GS Group's principal place of business, or at www.goldmansachs.com/shareholders/.

Note 2.

Summary of Significant Accounting Policies

Basis of Preparation

The bank prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the FCA and FRS 104 'Interim Financial Reporting' (FRS 104). The financial statements should be read in conjunction with the 2017 Annual Report, which has been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

Accounting Policies

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

IFRS 9 'Financial Instruments'

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

The remaining provisions of IFRS 9 adopted by the bank related to classification, measurement and impairment. As permitted by the transitional provisions of IFRS 9, the bank has elected to not restate comparative figures.

The consequential amendments to IFRS 7 disclosures have only been applied in the current period.

The adoption of IFRS 9 has resulted in changes in the bank's accounting policies for recognition, classification and measurement of financial assets and liabilities, and impairment of financial assets – see "Financial Assets and Financial Liabilities" below for further details. Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the bank.

Classification and Measurement. The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at January 1, 2018, are compared as follows:

	IFRS 9		
$ in thousands	Mandatorily at fair value	Amortised cost	Total
As of January 1, 2018			
Cash at bank and in hand	**$ –**	**$3,227,390**	**$ 3,227,390**
Customer accounts receivable	**324,119**	**4,331,629**	**4,655,748**
Debt securities	**68,890**	**566,304**	**635,194**
Financial instruments owned	**8,222,671**	**–**	**8,222,671**
Collateralised agreements with group undertakings	**36,909,581**	**–**	**36,909,581**
Other assets	**–**	**766,258**	**766,258**
Total financial assets	**$45,525,261**	**$8,891,581**	**$54,416,842**

	IAS 39			
$ in thousands	Held for trading	Designated at fair value	Loans and receivables	Total
As of January 1, 2018				
Cash at bank and in hand	**$ –**	**$ –**	**$3,227,390**	**$ 3,227,390**
Customer accounts receivable	**–**	**324,119**	**4,325,252**	**4,649,371**
Debt securities	**9,141**	**–**	**611,931**	**621,072**
Financial instruments owned	**8,222,671**	**–**	**–**	**8,222,671**
Collateralised agreements with group undertakings	**–**	**36,909,581**	**–**	**36,909,581**
Other assets	**–**	**–**	**766,258**	**766,258**
Total financial assets	**$8,231,812**	**$37,233,700**	**$8,930,831**	**$54,396,343**

As a result of the adoption of IFRS 9 the carrying amount of financial liabilities decreased by $3 million due to a decrease in the allowance for impairment in respect of unfunded lending commitments. There were no changes to the classification of financial liabilities, other than to changes in the fair value of financial instruments designated at fair value through profit or loss attributable to changes in the instrument's credit risk, which have been presented in other comprehensive income since January 1, 2016.

The bank performed a detailed analysis of its business models for managing financial assets and, where required, subsequent analysis of cash flow characteristics on individual financial assets.

The cumulative effect on retained earnings due to adoption of IFRS 9 of $17 million (see page 7) was a result of:

- The bank's allowance for impairment decreased by $9 million (comprising customer accounts receivable $6 million and other liabilities $3 million);
- Certain debt securities that were classified as loans and receivables under IAS 39 were reclassified to mandatorily at fair value resulting in an increase in carrying amount of $14 million; and
- This resulted in the bank's tax liability increasing by $6 million.

IFRS 15 'Revenue from Contracts with Customers'

From January 1, 2018, the bank adopted IFRS 15 under the cumulative effect transition approach. 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 bank also prospectively changed the presentation of certain costs from a net presentation within total operating income to a gross basis, resulting in an increase in both total operating income and administrative expenses by $14 million for the six months ended June 2018, in comparison to the bank's past presentation.

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 bank 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 bank transfers the financial asset and either a) substantially all the risk and rewards of ownership, or b) neither transfers nor retains substantially all the risk and rewards of ownership and the bank does not retain control 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 – Financial Assets

From January 1, 2018 the bank has applied IFRS 9 and classifies its financial assets into the below categories based on the bank's business model for managing the asset and, where required, subsequent analysis of cash flow characteristics on individual financial assets.

The business model reflects how the bank manages particular groups of assets in order to generate future cash flows. Where the business model is to hold the assets to collect contractual cash flows the bank subsequently assesses whether the financial assets cash flows represent solely payments of principal and interest, and whether the cash flows represent basic lending arrangements. Where contractual terms introduce exposure to risk or volatility inconsistent with a basic lending arrangement the financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivative features are considered in their entirety in the above described assessment.

- **Financial assets classified at fair value through profit or loss.** Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Such financial assets are measured in the balance sheet at fair value and subsequent gains or losses are recognised in net (losses)/gains on financial instruments measured at fair value.

  Financial assets classified at fair value through profit or loss include financial instruments owned. 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 classified at fair value through profit or loss also include:

  - Securities purchased under agreements to resell (resale agreements), securities borrowed and other secured lending arrangements; and
  - Certain balances related to lending activities included in customer account receivable and debt securities.

- **Financial assets classified at amortised cost.** Financial assets that are held for the collection of contractual cash flows and have cash flows that represent solely payments of principal and interest are measured at amortised cost. 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 interest receivable and similar income.

  The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial asset 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 bank assesses on a forward-looking basis the expected credit losses associated with these financial assets. The measurement of expected credit losses reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The amount of expected credit loss is included within impairments on financial assets.

Classification and Measurement – Financial Liabilities

The bank classifies its 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 liabilities classified as held for trading.** Financial liabilities classified as held for trading include financial instruments sold, but not yet purchased, consisting of 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 (losses)/gains on financial instruments measured at fair value.

- **Financial liabilities designated at fair value through profit or loss.** The bank designates certain of its other financial liabilities 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. 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 (losses)/gains on financial instruments measured at fair value. 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.

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

- Securities sold under agreements to repurchase (repurchase agreements);
- Certain balances related to deposit-taking activities included in customer accounts payable and deposits by banks;
- Certain intercompany unsecured borrowings included in other liabilities;
- Certain financial guarantee contracts written; and
- Certain unsecured debt securities issued, including certain hybrid financial instruments.

Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives. If the bank 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 bank 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.

- **Financial liabilities measured at amortised cost.** Financial liabilities measured at amortised cost include certain customer accounts payable, certain other liabilities and the long-term subordinated loan from group undertakings. Such financial liabilities are initially recognised at fair value plus transactions costs and subsequently measured at amortised cost using the effective interest method (see above). Finance costs, including discounts allowed on issue, are recorded in interest payable and similar expenses.

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 in the balance sheet.

Fair Value Measurement

See Note 21 for details about the fair value measurement of the bank's financial assets and financial liabilities.

Fair Value Hedges

The bank applies fair value hedge accounting for certain interest rate swaps used to manage the interest rate exposure of 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 bank 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.

Presentation Changes

The bank retrospectively changed the presentation of certain of its lending activities to reclassify such balances from customer accounts receivable and financial instruments owned to debt securities. As a result, where relevant, comparatives in Notes 10 and 11 as of December 2017 have been updated to reflect this change.

Note 3.

Critical Accounting Estimates and Judgements

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

Administrative Expenses

A substantial portion of the bank's administrative expenses, both within direct costs of employment and management fees charged by group undertakings, represents discretionary compensation, which is finalised at year-end. The bank believes the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the total operating income earned in such periods.

Allowance for Impairment

The allowance for impairment (see Notes 10 and 17) is determined by an expected credit loss model internally developed to meet the impairment requirements of IFRS 9. The measurement of expected credit losses for financial assets classified at amortised cost requires the use of a complex model and significant assumptions about future economic conditions and credit behaviour. Significant judgements are also required in applying the accounting requirements for measuring expected credit losses including determining criteria for significant increases in credit risk and establishing the number and weighting of forward looking scenarios.

Note 4.

Segment Reporting

The table below presents the total operating income of the bank's segments.

	Six Months Ended June	
$ in thousands	**2018**	2017
Investment Banking	**$ 23,333**	$ 13,353
Institutional Client Services	**103,960**	114,484
Investing & Lending	**8,447**	(25,031)
Investment Management	**21,691**	9,674
Total operating income	**$157,431**	$112,480

The bank reports its business segments in line with that of GS Group:

Investment Banking

Consists of underwriting and origination of debt instruments including European government bonds and bank loans.

Institutional Client Services

Consists of client execution activities, market making in European government bonds, interest rate products and currencies, secondary dealing in bank loans and securities lending.

Investing & Lending

Consists of lending activities which are typically longer-term in nature and includes impairments and losses on lending activities.

Investment Management

Consists of deposit-taking and lending activities with high-net-worth individuals and families.

The bank's administrative expenses and assets are primarily attributable to Institutional Client Services.

Note 5.

Interest Receivable and Similar Income

The table below presents the bank's interest receivable and similar income.

	Six Months Ended June	
$ in thousands	**2018**	2017
Interest on loans to banks and customers	**$ 71,897**	$ 26,681
Interest on collateralised agreements with group undertakings	**223,689**	103,143
Interest on loans to group undertakings	**63,766**	30,262
Total interest receivable and similar income	**$359,352**	$160,086

Note 6.

Interest Payable and Similar Expenses

The table below presents the bank's interest payable and similar expenses.

	Six Months Ended June	
$ in thousands	**2018**	2017
Interest on loans from banks and customers	**$131,293**	$ 79,260
Interest on long-term subordinated loan from group undertakings (see Note 18)	**20,859**	17,662
Interest on loans from group undertakings	**21,555**	7,156
Negative interest on collateralised agreements with group undertakings	**2,881**	4,933
Total interest payable and similar expenses	**$176,588**	$109,011

In the table above, interest on loans from banks and customers includes interest on customer deposits and deposits by banks.

Note 7.

Net (Losses)/Gains on Financial Instruments Measured at Fair Value

Net (losses)/gains on financial instruments measured at fair value includes:

- Trading interest income of $56 million and $75 million for the six months ended June 2018 and June 2017, respectively, and trading interest expense of $59 million and $107 million for the six months ended June 2018 and June 2017, respectively. Trading interest income and expense represents coupon interest arising on European government bonds and interest on collateralised agreements and collateralised financings associated with the bank's European government bond market-making business.
- Net losses on derivative instruments related to funding products of $88 million and $7 million for the six months ended June 2018 and June 2017, respectively.

Note 8.

Administrative Expenses

The table below presents the bank's administrative expenses.

	Six Months Ended June	
$ in thousands	**2018**	2017
Management charges from group undertakings	**$56,060**	$25,507
Direct costs of employment	**4,631**	2,079
Brokerage, clearing and exchange fees	**3,020**	3,046
Market development	**1,836**	325
Communications and technology	**38**	91
Depreciation of tangible fixed assets	–	77
Occupancy	**42**	441
Professional fees	**985**	427
Other expenses	**8,890**	3,514
Total administrative expenses	**$75,502**	$35,507

In the table above, management charges from group undertakings includes service charges relating to operational and administrative support, and management services received from group undertakings.

Note 9.

Tax on Profit

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

	Six Months Ended June	
$ in thousands	**2018**	2017
Current tax		
U.K. corporation tax	**$20,116**	$19,347
Overseas taxation	**499**	1,740
Adjustments in respect of previous periods	**(14)**	(583)
Total current tax	**20,601**	20,504
Deferred tax		
Origination and reversal of temporary differences	**1,908**	84
Total deferred tax	**1,908**	84
Total tax on profit	**$22,509**	$20,588

Note 10.

Customer Accounts Receivable

The table below presents the bank's customer accounts receivable balances.

	As of	
	June	December
$ in thousands	**2018**	2017
Bank loans	**$4,651,528**	$3,727,884
Mortgage-backed loans	**157,218**	118,998
Amounts due from customers	**149,887**	299,900
Amounts due from group undertakings	**871,952**	502,589
Total customer accounts receivable	**$5,830,585**	$4,649,371

In the table above:

- Total customer accounts receivable included balances due in more than one year of $2.06 billion and $1.57 billion as of June 2018 and December 2017, respectively.
- Total customer accounts receivable included an allowance for impairment of $27 million and $21 million as of June 2018 and December 2017, respectively.

Note 11.

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

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

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

	As of	
$ in thousands	**June 2018**	December 2017
Cash instruments		
Government bonds	**$ 3,417**	$ 5,743,797
Bank loans	**84,642**	33,091
Mortgage-backed loans	**29,519**	32,074
Total cash instruments	**117,578**	5,808,962
Derivative instruments		
Interest rates	**219,080**	1,636,661
Currencies	**154,802**	562,228
Equities	**30,735**	193,446
Commodities	**17,588**	7,940
Credit	**102,344**	13,434
Total derivative instruments	**524,549**	2,413,709
Total financial instruments owned	**$642,127**	$ 8,222,671

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

	As of	
$ in thousands	**June 2018**	December 2017
Cash instruments		
Government bonds	**$ 3,046**	$ 7,918,536
Bank loans	**6**	51
Total cash instruments	**3,052**	7,918,587
Derivative instruments		
Interest rates	**207,678**	1,600,341
Currencies	**359,617**	204,485
Equities	**8,394**	8,680
Commodities	**17,588**	7,940
Credit	**230,449**	113,725
Total derivative instruments	**823,726**	1,935,171
Financial guarantee contracts	**23,599**	166,696
Total financial instruments sold, but not yet purchased	**$850,377**	$10,020,454

Note 12.

Collateralised Agreements with Group Undertakings

The table below presents the bank's collateralised agreements with group undertakings. All collateralised agreements with group undertakings are due within one year of the balance sheet date, unless noted below.

	As of	
$ in thousands	**June 2018**	December 2017
Resale agreements	**$24,718,708**	$35,349,084
Securities borrowed	**3,629,921**	1,560,497
Other secured lending	**1,200,255**	–
Total collateralised agreements with group undertakings	**$29,548,884**	$36,909,581

In the table above, resale agreements included balances due in more than one year of $2.61 billion and $2.51 billion as of June 2018 and December 2017, respectively.

Note 13.

Other Assets

The table below presents the bank's other assets. All other assets are due within one year of the balance sheet date, unless noted below.

	As of	
$ in thousands	**June 2018**	December 2017
Other amounts due from group undertakings	**$808,425**	$750,808
Deferred tax	**47,943**	49,597
Other assets	**19,911**	16,341
Total other assets	**$876,279**	$816,746

In the table above:

- Other amounts due from group undertakings included balances due in more than one year of $738 million and $657 million as of June 2018 and December 2017, respectively.
- Total other assets included financial assets of $827 million and $766 million as of June 2018 and December 2017, respectively, and non-financial assets of $49 million and $51 million as of June 2018 and December 2017, respectively.

Note 14.

Customer Accounts Payable

The table below presents the bank's customer accounts payable balances. All customer accounts payable balances are due within one year of the balance sheet date, unless noted below.

	As of	
	June	December
$ in thousands	**2018**	2017
Customer deposits	**$29,916,383**	$25,814,493
Amounts due to customers	**293,942**	320,122
Deposits from group undertakings	**1,156,632**	1,192,335
Amounts due to group undertakings	**49,065**	491,066
Total customer accounts payable	**$31,416,022**	$27,818,016

In the table above, customer deposits included balances due in more than one year of $3.83 billion and $3.87 billion as of June 2018 and December 2017, respectively.

Debt Valuation Adjustment

The fair value of customer deposits 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 pre-tax loss of $7 million and $2 million for the six months ended June 2018 and June 2017, respectively, and has been included in debt valuation adjustment in other comprehensive income.

Note 15.

Deposits by Banks

Deposits by banks of $1.13 billion and $1.44 billion as of June 2018 and December 2017, respectively, are due within one year of the balance sheet date.

Note 16.

Collateralised Financings with Group Undertakings

Collateralised financings with group undertakings of $1.93 billion and $9.59 billion as of June 2018 and December 2017, respectively, consists of repurchase agreements and, are due within one year of the balance sheet date.

Note 17.

Other Liabilities

The table below presents the bank's other liabilities. All other liabilities are due within one year of the balance sheet date, unless noted below.

	As of	
	June	December
$ in thousands	**2018**	2017
Accruals and deferred income	**$ 4,977**	$ 2,049
Other amounts due to group undertakings	**1,247,121**	1,690,540
Corporation tax payable	**20,261**	18,795
Other liabilities	**6,554**	9,378
Total other liabilities	**$1,278,913**	$1,720,762

In the table above:

- Other amounts due to group undertakings included balances due in more than one year of $1.12 billion and $1.63 billion as of June 2018 and December 2017, respectively.
- Total other liabilities included an allowance for impairment in respect of unfunded lending commitments of $5 million and $9 million as of June 2018 and December 2017, respectively.
- Total other liabilities included financial liabilities of $1.26 billion and $1.70 billion as of June 2018 and December 2017, respectively, and non-financial liabilities of $20 million and $19 million as of June 2018 and December 2017, respectively.

Note 18.

Long-Term Subordinated Loan from Group Undertakings

Long-term subordinated loans from group undertakings are unsecured and carry interest at a margin over the U.S. Federal Reserve's federal funds rate and constitute regulatory capital as approved by the PRA. Long-term subordinated loans from group undertakings are repayable on September 8, 2025. Any repayment prior to this maturity date requires PRA approval.

Note 19.

Share Capital

The table below presents the bank's share capital.

Allotted, called up and fully paid	**Ordinary shares of £1 each**	***$ in thousands***
As of January 1, 2018	40,169,994	$62,558
As of June 30, 2018	**40,169,994**	**$62,558**

Note 20.

Financial Commitments and Contingencies

Financial Commitments

The table below presents the bank's financial commitments.

	As of	
$ in thousands	**June 2018**	December 2017
Principal risk	**$3,854,865**	$3,893,724
Sub-participated	**1,766,430**	1,696,024
Unfunded bank loans	**5,621,295**	5,589,748
Forward starting resale agreements	**255,633**	27,049
Leases	**–**	45
Other	**390**	16,366
Total financial commitments	**$5,877,318**	$5,633,208

The bank originates a number of bank loans which are held as principal risk. The bank also holds bank loans which are sub-participated to group undertakings and third party institutions. The unfunded portion of these agreements, where cash has not been deposited with the bank to collateralise the undrawn commitment is presented above.

The bank enters into resale agreements that settle at a future date, generally within three business days. The bank's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

The bank had leased certain buildings under long-term lease agreements which were terminated in 2017.

Other commitments relate to collateral commitments.

Contingent Liabilities

The bank, in its capacity as an agent in securities lending, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities. The maximum exposure to loss under guarantees was $2.60 billion and $1.95 billion as of June 2018 and December 2017, respectively. The market value of the collateral held to cover the loss was $2.92 billion and $2.15 billion as of June 2018 and December 2017, respectively.

The bank has a contingent liability in relation to a financial guarantee contract written of $440 million and $nil as of June 2018 and December 2017, respectively.

Note 21.

Financial Assets and Financial Liabilities

Financial Assets and Financial Liabilities by Category

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

	Financial Assets		
$ in thousands	Mandatorily at fair value	Amortised cost	Total
As of June 2018			
Cash at bank and in hand	$ –	**$ 2,979,431**	**$ 2,979,431**
Customer accounts receivable	**235,604**	**5,594,981**	**5,830,585**
Debt securities	**71,732**	**583,832**	**655,564**
Financial instruments owned	**642,127**	**–**	**642,127**
Collateralised agreements with group undertakings	**29,548,884**	**–**	**29,548,884**
Other assets	**–**	**827,095**	**827,095**
Total financial assets	**$ 30,498,347**	**$ 9,985,339**	**$40,483,686**

$ in thousands	Held for trading	Designated at fair value	Loans and receivables	Total
As of December 2017				
Cash at bank and in hand	$ –	$ –	$ 3,227,390	$ 3,227,390
Customer accounts receivable	–	324,119	4,325,252	4,649,371
Debt securities	9,141	–	611,931	621,072
Financial instruments owned	8,222,671	–	–	8,222,671
Collateralised agreements with group undertakings	–	36,909,581	–	36,909,581
Other assets	–	–	766,258	766,258
Total financial assets	$8,231,812	$37,233,700	$ 8,930,831	$54,396,343

	Financial Liabilities			
$ in thousands	Held for trading	Designated at fair value	Amortised cost	Total
As of June 2018				
Customer accounts payable	$ –	**$19,982,205**	**$11,433,817**	**$31,416,022**
Deposits by banks	–	**1,130,855**	–	**1,130,855**
Financial instruments sold, but not yet purchased	**850,377**	–	–	**850,377**
Collateralised financings with group undertakings	–	**1,926,190**	–	**1,926,190**
Other liabilities	–	**379,926**	**878,894**	**1,258,820**
Long-term subordinated loan from group undertakings	–	–	**826,000**	**826,000**
Total financial liabilities	**$ 850,377**	**$23,419,176**	**$13,138,711**	**$37,408,264**
As of December 2017				
Customer accounts payable	$ –	$17,040,215	$10,777,801	$27,818,016
Deposits by banks	–	1,440,949	–	1,440,949
Financial instruments sold, but not yet purchased	9,853,758	166,696	–	10,020,454
Collateralised financings with group undertakings	–	9,586,952	–	9,586,952
Other liabilities	–	939,404	762,913	1,702,317
Long-term subordinated loan from group undertakings	–	–	826,000	826,000
Total financial liabilities	$ 9,853,758	$29,174,216	$12,366,714	$51,394,688

In the tables above, financial instruments owned included $14 million and $6 million as of June 2018 and December 2017, respectively, and financial instruments sold but not yet purchased included $1 million and $2 million as of June 2018 and December 2017, respectively, of derivative instruments designated as hedges.

Fair Value Hierarchy

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

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

The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the bank 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 substantially all of the bank'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 levels 1 and 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

Cash Instruments. Cash instruments include government bonds, bank loans and mortgage-backed loans. Valuation techniques and significant inputs for each level of the fair value hierarchy include:

Level 1 Cash Instruments

Level 1 cash instruments are valued using quoted prices for identical unrestricted instruments in active markets. The bank defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

Level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or 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.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions and/or (ii) for other premiums and liquidity discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Level 3 Cash Instruments

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the bank uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales of financial assets.

Valuation techniques of level 3 cash instruments vary by instrument, but are generally based on discounted cash flow techniques. The valuation techniques and the nature of significant inputs used to determine the fair values of each type of level 3 cash instrument are described below.

- **Bank Loans and Mortgage-Backed Loans (Bank Loans and Mortgages).** Significant inputs are generally determined based on relative value analyses and include:
  - Market yields implied by transactions of similar or related assets;
  - Current levels and changes in market indices such as the iTraxx and CDX (indices that track the performance of corporate credit and loans, respectively);
  - Current performance of the borrower or loan collateral and recovery assumptions if a default occurs; and
  - Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

Derivative Instruments. Derivatives may be traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as OTC derivatives. Certain of the bank's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

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

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialised nations are characterised by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.
- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.
- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialised nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.
- **Equity.** Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

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

Level 1 Derivatives

Level 1 derivatives include short-term contracts for future delivery of securities when the underlying security is a level 1 instrument, and exchange-traded derivatives if they are actively traded and are valued at their quoted market price.

Level 2 Derivatives

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence and exchange-traded derivatives that are not actively traded and/or that are valued using models that calibrate to market-clearing levels of OTC derivatives. In evaluating the significance of a valuation input, the bank 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 as well as credit spreads and equity volatility inputs.

Subsequent to the initial valuation of a level 3 derivative, the bank 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 bank 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.

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 bank also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the bank to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

In addition, for derivatives that include significant unobservable inputs, the bank makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

Other Financial Assets and Financial Liabilities. Valuation techniques and significant inputs of financial assets and financial liabilities include:

- **Customer Accounts Receivable.** Customer accounts receivable measured at fair value consists of certain bank loans and mortgages. The significant inputs to the valuation of bank loans and mortgages are consistent with those described above as part of cash instruments.
- **Debt Securities.** The significant inputs to the valuation of debt securities measured at fair value are consistent with those described above as part of cash instruments.
- **Collateralised Agreements With Group Undertakings and Collateralised Financings With Group Undertakings.** The significant inputs to the valuation of resale and repurchase agreements and securities borrowed are funding spreads, the amount and timing of expected future cash flows and interest rates.
- **Customer Accounts Payable and Deposits by Banks.** Customer accounts payable and deposits by banks measured at fair value consists of certain balances related to deposit-taking activities. The significant inputs to the valuation of these balances are interest rates and the amount and timing of future cash flows.

Fair Value of Financial Assets and Financial Liabilities by Level

The tables below present, 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 June 2018 Level 1	Level 2	Level 3	Total
Financial Assets				
Customer accounts receivable	$ –	$ 106,193	$ 129,411	$ 235,604
Debt securities	–	21,530	50,202	71,732
Cash instruments	3,471	85,130	28,977	117,578
Derivative instruments	511	523,496	542	524,549
Financial instruments owned	3,982	608,626	29,519	642,127
Collateralised agreements with group undertakings	–	29,548,884	–	29,548,884
Total financial assets	**$3,982**	**$30,285,233**	**$ 209,132**	**$30,498,347**
Financial Liabilities				
Customer accounts payable	$ –	$19,982,205	$ –	$19,982,205
Deposits by banks	–	1,130,855	–	1,130,855
Cash instruments	3,046	6	–	3,052
Derivative instruments	511	767,472	79,342	847,325
Financial instruments sold, but not yet purchased	3,557	767,478	79,342	850,377
Collateralised financings with group undertakings	–	1,926,190	–	1,926,190
Other liabilities	–	379,926	–	379,926
Total financial liabilities	**$3,557**	**$24,186,654**	**$ 79,342**	**$24,269,553**
Net derivative instruments	**$ –**	**$ (243,976)**	**$(78,800)**	**$ (322,776)**

$ in thousands	Financial Assets and Financial Liabilities at Fair Value as of December 2017 Level 1	Level 2	Level 3	Total
Financial Assets				
Customer accounts receivable	$ –	$ 275,640	$48,479	$ 324,119
Debt securities	–	–	9,141	9,141
Cash instruments	5,647,840	129,048	32,074	5,808,962
Derivative instruments	1,770	2,411,054	885	2,413,709
Financial instruments owned	5,649,610	2,540,102	32,959	8,222,671
Collateralised agreements with group undertakings	–	36,909,581	–	36,909,581
Total financial assets	$5,649,610	$39,725,323	$90,579	$45,465,512
Financial Liabilities				
Customer accounts payable	$ –	$17,040,215	$ –	$17,040,215
Deposits by banks	–	1,440,949	–	1,440,949
Cash instruments	7,883,246	35,341	–	7,918,587
Derivative instruments	1,882	2,098,738	1,247	2,101,867
Financial instruments sold, but not yet purchased	7,885,128	2,134,079	1,247	10,020,454
Collateralised financings with group undertakings	–	9,586,952	–	9,586,952
Other liabilities	–	939,404	–	939,404
Total financial liabilities	$7,885,128	$31,141,599	$ 1,247	$39,027,974
Net derivative instruments	$ (112)	$ 312,316	$ (362)	$ 311,842

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

As of June 2018 and December 2017, the bank had level 3 bank loans, debt securities and mortgages assets of $209 million (consisting of customer accounts receivable of $129 million, debt securities of $50 million and cash instruments of $30 million), and $90 million (consisting of customer accounts receivable of $48 million, debt securities of $9 million and cash instruments of $33 million), respectively.

The table below presents the amount of level 3 bank loans, debt securities and mortgages assets, and ranges and weighted averages of significant unobservable inputs used to value the bank's level 3 bank loans, debt securities and mortgages assets.

$ in thousands	Level 3 Bank Loans, Debt Securities and Mortgages Assets and Range of Significant Unobservable Inputs (Weighted Average) as of June 2018	December 2017
Bank loans, debt securities and mortgages	**$208,590**	$89,694
Yield	**2.4% to 9.5% (4.9%)**	2.4% to 9.5% (3.3%)
Recovery rate	**–**	20.0% to 20.0% (20.0%)
Duration (years)	**3.0 to 3.5 (3.3)**	3.0 to 3.5 (3.1)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation.
- Weighted averages are calculated by weighing each input by the relative fair value of the bank loans and mortgages.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one bank loan, debt security or mortgage. For example, the highest yield for bank loans, debt securities and mortgages is appropriate for valuing a specific bank loan, debt security or mortgage but may not be appropriate for valuing any other bank loan, debt security or mortgage. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the bank's level 3 bank loans, debt securities and mortgages.
- Increases in yield or duration used in the valuation of the bank's level 3 bank loans, debt securities and mortgages would result in a lower fair value measurement, while increases in recovery rate would result in a higher fair value measurement.
- Bank loans and mortgages are valued using discounted cash flows.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Derivative Instruments. As of June 2018 and December 2017, the bank had net level 3 derivative liabilities of $79 million and $362,000, respectively.

The table below presents the amount of net level 3 derivative instruments and ranges of significant unobservable inputs used to value the bank's derivative instruments. As of June 2018, the bank's net level 3 derivative instruments materially represents derivative instruments with group undertakings, and were economically hedged with other classes of financial assets and liabilities.

	Net Level 3 Derivative Instruments and Range of Significant Unobservable Inputs (Average/Median) as of	
$ in thousands	**June 2018**	December 2017
Credit	**$(78,800)**	$(362)
Credit spreads (bps)	**900 to 900 (900/900)**	–

In the table above net derivative liabilities are shown as negative amounts.

Transfers Between Level 1 and Level 2 of the Fair Value Hierarchy

During both the six months ended June 2018 and June 2017, respectively, there were no significant transfers between level 1 and level 2 financial assets and financial liabilities measured at fair value on a recurring basis.

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. Gains and losses arising on level 3 assets are recognised within net (losses)/gains on financial instruments measured at fair value in the profit and loss account. In the table below:

- If a financial asset or 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 assets, increases are shown as positive amounts, while decreases are shown as negative amounts. 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 assets and financial liabilities that were transferred out of level 3 prior to the end of the period.
- Level 3 financial assets and financial liabilities are frequently economically hedged with level 1 and level 2 financial assets and financial liabilities. Accordingly, level 3 gains or losses that are reported in the table below for a particular class of financial asset or financial liability can be partially offset by gains or losses attributable to level 1 or level 2 in the same class of financial asset or financial liability or gains or losses attributable to level 1, level 2 or level 3 in a different class of financial asset or financial liability. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the bank's results of operations, liquidity or capital resources.

	Level 3 Financial Assets and Financial Liabilities at Fair Value							
$ in thousands	Balance, beginning of period	Gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Six Months Ended June 2018								
Customer accounts receivable	**$ 48,479**	**$ (3,583)**	**$ –**	**$ (7,745)**	**$ (1,493)**	**$ 93,753**	**$ –**	**$129,411**
Debt securities	**48,906**	**2,932**	**4**	**–**	**(1,640)**	**–**	**–**	**50,202**
Financial instruments owned	**32,959**	**3,778**	**–**	**(14)**	**(7,204)**	**–**	**–**	**29,519**
Total level 3 financial assets	**$130,344**	**$ 3,127**	**$ 4**	**$ (7,759)**	**$(10,337)**	**$ 93,753**	**$ –**	**$209,132**
Financial instruments sold, but not yet purchased	**$ (1,247)**	**$ (2,406)**	**$ –**	**$ (319)**	**$ 3,514**	**$(78,884)**	**$ –**	**$(79,342)**
Total level 3 financial liabilities	**$ (1,247)**	**$ (2,406)**	**$ –**	**$ (319)**	**$ 3,514**	**$(78,884)**	**$ –**	**$(79,342)**
Six Months Ended June 2017								
Customer accounts receivable	$158,219	$(17,501)	$ 233	$(28,422)	$(86,014)	$ –	$ –	$26,515
Financial instruments owned	9,338	35,563	6,702	–	(2,604)	2,100	–	51,099
Total level 3 financial assets	$167,557	$ 18,062	$6,935	$(28,422)	$(88,618)	$ 2,100	$ –	$77,614
Financial instruments sold, but not yet purchased	$ (1,528)	$ 555	$ 255	$ (74)	$ –	$ –	$ –	$ (792)
Total level 3 financial liabilities	$ (1,528)	$ 555	$ 255	$ (74)	$ –	$ –	$ –	$ (792)

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

During the six months ended June 2018 transfers into level 3 for financial assets and financial liabilities primarily reflected transfers of certain credit products from level 2, principally due to reduced transparency of certain spread and yield inputs. The reduced transparency was a result of a lack of market evidence.

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. The potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs was not material as of both June 2018 and June 2017.

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

As of June 2018 and December 2017, the bank had $9.99 billion and $8.93 billion, respectively, of financial assets and $13.14 billion and $12.37 billion, respectively, of financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value. The interest rate associated with long-term subordinated loans from group undertakings is variable in nature and approximates prevailing market interest rates for instruments with similar terms and characteristics. As such, the carrying amount in the balance sheet is a reasonable approximation of fair value.