Unaudited Half-yearly Financial Report

June 30, 2019

Goldman Sachs Finance Corp International Ltd

Company Number: 122341

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Introduction

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

The company's ultimate parent undertaking and controlling entity is The Goldman Sachs Group, Inc. (Group Inc.). Group Inc. is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System. In relation to the company, "group undertaking" means Group Inc. or any of its subsidiaries. Group Inc., together with its consolidated subsidiaries, form "GS Group". GS Group is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and individuals. The securities issued by the company are fully and unconditionally guaranteed by Group Inc.

References to "the financial statements" are to the unaudited financial statements as presented in Part II of this financial report. All references to June 2019 and June 2018 refer to the periods ended, or the dates, as the context requires, June 30, 2019 and June 30, 2018, respectively. All references to December 2018 refer to the date December 31, 2018. All references to "the 2018 Annual Report" are to the company's Annual Report for the year ended December 31, 2018.

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. The company's net result for the first half of 2019 was a loss of $28 million, compared to a loss of $3 million for the first half of 2018. The company's loss of $28 million for the first half of 2019 was primarily related to net losses from the company's issuance, hedging and lending activity and early redemption of securities.

Other Comprehensive Income

The statements of comprehensive income are set out on page 5 of this financial report. The company's other comprehensive income, which relates to the company's debt valuation adjustment (DVA), was a loss of $300 million for the first half of 2019, compared with a gain of $150 million for the first half of 2018.

Balance Sheet

The balance sheet is set out on page 6 of this financial report. As of June 2019, total assets were $11.54 billion, an increase of $1.41 billion from December 2018, mainly reflecting an increase in debtors of $1.17 billion. Debtors increased primarily due to an increase in loans to affiliates as a result of an increase in debt securities issued.

Business Environment

During the first half of 2019, global economic activity appeared to be stable compared with the year ended December 2018. Continued concerns about future global growth and a mixed macroeconomic environment led U.S. markets to anticipate multiple U.S. Federal Reserve rate cuts this year and other global central banks to emphasise accommodative monetary policies. In addition, market sentiment during the first half of 2019 was impacted by continued geopolitical uncertainty, including developments related to the U.K.'s decision to leave the E.U. (Brexit) and the threat of expanding trade wars between the U.S. and both China and Mexico.

Principal Risks and Uncertainties

The company faces a variety of risks that are substantial and inherent in its business, including market, liquidity, credit, operational, model, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2018 Annual Report.

Directors

M. Sunaga resigned from the board of directors on July 22, 2019.

A. Bajpayi was appointed to the board of directors on July 24, 2019.

There were no other changes in the directorship of the company between the date of issue of this financial report and the 2018 Annual Report.

Responsibility Statement

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

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- The management report includes an indication of important events that have occurred during the first six months of the financial year, and their impact on the financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year. These principal risks and uncertainties are consistent with those described in the 2018 Annual Report.

K. G. Kochar
Director
September 30, 2019

GOLDMAN SACHS FINANCE CORP INTERNATIONAL LTD

Profit and Loss Account
(Unaudited)

		Six Months Ended June	
$ in thousands	**Note**	**2019**	2018
Net revenues	4	**$ (27,813)**	$ (2,657)
Administrative expenses	6	**(67)**	(89)
Operating loss		**(27,880)**	(2,746)
Tax on loss	8	**–**	–
Loss for the financial period		**$ (27,880)**	$ (2,746)

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

Statements of Comprehensive Income
(Unaudited)

		Six Months Ended June	
$ in thousands	**Note**	**2019**	2018
Loss for the financial period		**$ (27,880)**	$ (2,746)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Debt valuation adjustment	11	**(300,218)**	149,680
Tax attributable to the components of other comprehensive income		**–**	–
Other comprehensive income/(loss) for the financial period		**(300,218)**	149,680
Total comprehensive income/(loss) for the financial period		**$(328,098)**	$146,934

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

Balance Sheet
(Unaudited)

		As of	
		June	December
$ in thousands	**Note**	**2019**	2018
Current assets			
Derivative financial assets	9	**$ 564,465**	$ 322,789
Debtors (includes **$9,769,568** and $8,925,071 due after more than one year)	10	**10,966,041**	9,796,433
Cash at bank and in hand		**13,262**	12,619
		11,543,768	10,131,841
Creditors: amounts falling due within one year			
Derivative financial liabilities	9	**(528,794)**	(522,359)
Other creditors	11	**(1,300,624)**	(631,053)
		(1,829,418)	(1,153,412)
Net current assets		**9,714,350**	8,978,429
Total assets less current liabilities		**9,714,350**	8,978,429
Creditors: amounts falling due after more than one year			
Other creditors	11	**(9,628,262)**	(8,564,243)
		(9,628,262)	(8,564,243)
Net assets		**$ 86,088**	$ 414,186
Capital and reserves			
Called up share capital	12	**$ 5,000**	$ 5,000
Share premium account		**25,000**	25,000
Profit and loss account		**43,705**	54,552
Accumulated other comprehensive income		**12,383**	329,634
Total shareholder's funds		**$ 86,088**	$ 414,186

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

Statements of Changes in Equity (Unaudited)

$ in thousands	Note	Six Months Ended June 2019	Six Months Ended June 2018
Called up share capital			
Beginning balance		**$ 5,000**	$ 5,000
Ending balance		**5,000**	5,000
Share premium account			
Beginning balance		**25,000**	25,000
Ending balance		**25,000**	25,000
Profit and loss account			
Beginning balance		**54,552**	35,570
Cumulative effect on retained earnings due to the adoption of IFRS 9, net of tax		**–**	(447)
Transfer of realised debt valuation adjustment into retained earnings	11	**17,033**	–
Loss for the financial period		**(27,880)**	(2,746)
Ending balance		**43,705**	32,377
Accumulated other comprehensive income			
Beginning balance		**329,634**	(52,480)
Other comprehensive income/(loss)		**(300,218)**	149,680
Transfer of realised debt valuation adjustment into retained earnings	11	**(17,033)**	–
Ending balance		**12,383**	97,200
Total shareholder's funds		**$ 86,088**	$159,577

No dividends were paid for both the six months ended June 2019 and June 2018.

Statements of Cash Flows (Unaudited)

$ in thousands	Note	Six Months Ended June 2019	Six Months Ended June 2018
Cash flows from operating activities			
Cash generated from/(used in) operations	14	**$ 1,121**	$ (6,401)
Net cash from/(used in) operating activities		**1,121**	(6,401)
Net increase/(decrease) in cash and cash equivalents		**1,121**	(6,401)
Cash and cash equivalents, beginning balance		**12,619**	19,738
Foreign exchange losses on cash and cash equivalents		**(478)**	(236)
Cash and cash equivalents, ending balance	13	**$ 13,262**	$ 13,101

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

Note 1.

General Information

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

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

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

Note 2.

Summary of Significant Accounting Policies

Basis of Preparation

The company prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting' (FRS 104) and Article 5 of the Directive 2004/109/EC as amended by Directive 2013/50/EU. These financial statements should be read in conjunction with the 2018 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 2018 Annual Report.

Note 3.

Critical Accounting Estimates and Judgements

The critical accounting estimates and judgements are consistent with those described in the 2018 Annual Report.

Note 4.

Net Revenues

Net revenues include net interest income and non-interest income/(expense). Net interest income primarily relates to interest income from loans to affiliates. Non-interest income/(expense) includes:

- Gains and losses on financial assets and financial liabilities measured mandatorily at fair value through profit or loss (including financial liabilities held for trading) primarily relates to non-interest gains and losses on derivative financial assets and derivative financial liabilities.
- Gains and losses on financial liabilities designated at fair value through profit or loss primarily relates to non-interest gains and losses on other creditors.
- Allocations of net revenues from/(to) affiliates relates to allocations of net revenues from/(to) affiliates for their participation in the company's activities.

The table below presents net revenues.

	Six Months Ended June	
$ in thousands	**2019**	2018
Interest income		
Interest income from external counterparties	**$ –**	$ 17
Interest income from parent and group undertakings	**125,037**	52,881
Total interest income	**125,037**	52,898
Interest expense		
Interest expense from external counterparties	**(1,370)**	(216)
Total interest expense	**(1,370)**	(216)
Net interest income	**123,667**	52,682
Financial assets and financial liabilities measured mandatorily at fair value through profit or loss	**346,933**	(64,802)
Financial liabilities designated at fair value through profit or loss	**(509,452)**	122,261
Allocations of net revenues from/(to) affiliates	**10,660**	(111,927)
Net changes in impairment of financial assets measured at amortised cost	**379**	(871)
Non-interest income/(expense)	**(151,480)**	(55,339)
Net revenues	**$ (27,813)**	$ (2,657)

Note 5.

Segment Reporting

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

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

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

	As of	
	June	December
$ in thousands	**2019**	2018
Europe	**$ 5,502,590**	$5,512,231
Asia	**5,041,655**	3,599,836
Total unsecured debt securities issued	**$10,544,245**	$9,112,067

Note 6.

Administrative Expenses

The company incurred administrative expenses of $67,000 for the six months ended June 2019 and $89,000 for the six months ended June 2018, which primarily related to professional fees.

Note 7.

Staff Costs

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

Note 8.

Tax on Loss

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

Note 9.

Derivative Financial Assets and Derivative Financial Liabilities

The table below presents derivative financial assets.

	As of	
	June	December
$ in thousands	**2019**	2018
Interest rates	**$392,817**	$220,062
Credit	**7,608**	4,690
Currencies	**17,292**	7,412
Equities	**146,748**	90,625
Total derivative financial assets	**$564,465**	$322,789

The table below presents derivative financial liabilities.

	As of	
	June	December
$ in thousands	**2019**	2018
Interest rates	**$265,260**	$121,076
Credit	**13,261**	10,218
Currencies	**78,934**	131,453
Equities	**171,339**	259,612
Total derivative financial liabilities	**$528,794**	$522,359

Note 10.

Debtors

The table below presents debtors balances, all of which are financial assets.

	As of	
	June	December
$ in thousands	**2019**	2018
Amounts due within one year		
Amounts due from parent and group undertakings:		
Unsecured loans	**$ 799,865**	$ 799,771
Other debtors	**396,608**	71,591
Total	**$ 1,196,473**	$ 871,362
Amounts due after more than one year		
Amounts due from parent and group undertakings:		
Unsecured loans	**$ 9,723,053**	$8,685,182
Other debtors	**46,515**	239,889
Total	**$ 9,769,568**	$8,925,071
Total debtors	**$10,966,041**	$9,796,433

In the table above, unsecured loans due within one year and unsecured loans due after more than one year included an allowance for impairment of $2 million as of June 2019 and $3 million as of December 2018.

Note 11.

Other Creditors

The table below presents other creditors, all of which are financial liabilities.

	As of	
	June	December
$ in thousands	2019	2018
Amounts falling due within one year		
Unsecured debt securities issued	**$ 1,039,027**	$ 552,936
Amounts due to parent and group undertakings:		
Other unsecured creditors	**253,951**	72,749
Other creditors and accruals	**7,646**	5,368
Total	**$ 1,300,624**	$ 631,053
Amounts falling due after more than one year		
Unsecured debt securities issued	**$ 9,505,218**	$8,559,131
Amounts due to parent and group undertakings:		
Unsecured loans	**123,044**	5,112
Total	**$ 9,628,262**	$8,564,243
Total other creditors	**$10,928,886**	$9,195,296

In the table above, unsecured debt securities issued falling due after more than one year included instruments that are repayable in more than five years of $6.21 billion as of June 2019 and $5.56 billion as of December 2018. As of June 2019, these instruments have maturities falling due between 2024 and 2049. Payments on these instruments are typically referenced to underlying financial assets, which are predominantly interest rates, equities, currencies and credit-related.

Debt Valuation Adjustment

The company calculates the fair value of financial liabilities that are designated at fair value through profit or loss by discounting future cash flows at a rate which incorporates GS Group's credit spreads.

The net DVA on such financial liabilities that are designated at fair value through profit or loss and included in debt valuation adjustment in other comprehensive income was a loss of $300 million for the six months ended June 2019 and a gain of $150 million for the six months ended June 2018.

The company also made a realised gain of $17 million in DVA for the first six months ended June 2019 which was transferred from accumulated other comprehensive income to retained earnings. The gain arose upon early redemption of certain debt securities issued that were designated at fair value through profit or loss. These gains/(losses) were not material for the six months ended June 2018.

The cumulative net DVA included in accumulated other comprehensive income was a gain of $12 million as of June 2019 and a gain of $330 million as of December 2018.

Note 12.

Share Capital

The table below presents share capital.

Allotted, called up and fully paid	**Ordinary shares of $1 each**	***$ in thousands***
As of December 31, 2018	**5,000,001**	**$5,000**
As of June 30, 2019	**5,000,001**	**$5,000**

Note 13.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consists of cash at bank and in hand of $13 million as of both June 2019 and June 2018.

Note 14.

Reconciliation of Cash Flows From Operating Activities

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

	Six Months Ended June	
$ in thousands	**2019**	2018
Operating loss	**$ (27,880)**	$ (2,746)
Adjustments for		
Foreign exchange losses	**478**	236
Cash used before changes in operating assets and liabilities	**(27,402)**	(2,510)
Changes in operating assets		
Increase in derivative financial assets	**(241,676)**	(150,904)
Increase in debtors	**(1,169,608)**	(3,029,127)
Changes in operating assets	**(1,411,284)**	(3,180,031)
Changes in operating liabilities		
Increase in derivative financial liabilities	**6,435**	92,503
Increase in other creditors	**1,433,372**	3,083,637
Changes in operating liabilities	**1,439,807**	3,176,140
Cash generated from/(used in) operations	**$ 1,121**	$ (6,401)

In the table above, cash generated from/(used in) operations included interest paid of $3 million for the six months ended June 2019 and $2 million for the six months ended June 2018, and interest received of $1 million for the six months ended June 2019 and $40 million for the six months ended June 2018.

Note 15.

Financial Commitments and Contingencies

The company had no financial commitments or contingencies outstanding as of both June 2019 and December 2018.

Note 16.

Financial Assets and Financial Liabilities

Financial Assets and Financial Liabilities by Category

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

	Financial Assets		
$ in thousands	Mandatorily at fair value	Amortised cost	Total
As of June 2019			
Derivative financial assets	**$564,465**	**$ –**	**$ 564,465**
Debtors	**212,541**	**10,753,500**	**10,966,041**
Cash at bank and in hand	**–**	**13,262**	**13,262**
Total financial assets	**$777,006**	**$10,766,762**	**$11,543,768**
As of December 2018			
Derivative financial assets	$322,789	$ –	$ 322,789
Debtors	240,888	9,555,545	9,796,433
Cash at bank and in hand	–	12,619	12,619
Total financial assets	$563,677	$ 9,568,164	$10,131,841

	Financial Liabilities			
$ in thousands	Held for trading	Designated at fair value	Amortised cost	Total
As of June 2019				
Amounts falling due within one year				
Derivative financial liabilities	**$528,794**	**$ –**	**$ –**	**$ 528,794**
Other creditors	**–**	**1,039,027**	**261,597**	**1,300,624**
Total	**528,794**	**1,039,027**	**261,597**	**1,829,418**
Amounts falling due after more than one year				
Other creditors	**–**	**7,385,119**	**2,243,143**	**9,628,262**
Total	**–**	**7,385,119**	**2,243,143**	**9,628,262**
Total financial liabilities	**$528,794**	**$8,424,146**	**$2,504,740**	**$11,457,680**
As of December 2018				
Amounts falling due within one year				
Derivative financial liabilities	$522,359	$ –	$ –	$ 522,359
Other creditors	–	552,936	78,117	631,053
Total	522,359	552,936	78,117	1,153,412
Amounts falling due after more than one year				
Other creditors	–	6,834,388	1,729,855	8,564,243
Total	–	6,834,388	1,729,855	8,564,243
Total financial liabilities	$522,359	$7,387,324	$1,807,972	$ 9,717,655

In the tables above, derivative financial assets included $82 million as of June 2019 and $30 million as of December 2018, and derivative financial liabilities included $1 million as of June 2019 and $nil as of December 2018, of derivative instruments designated as hedges.

Fair Value Hierarchy

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

U.K. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. This 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 instrument's level in the hierarchy is based on the lowest level of input that is significant to its fair value measurement.

The fair value hierarchy is as follows:

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

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

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

The fair values for substantially all of the company's financial assets and financial liabilities that are fair valued on a recurring basis are based on observable prices and inputs and are classified in level 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as GS Group's credit quality, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

Valuation Techniques and Significant Inputs

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

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

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

Level 2 Derivatives

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

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

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

Level 3 Derivatives

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

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

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

Valuation Adjustments

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

Debtors. Debtors measured at fair value consist of hybrid financial instruments and are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified in level 2 because the inputs are observable.

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

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

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

Fair Value of Financial Assets and Financial Liabilities by Level

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

$ in thousands	Level 1	Level 2	Level 3	Total
As of June 2019				
Financial Assets				
Derivative financial assets	**$ –**	**$ 527,372**	**$ 37,093**	**$ 564,465**
Debtors	**–**	**212,541**	**–**	**212,541**
Total financial assets	**$ –**	**$ 739,913**	**$ 37,093**	**$ 777,006**
Financial Liabilities				
Amounts falling due within one year				
Derivative financial liabilities	**$ –**	**$ 460,986**	**$ 67,808**	**$ 528,794**
Other creditors	**–**	**791,985**	**247,042**	**1,039,027**
Total	**–**	**1,252,971**	**314,850**	**1,567,821**
Amounts falling due after more than one year				
Other creditors	**–**	**5,375,793**	**2,009,326**	**7,385,119**
Total	**–**	**5,375,793**	**2,009,326**	**7,385,119**
Total financial liabilities	**$ –**	**$6,628,764**	**$2,324,176**	**$8,952,940**
Net derivative instruments	**$ –**	**$ 66,386**	**$ (30,715)**	**$ 35,671**
As of December 2018				
Financial Assets				
Derivative financial assets	$ –	$ 316,044	$ 6,745	$ 322,789
Debtors	–	240,888	–	240,888
Total financial assets	$ –	$ 556,932	$ 6,745	$ 563,677
Financial Liabilities				
Amounts falling due within one year				
Derivative financial liabilities	$ –	$ 370,005	$ 152,354	$ 522,359
Other creditors	–	440,625	112,311	552,936
Total	–	810,630	264,665	1,075,295
Amounts falling due after more than one year				
Other creditors	–	4,885,288	1,949,100	6,834,388
Total	–	4,885,288	1,949,100	6,834,388
Total financial liabilities	$ –	$5,695,918	$2,213,765	$ 7,909,683
Net derivative instruments	$ –	$ (53,961)	$ (145,609)	$ (199,570)

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The company's level 3 debt securities issued are economically hedged with OTC derivatives. The significant unobservable inputs used in level 3 fair value measurements have not been disclosed as the net effect of the inputs to the measurements of level 3 financial assets and financial liabilities was not material to the company's profit or loss, or other comprehensive income for both the six months ended June 2019 and June 2018, and net assets as of both June 2019 and December 2018.

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

The fair value of financial assets and financial liabilities may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. For those financial assets and financial liabilities that are valued using unobservable inputs, the net potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs, was not material as of both June 2019 and June 2018, as the company's level 3 debt securities issued are economically hedged with OTC derivatives.

Level 3 Rollforward

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

	Six Months Ended June	
$ in thousands	**2019**	2018
Total financial assets		
Beginning balance	**$ 6,745**	$ 1,818
Gains/(losses)	**32,958**	(1,560)
Purchases	**1,028**	–
Settlements	**(14,198)**	209
Transfers into level 3	**12,572**	–
Transfers out of level 3	**(2,012)**	(201)
Ending balance	**$ 37,093**	$ 266
Total financial liabilities		
Beginning balance	**$ (2,213,765)**	$ (337,128)
Gains/(losses)	**(168,846)**	9,959
Sales/Issuances	**(756,168)**	(564,750)
Settlements	**632,985**	115,043
Transfers into level 3	**(49,935)**	–
Transfers out of level 3	**231,553**	79,566
Ending balance	**$ (2,324,176)**	$ (697,310)

In the table above:

- Financial assets relate to derivative financial assets.
- 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 classified as 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 of the fair value hierarchy 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 liabilities are economically hedged with level 2 and level 3 financial assets and financial liabilities. Accordingly, level 3 gains or losses that are reported in the table below for a particular class of financial liability can be partially offset by gains or losses attributable to level 2 or level 3 in a different class of financial asset or financial liability.
- The net gains and losses on level 3 financial assets for the six months ended June 2019 and six months ended June 2018 are reported in "Net revenues" in the profit and loss account.
- The net losses on level 3 financial liabilities of $169 million for the six months ended June 2019 included losses of $90 million reported in "Debt valuation adjustment" in the statements of comprehensive income and losses of $79 million reported in "Net revenues" in the profit and loss account. The net gains on level 3 financial liabilities of $10 million for the six months ended June 2018 included gains of $16 million reported in "Debt valuation adjustment" in the statements of comprehensive income and losses of $6 million reported in "Net revenues" in the profit and loss account.

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

	Six Months Ended June	
$ in thousands	**2019**	2018
Derivative financial liabilities		
Beginning balance	**$ (152,354)**	$ (29,417)
Gains/(losses)	**77,947**	(14,003)
Sales	**(13,102)**	(8,240)
Settlements	**28,411**	11,504
Transfers into level 3	**(26,233)**	–
Transfers out of level 3	**17,523**	1,668
Ending balance	**$ (67,808)**	$ (38,488)
Other creditors		
Beginning balance	**$(2,061,411)**	$(307,711)
Gains/(losses)	**(246,793)**	23,962
Issuances	**(743,066)**	(556,510)
Settlements	**604,574**	103,539
Transfers into level 3	**(23,702)**	–
Transfers out of level 3	**214,030**	77,898
Ending balance	**$(2,256,368)**	$(658,822)

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

Six Months Ended June 2019. Transfers into level 3 for financial assets and liabilities primarily reflected transfers of certain equity products from level 2, principally due to reduced transparency of certain equity volatility and correlation inputs as a result of a lack of market evidence.

Transfers out of level 3 financial assets and liabilities primarily reflected transfers of certain equity products to level 2, principally due to increased transparency of certain equity volatility and correlation inputs as a result of an increase in the availability of market evidence.

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

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

The company had financial assets that are not measured at fair value of $10.77 billion as of June 2019 and $9.57 billion as of December 2018, which predominately relate to intercompany loans. The interest rates of these loans are variable in nature and approximate prevailing market interest rates for instruments with similar terms and characteristics. As such, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

The company had financial liabilities that are not measured at fair value of $2.50 billion as of June 2019 and $1.81 billion as of December 2018. These predominantly relate to fixed-rate long-term borrowings of $2.12 billion as of June 2019 and $1.72 billion as of December 2018, for which the fair value was $2.06 billion as of June 2019 and $1.57 billion as of December 2018.