

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Directors' Report and Financial Statements**

**For the year ended 31 December 2017**

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Directors' Report and Financial Statements  
For the year ended 31 December 2017**

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## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Directors' Report**

The directors submit their report together with the audited financial statements of Goldman Sachs Asia Bank Limited (the "Company"), a restricted licence bank, for the year ended 31 December 2017.

#### **Principal activity**

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong. It is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The Company has been established to provide the clients of The Goldman Sachs Group, Inc. and / or its consolidated subsidiaries (together, the "Firm") in the Asia excluding Japan region with the opportunity to transact business with a bank counterparty located in Asia.

The Company's principal activities are to engage in deposit-taking and over-the-counter derivatives. These activities are conducted in cooperation with the affiliated companies within the Firm, which give rise to service fee income and expense.

#### **Results and appropriations**

The results of the Company for the year ended 31 December 2017 are set out in the statement of comprehensive income on page 6.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017.

#### **Share capital**

Details of the Company's share capital are set out in note 15 to the financial statements.

#### **Directors**

The directors of the Company during the year and up to the date of this report were:

Chairman and non-executive director:  
Mr. Timothy Freshwater

Executive director:  
Ms. Denise Wyllie

Non-executive director:  
Mr. James Houghton

Independent non-executive directors:  
Ms. Syaru Shirley Lin  
Mr. Patrick Paul

There being no provision in the Company's Articles of Association for retirement by rotation, all current directors continue in office.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Directors' Report (continued)**

**Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Company's business**

No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, its affiliated companies, its parent companies or its ultimate parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**Directors' interests in equity and debt securities of the Company or any specified undertaking of the Company**

Directors of the Company, except for the independent non-executive directors, have acquired interests in the shares of the Company's ultimate parent company, The Goldman Sachs Group, Inc., through equity-based compensation arrangements. Pursuant to awards made under these employee incentive plans, all of the directors of the Company during the year, except for the independent non-executive directors, received common shares in the Company's ultimate parent company.

Except for the above, at no time during the year was the Company, its affiliated companies, its parent companies or its ultimate parent company a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

**Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

**Permitted indemnity provisions**

The Articles of Association of the Company provide that the Company may indemnify any director of the Company against any liability incurred by the director in relation to the Company in defending any proceedings, whether civil or criminal, in which judgment is given in the director's favor or in which the director is acquitted or in connection with any application under certain provisions of the Hong Kong Companies Ordinance in which relief is granted to the director by the court.

**Auditor**

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the coming Annual General Meeting of the Company.

On behalf of the Board



Director / Timothy Freshwater

25 April 2018



## **Independent Auditor's Report**

**To the Member of Goldman Sachs Asia Bank Limited, a restricted licence bank  
(Incorporated in Hong Kong with limited liability)**

### **Opinion**

#### *What we have audited*

The financial statements of Goldman Sachs Asia Bank Limited (the "Company"), a restricted licence bank, set out on pages 6 to 38, which comprise:

- the balance sheet as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the directors' report and unaudited disclosure statement, but does not include the Company's financial statements and our auditor's report thereon.

Our opinion on the Company does not cover the other information and we do not express any form of assurance conclusion thereon.





**Independent Auditor's Report  
To the Member of Goldman Sachs Asia Bank Limited, a restricted licence bank  
(Continued)  
(Incorporated in Hong Kong with limited liability)**

**Other Information (Continued)**

In connection with our audit of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Directors and Those Charged with Governance for the Financial Statements**

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



**Independent Auditor's Report**

**To the Member of Goldman Sachs Asia Bank Limited, a restricted licence bank  
(Continued)  
(Incorporated in Hong Kong with limited liability)**

**Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 25 April 2018

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Statement of Comprehensive Income  
For the year ended 31 December 2017**

	Note	2017 US\$ '000	2016 US\$ '000
Interest income	4	589	76
Interest expense	4	(121)	(24)
<b>Net interest income</b>		<u>468</u>	<u>52</u>
Other income	5	16,310	9,285
<b>Total revenue</b>		<u>16,778</u>	<u>9,337</u>
Operating expenses	6	(16,402)	(9,275)
<b>Profit before income tax</b>		<u>376</u>	<u>62</u>
Income tax (expense) / credit	8	(48)	25
<b>Profit and total comprehensive income for the year</b>		<u><u>328</u></u>	<u><u>87</u></u>

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





Goldman Sachs Asia Bank Limited, a restricted licence bank

Balance Sheet  
As at 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	112,218	101,067
Short-term bank deposits		-	14,545
Financial instruments at fair value	10	1,020	124
Trade and other receivables	11	18,573	6,369
		<u>131,811</u>	<u>122,105</u>
<b>Non-current assets</b>			
Deferred income tax assets	12	783	235
		<u>132,594</u>	<u>122,340</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Deposit from an affiliated customer	16(b)	1,000	1,000
Short-term loans payable	16(c)	2,000	-
Financial instruments at fair value	10	1,027	126
Trade and other payables	14	11,411	4,344
Current income tax liabilities		366	210
		<u>15,804</u>	<u>5,680</u>
<b>Non-current liabilities</b>			
Long-term loans payable	16(c)	-	2,000
Trade and other payables	14	3,227	1,425
		<u>3,227</u>	<u>3,425</u>
<b>Total liabilities</b>		<u>19,031</u>	<u>9,105</u>
<b>Equity</b>			
Share capital	15	114,010	114,010
Accumulated loss		(447)	(775)
<b>Total equity</b>		<u>113,563</u>	<u>113,235</u>
<b>Total equity and liabilities</b>		<u>132,594</u>	<u>122,340</u>

The financial statements on pages 6 to 38 were approved by the Board of Directors on 25 April 2018 and were signed on its behalf.

  
.....  
Director / Denise Wyllie

  
.....  
Director / Timothy Freshwater

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

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Statement of Changes in Equity  
For the year ended 31 December 2017**

	Note	Share capital US\$ '000	Accumulated loss US\$ '000	Total US\$ '000
<b><u>2017</u></b>				
At the beginning of the year		114,010	(775)	113,235
Total comprehensive income for the year		-	328	328
At the end of the year		<u>114,010</u>	<u>(447)</u>	<u>113,563</u>
<b><u>2016</u></b>				
At the beginning of the year		14,010	(862)	13,148
Additional capital contributions	15	100,000	-	100,000
Total comprehensive income for the year		-	87	87
At the end of the year		<u>114,010</u>	<u>(775)</u>	<u>113,235</u>

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

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Statement of Cash Flows  
For the year ended 31 December 2017**

	Note	2017 US\$ '000	2016 US\$ '000
<b>Operating activities</b>			
Cash used in operations	17	(1,402)	(249)
Interest received from operating activities		547	31
Interest paid on operating activities		(98)	(23)
Profit tax paid		(441)	-
Net cash outflow from operating activities		<u>(1,394)</u>	<u>(241)</u>
<b>Investing activities</b>			
Decrease / (Increase) in short-term deposits		14,545	(14,500)
Net cash inflow / (outflow) from investing activities		<u>14,545</u>	<u>(14,500)</u>
<b>Financing activities</b>			
Proceeds from capital contributions	15	-	100,000
(Decrease) / Increase in long-term loans	17	(2,000)	2,000
Net cash (outflow) / inflow from financing activities		<u>(2,000)</u>	<u>102,000</u>
Increase in cash and cash equivalents		<u>11,151</u>	<u>87,259</u>
Cash and cash equivalents, at the beginning of the year		<u>101,067</u>	<u>13,808</u>
Cash and cash equivalents, at the end of the year	9	<u><u>112,218</u></u>	<u><u>101,067</u></u>

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

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Notes to Financial Statements For the year ended 31 December 2017**

#### **1 General information**

Goldman Sachs Asia Bank Limited (the “Company”), a restricted licence bank, is a limited liability company incorporated in Hong Kong on 12 December 2012. The address of its registered office is 68<sup>th</sup> Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong.

The Company is wholly owned by Goldman Sachs Holdings (Hong Kong) Limited. The ultimate parent company is The Goldman Sachs Group, Inc. (“Group Inc.”), which is incorporated in the State of Delaware, U.S.A. and listed on the New York Stock Exchange.

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong. It is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The Company has been established to provide the clients of Group Inc. and / or its consolidated subsidiaries (collectively, the “Firm”) in the Asia excluding Japan region with the opportunity to transact business with a bank counterparty located in Asia.

The Company’s principal activities are to engage in deposit-taking and over-the-counter (“OTC”) derivatives. These activities are conducted in cooperation with the affiliated companies within the Firm, which give rise to service fee income and expense.

All references to 2017 and 2016 refer to the years ended, or the dates, as the context requires, 31 December 2017 and 31 December 2016, respectively.

#### **2 Summary of principal accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **2.1 Basis of preparation**

The financial statements are prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap.622). They have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets or liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**2 Summary of principal accounting policies (continued)**

**2.1 Basis of preparation (continued)**

**2.1.1 Changes in accounting policy and disclosures**

**(a) New and amended standards adopted by the Company**

The following standard has been adopted by the Company for the first time for the accounting year beginning on 1 January 2017:

Amendments to HKAS 7, "Statement of cash flows", introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Other standards, amendments and interpretations which are effective for the accounting period beginning on 1 January 2017 have had no significant financial impact on these financial statements.

**(b) New standards and interpretations not early adopted**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing this financial statement. Further information about those HKFRSs that are expected to be applicable to the Company is set out below:

HKFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Company has reviewed the classification and measurement of its financial assets, and these financial assets appear to satisfy the conditions for the same classification under HKFRS 9 and hence the Company does not expect the new guidance to have a significant impact on the accounting for its financial assets.

There will be no impact on the Company's accounting for financial liabilities as the Company does not have any financial liabilities that are designated at fair value through profit or loss.

There will be no impact on the Company's accounting for financial instruments as a result of the new hedge accounting rule as the Company does not apply hedge accounting.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost in the Company. Based on the assessments undertaken to date, the Company does not expect the new model to have a significant impact on the impairment provisions.



**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**2 Summary of principal accounting policies (continued)**

**2.1 Basis of preparation (continued)**

**2.1.1 Changes in accounting policy and disclosures (continued)**

**(b) New standards and interpretations not early adopted (continued)**

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Company will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15, "Revenue from contracts with customers", is a new standard for the recognition of revenue. This will replace HKAS 18 "Revenue" which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. Adoption of this new standard does not materially affect the Company's financial condition or cash flows.

There are no other HKFRSs that are not yet effective that would be expected to have a material impact on the Company.

**2.2 Currency translation**

**(a) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in US dollars, which is the Company's functional and presentation currency.

**(b) Transactions and balances**

Transactions in currencies other than US dollars are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than US dollars, are recognised in the statement of comprehensive income.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**2 Summary of principal accounting policies (continued)**

**2.3 Revenue recognition**

Interest income is recognised on a time apportioned basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Service fee income from affiliated companies is credited to income on an accrual basis in the period in which the related services are provided by the Company.

**2.4 Taxation**

Taxation for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is then recognised in other comprehensive income or directly in equity.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**2.5 Employee benefits**

**(a) Compensation**

The Company recognises a liability and an expense for bonuses payable to employees as part of their compensation. A provision is also made for the estimated liability for annual leave earned by employees but untaken at the balance sheet date.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**2 Summary of principal accounting policies (continued)**

**2.5 Employee benefits (continued)**

**(b) Employee incentive plans**

Group Inc. issues awards in the form of restricted stock units (“RSUs”) and stock options to the Company’s employees for services rendered to the Company. The cost of employee services received in exchange for an equity-based award is measured based on the fair value of the equity instruments at the grant date. Non-market based vesting conditions are not taken into account in measuring the fair value of awards, but are reflected by adjusting over time the number of equity awards that are expected to vest. Equity-based awards that do not contain vesting conditions are expensed immediately, while awards that require future service are amortised over the relevant service period. The costs of equity-based awards are calculated with reference to the quoted market price of Group Inc.’s common stock, and are recorded as employee compensation in the Company’s statement of comprehensive income.

Group Inc. settles equity awards by the delivery of its ordinary shares to the Company’s employees. The Company has entered into a chargeback agreement under which it is committed to pay to Group Inc. the market value of those shares at the time of delivery. Further details of the equity-based award plans are set out in note 13.

**(c) Pension obligations**

The Company offers a mandatory provident fund scheme and defined contribution pension plans to employees. Under the pension plans, the Company pays contributions to public or privately administered funds and will have no further payment obligations once the contributions have been paid. The Company’s contributions are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

**2.6 Cash and cash equivalents**

Cash and cash equivalents include deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

**2.7 Short-term bank deposits**

Short-term bank deposits include deposits held at call with banks with original maturities of over three months but less than one year.

**2.8 Financial instruments**

**(a) Classification and recognition**

Financial assets and liabilities at fair value through profit or loss are financial assets or liabilities held for trading, those designated at fair value through profit or loss at inception, and derivative financial instruments. Financial assets and liabilities are classified as held for trading if acquired principally for the purpose of selling in the short term, and are classified as current assets or liabilities if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**2 Summary of principal accounting policies (continued)**

**2.8 Financial instruments (continued)**

**(a) Classification and recognition (continued)**

Purchases and sales of financial instruments are recognised on trade date – the date on which the Company commits to purchase or sell the instrument. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

**(b) Determination of fair value**

Fair value is the price 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. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income.

The Company's derivative instruments consist of over-the-counter derivatives.

OTC derivatives are valued using market transactions and other market evidence, including market-based inputs to models, calibration to market-clearing 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.

Where models are used, the selection of a particular model to value an OTC 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. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC 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.

Certain OTC derivatives are valued using models which utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs typically include certain correlations as well as credit spreads, equity volatilities, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. Subsequent to the initial valuation of such derivatives, the Company updates the observable inputs to reflect observable market changes. Unobservable 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.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**2 Summary of principal accounting policies (continued)**

**2.8 Financial instruments (continued)**

**(c) Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

**2.9 Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance is recognised in the statement of comprehensive income.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

**2.10 Loans payable**

Loans payable are recognised initially at fair value, net of transaction costs incurred. Loans payable are subsequently stated at amortised cost. Any difference between the proceeds net of transaction costs and the redemption value is taken to the statement of comprehensive income over the period of the borrowings using the effective interest method.

Loans payable which are due to be settled within twelve months of the balance sheet date or where the Company does not have unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date are included in current liabilities even though the original term was for a period longer than twelve months. Other loans payable due to be settled more than twelve months after the balance sheet date or where the Company has unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date are included in non-current liabilities.

**2.11 Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.



**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**2 Summary of principal accounting policies (continued)**

**2.12 Comparatives**

Where necessary, comparative figures have been reclassified to conform with the current year's presentation.

**3 Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

**3.1 Income taxes**

Judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**3.2 Fair value of derivatives and other financial instruments**

The fair value of financial instruments that are not traded in an active market (for example, OTC derivatives) is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the balance sheet date.

**4 Interest income and interest expense**

	2017 US\$ '000	2016 US\$ '000
Interest income from:		
- balances and bank deposits with authorized institutions	507	67
- affiliated companies (Note 16(a))	82	9
	<u>589</u>	<u>76</u>
Interest expense to:		
- an affiliated customer (Note 16(b))	10	2
- ultimate parent company (Note 16(c))	33	11
- affiliated companies (Note 16(c))	41	11
- others	37	-
	<u>121</u>	<u>24</u>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

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**5 Other income**

	2017 US\$ '000	2016 US\$ '000
Service fee income (Note 16(d))	16,300	9,285
Net currency translation gains	10	-
	<u>16,310</u>	<u>9,285</u>

**6 Operating expenses**

Operating expenses include:

	2017 US\$ '000	2016 US\$ '000
Employee compensation and benefits (Note 16(f))		
- Salaries, bonus payments and other employee benefits	4,073	1,571
- Employee incentive plans	418	101
- Pension costs		
-- defined contribution plans	5	187
Service fee expense (Note 16(e))	10,315	6,596
Directors' emoluments (Note 7)	412	387
Auditor's remuneration	88	96

**7 Directors' emoluments**

The emoluments of the Directors of the Company disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

	2017 US\$ '000	2016 US\$ '000
Aggregate emoluments		
- in respect of their services as directors of the Company	200	200
- in respect of their other services in connection with the management of the affairs of the Company	212	187
	<u>412</u>	<u>387</u>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
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**8 Income tax (expense) / credit**

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The amount of tax (charged) / credited to the statement of comprehensive income represents:

	2017 US\$ '000	2016 US\$ '000
Current income tax	(611)	(210)
Deferred income tax (Note 12)	551	235
Adjustment of current tax for prior periods	12	-
	<u>(48)</u>	<u>25</u>

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the Hong Kong taxation rate due to the following:

	2017 US\$ '000	2016 US\$ '000
Profit before income tax	376	62
Tax calculated at Hong Kong tax rate of 16.5%	(62)	(10)
Expenses not deductible for tax purposes	-	(10)
Utilisation of previously unrecognised tax losses brought forward	-	45
Overprovision in prior periods	12	-
Currency translation gain	2	-
Income tax (expense) / credit	<u>(48)</u>	<u>25</u>

**9 Cash and cash equivalents**

	2017 US\$ '000	2016 US\$ '000
Cash at banks	61,218	79,565
Bank deposits		
- with an affiliated bank (Note 16(g))	7,000	7,001
- with authorized institutions	44,000	14,501
	<u>112,218</u>	<u>101,067</u>

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**Notes to Financial Statements  
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**10 Financial instruments at fair value**

The Company engages in OTC derivatives market making and holds positions accordingly.

The following table sets out the Company's financial instruments owned and financial instruments sold, but not yet purchased, measured at fair value through profit and loss.

On-balance sheet derivative financial instruments classified as held for trading:

	2017		2016	
	Assets US\$ '000	Liabilities US\$ '000	Assets US\$ '000	Liabilities US\$ '000
Forward settlement contracts with an affiliated company (Note 16(h))	3	10	2	4
Option contracts with an affiliated company (Note 16(h))	114	903	122	-
Option contracts with others	903	114	-	122
	<u>1,020</u>	<u>1,027</u>	<u>124</u>	<u>126</u>

**11 Trade and other receivables**

	2017 US\$ '000	2016 US\$ '000
<b>Current assets</b>		
Amounts due from affiliated companies (Note 16(i))	17,174	6,364
Trade receivables	1,319	-
Other receivables	80	5
	<u>18,573</u>	<u>6,369</u>

**12 Deferred income tax assets**

The movement of the deferred income tax assets account is as follows:

	2017 US\$ '000	2016 US\$ '000
At the beginning of the year	235	-
Deferred taxation credited to statement of comprehensive income (Note 8)	551	235
Currency translation	(3)	-
At the end of the year	<u>783</u>	<u>235</u>
Deferred tax to be realised after more than 12 months	<u>532</u>	<u>168</u>

Deferred income tax asset is recognised primarily for employee incentive plans, to the extent that the realisation of the related tax benefit through future taxable profit is probable.

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**13 Employee incentive plans**

The Company's ultimate parent company sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2015) ("2015 SIP"), which provides for grants of restricted stock units ("RSUs"), restricted stock, dividend equivalent rights, incentive stock options, nonqualified stock options, stock appreciation rights, and other share-based awards, each of which may be subject to performance conditions. On 21 May 2015, shareholders of the Company's ultimate parent company approved the 2015 SIP. The 2015 SIP replaced The Goldman Sachs Amended and Restated Stock Incentive Plan (2013) ("2013 SIP") previously in effect, and applies to awards granted on or after the date of approval.

**13.1 Restricted stock units**

The ultimate parent company grants RSUs (including RSUs subject to performance conditions) to employees of the Company under the 2015 SIP, which are generally valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting and delivery transfer restrictions. RSUs generally vest and underlying shares of common stock deliver (net of required withholding tax) as outlined in the applicable award agreements. Employee award agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. Delivery of the underlying shares of common stock, which generally occurs over a three-year period, is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. The cost of these RSUs is allocated to the Company by the ultimate parent company.

The activity related to these RSUs is as follows:

**2017**

	Restricted stock units outstanding	
	No future service required	Future service required
At the beginning of the year	1,704	5,305
Granted	3,102	6,396
Delivered	(1,704)	-
Transferred in	-	186
Transferred out	-	(988)
Vested	6,199	(6,199)
At the end of the year	<u>9,301</u>	<u>4,700</u>



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**Notes to Financial Statements  
For the year ended 31 December 2017**

**13 Employee incentive plans (continued)**

**13.1 Restricted stock units (continued)**

**2016**

	Restricted stock units outstanding	
	No future service required	Future service required
At the beginning of the year	-	-
Transferred in	-	7,009
Vested	1,704	(1,704)
	<hr/>	<hr/>
At the end of the year	1,704	5,305
	<hr/> <hr/>	<hr/> <hr/>

The weighted average grant-date fair value of RSUs granted during 2017 was US\$202.63. The fair value of the RSUs granted during 2017 includes a liquidity discount of 12.33% to reflect post-vesting and delivery transfer restrictions, generally of up to 4 years.

The aggregate fair value of awards vested during the year ended 31 December 2017 was US\$1,983,266 (2016: US\$391,412).

**14 Trade and other payables**

	2017 US\$ '000	2016 US\$ '000
<b>Current liabilities</b>		
Amounts due to ultimate parent company (Note 16(j))	1,924	2
Amounts due to affiliated companies (Note 16(j))	1,446	176
Accruals and other liabilities	8,041	4,166
	<hr/>	<hr/>
	11,411	4,344
	<hr/> <hr/>	<hr/> <hr/>
<b>Non-current liabilities</b>		
Amounts due to ultimate parent company (Note 16(j))	1,490	796
Accruals and other liabilities	1,737	629
	<hr/>	<hr/>
	3,227	1,425
	<hr/> <hr/>	<hr/> <hr/>

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**Notes to Financial Statements  
For the year ended 31 December 2017**

**15 Share capital**

	2017 US\$ '000	2016 US\$ '000
Issued and fully paid:		
114,010,000 ordinary shares	114,010	114,010
	<u>114,010</u>	<u>114,010</u>

The movement of share capital was:

	Number of shares	Share capital US\$ '000
At 1 January 2016	14,010,000	14,010
Additional capital contributions (Note (a))	100,000,000	100,000
	<u>114,010,000</u>	<u>114,010</u>
At 31 December 2016	114,010,000	114,010
	<u>114,010,000</u>	<u>114,010</u>
At 31 December 2017	114,010,000	114,010
	<u>114,010,000</u>	<u>114,010</u>

- (a) On 12 July 2016, the Company issued 100,000,000 ordinary shares to its member for US\$100,000,000, which were fully paid in cash.

**16 Related party transactions**

Details of the related party transactions are disclosed as follows:

- (a) Interest income from affiliated companies was earned, at prevailing market rates, primarily from cash deposits placed with an affiliated bank and cash collateral placed with affiliated companies.
- (b) The deposit from an affiliated customer is a time deposit, which is unsecured and interest-bearing at prevailing market rates.
- (c) The Company has unsecured term loans payable to the ultimate parent company and an affiliated company, which bear interest at prevailing market rates. Interest expenses were mainly incurred from term loans payable to and cash collateral received from group companies.
- (d) Service fee income from an affiliated company represents charging of expenses, some of which with mark up, incurred by the Company for engaging in OTC derivative activities in cooperation with the affiliated companies.
- (e) Service fee expense represents the allocation of costs from an affiliated company in relation to the support services provided to the Company.
- (f) Employee compensation and benefits are presented net of recharges to and from an affiliated company for secondment arrangements between the Company and the affiliated company.
- (g) The Company deposits excess cash with an affiliated bank under normal commercial terms.

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**Notes to Financial Statements  
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**16 Related party transactions (continued)**

- (h) Derivative assets and liabilities arise from transactions that the Company and affiliated companies entered into in the normal course of business.
- (i) Amounts due from affiliated companies primarily comprise service charges receivable and cash collateral receivable.
- (j) Amounts due to the ultimate parent company primarily comprise chargeback of equity-based awards payable. Amounts due to affiliated companies primarily comprise service charges payable and cash collateral payable.
- (k) Key management compensation includes salaries, bonuses and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Company, together with the value of any awards of shares in the ultimate holding company delivered during the year. The Company regards its key management to be those persons who are responsible for oversight of the Company's strategy or activities and / or those of the Company's material business lines.

	2017 US\$ '000	2016 US\$ '000
<b>Key management compensation</b>		
Salaries and bonuses	537	447
Employee incentive plans	220	102
Others (non-cash benefits)	1	-

**17 Notes to the statement of cash flows**

**17.1 Reconciliation of profit before income tax to cash used in operations**

	2017 US\$ '000	2016 US\$ '000
Profit before income tax	376	62
Adjustments for:		
Interest income	(589)	(76)
Interest expense	121	24
Operating (loss) / profit before changes in working capital	<u>(92)</u>	<u>10</u>
Changes in operating assets and liabilities:		
Financial instruments at fair value, net	5	2
Trade and other receivables	(12,161)	(6,369)
Deposit from an affiliated customer	-	1,000
Short-term loans payable	2,000	-
Trade and other payables	8,846	5,108
Cash used in operations	<u><u>(1,402)</u></u>	<u><u>(249)</u></u>

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**Notes to Financial Statements  
For the year ended 31 December 2017**

**17 Notes to the statement of cash flows (continued)**

**17.2 Reconciliation of movements of liabilities to cash flows arising from financing activities**

	Long-term loans payable US\$ '000	Total US\$ '000
At 1 January 2017	2,000	2,000
Cash flows from financing activities	(2,000)	(2,000)
	<hr/>	<hr/>
At 31 December 2017	-	-
	<hr/> <hr/>	<hr/> <hr/>

**18 Financial risk management**

Normal trading activities expose the Company to market, credit, liquidity and operational risk. These risks, described below, are managed in accordance with established risk management policies and procedures.

The Firm monitors market, credit, liquidity and operational risk on a consistent basis firmwide. Consequently, the Company, as part of the global group, adheres to global risk management policies and procedures.

The Company seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate, but complementary, financial, credit, operational, compliance, legal reporting systems and internal controls, management review processes and other mechanisms. In addition, a number of global, regional and entity committees are responsible for monitoring risk exposures and for general oversight of the Company's risk management process ("Risk Committees"). These committees meet regularly and consist of senior members of both the revenue-producing units and departments that are independent of the revenue-producing units. In addition to these committees, functions that are independent of the revenue-producing units, such as Compliance, Finance, Risk, Legal, Internal Audit and Operations, perform risk management functions, which include monitoring, analysing and evaluating risk.

**18.1 Market risk**

**(a) Overview**

Market risk is the risk of loss in the value of the Company's financial instruments due to changes in market conditions. Financial instruments are held primarily for market-making for clients. They, therefore, change based on client demands. Financial instruments are accounted for at fair value and therefore fluctuate on a daily basis. Categories of market risk include the following:

- interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates and credit spreads; and
- currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates.

Market Risk Management and Analysis ("Market Risk Management"), which is independent of the revenue-producing units and reports to the Chief Risk Officer of the Firm, has primary responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the global businesses.

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**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.1 Market risk (continued)**

**(a) Overview (continued)**

Managers in revenue-producing units and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis. Managers in revenue-producing units are accountable for managing risk within prescribed limits. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

The Firm manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This process includes:

- accurate and timely exposure information incorporating multiple risk metrics;
- a dynamic limit setting framework; and
- constant communication amongst revenue-producing units, risk managers and senior management.

Market Risk Management produces risk measures and monitors them against market risk limits set by the Risk Committees. These measures reflect an extensive range of scenarios and the results are aggregated at trading desk, business and entity levels.

A variety of risk measures are used to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Primary risk measures include stress tests. The risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both the revenue-producing units and independent control and support functions.

Management has made a significant investment in technology to monitor market risk including:

- an independent calculation of stress measures;
- risk measures calculated at individual position levels;
- attribution of risk measures to individual risk factors of each position;
- the ability to report many different views of the risk measures, e.g. by desk, business, product type or legal entity; and
- the ability to produce ad hoc analyses in a timely manner.

The Company's framework for managing market risk is consistent with, and is part of, the Firm's framework, and results are analysed by business and in aggregate, at both the Firm and Company level.

**(b) Currency risk**

The Company's main currency exposure is to Hong Kong dollar, which is managed by hedging with an affiliated company.

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**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.1 Market risk (continued)**

**(c) Interest rate risk**

The Company is exposed to cash flow interest rate risk primarily on its deposits and cash placements. Based on the values of these balances at 31 December 2017, a 50 basis point change in market interest rates would result in a US\$526,135 (2016: US\$382,976) change in annual net interest income.

**(d) Limits**

Risk limits are used at various levels (including entity, business and product) to govern risk appetite by controlling the size of its exposures to market risk. Limits are set based on a range of stress tests relevant to the Firm's exposures. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The Risk Committees set market risk limits for the Firm at an overall, business and product level, consistent with the Firm's risk appetite.

The purpose of the firmwide limits is to assist senior management in controlling the overall risk profile. Sub-limits are set below the approved level of risk limits. Sub-limits set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day trading decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded.

When a risk limit has been exceeded (e.g., due to positional changes or changes in market conditions, such as increased volatilities or changes in correlations), it is escalated to the appropriate Risk Committees. Such instances are remediated by an inventory reduction and/or a temporary or permanent increase to the risk limit.

The stress testing models are regularly reviewed by Market Risk Management and enhanced in order to incorporate changes in the composition of positions included in market risk measures, as well as variations in market conditions. Prior to implementing significant changes to the assumptions and / or models, an independent model risk management group of the Firm ("Model Risk Management") performs model validations. Significant changes to the stress testing models are reviewed with the Chief Risk Officer and Chief Financial Officer of the Firm, and approved by the Firmwide Risk Committee.

**(e) Stress tests**

Stress tests are performed on a regular basis as part of the Company's routine risk management processes and to meet the local regulatory requirements. The Company also conducts tailored stress tests on an ad hoc basis in response to market developments. Stress tests are conducted jointly with the Company's risk and finance functions.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.2 Credit risk**

**(a) Overview**

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g. an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold. Our exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, and receivables from customers and counterparties.

Credit Risk Management, which is independent of the revenue-producing units and reports to the Firm's Chief Risk Officer, has primary responsibility for assessing, monitoring and managing credit risk. The Credit Policy Committee and the Firmwide Risk Committee establish and review credit policies and parameters.

The Company's framework for managing credit risk is consistent with, and is part of the Firm's framework.

**(b) Credit risk management process**

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The process for managing credit risk includes:

- Approving transactions and setting and communicating credit exposure limits;
- Monitoring compliance with established credit exposure limits;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring current and potential credit exposure and losses resulting from counterparty default;
- Reporting of credit exposures to senior management, the Board and regulators;
- Using credit risk mitigants, including collateral and hedging; and
- Communicating and collaborating with other independent control and support functions such as operations, legal and compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of the Company's counterparties. For substantially all credit exposures, the core of the process is an annual counterparty credit review. A credit review is an independent analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the counterparty's industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

The Firm's risk assessment process may also include, where applicable, reviewing certain key metrics, such as delinquency status, collateral values, credit scores and other risk factors.

The Firm's global credit risk management systems capture credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive information on aggregate credit risk by product, internal credit rating, industry, country and region.



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**Notes to Financial Statements  
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**18 Financial risk management (continued)**

**18.2 Credit risk (continued)**

**(c) Credit risk measures and limits**

Credit risk is measured based on the potential loss in an event of non-payment by a counterparty using current and potential exposure. For derivatives transactions, current exposure represents the amount presently owed after taking into account applicable netting and collateral arrangements while potential exposure represents the Company's estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure also takes into account netting and collateral arrangements.

Credit limits are used at various levels (e.g. counterparty, economic group, industry, country) to control the size and nature of credit exposures. Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing risk appetites for a given counterparty or group of counterparties. Limits for industries and countries are based on risk tolerance and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations.

The Risk Committee of the Goldman Sachs Board and the Risk Governance Committee (through delegated authority from the Firmwide Risk Committee) approve credit risk limits at the Firmwide, business and product levels. The Board Level Risk Committee of the Company approves the risk appetite of the Company and credit risk limits at the Company level. Credit Risk Management (through delegated authority from the Risk Committee of the Company) sets credit concentration limits at the company level for counterparty groups, industries and countries. In addition, Credit Risk Management (through delegated authority from the Risk Governance Committee) sets credit limits for individual counterparties, economic groups, industries and countries. Policies authorised by the Firmwide Risk Committee, the Risk Governance Committee and the Credit Policy Committee prescribe the level of formal approval required for the Firm to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants.

**(d) Stress tests / scenario analysis**

Regular stress tests are used to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e.g., currency rates, interest rates, equity prices). These shocks include a wide range of moderate and more extreme market movements. Some of the stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. In the case of sovereign default, Credit Risk Management estimates the direct impact of the default on the Company's sovereign credit exposures, changes to the Company's credit exposures arising from potential market moves in response to the default, and the impact of credit market deterioration on corporate borrowers and counterparties that may result from the sovereign default. Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring.

Stress tests are performed on a regular basis as part of the Company's routine risk management processes and to meet the local regulatory requirements. The Company also conducts tailored stress tests on an ad hoc basis in response to market developments. Stress tests are conducted jointly with the Company's risk and finance functions.

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**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.2 Credit risk (continued)**

**(d) Stress tests / scenario analysis (continued)**

The Firm's and the Company's potential credit exposure and stress testing models, and any changes to such models or assumptions, are reviewed and independently validated by Model Risk Management.

**(e) Credit risk mitigation**

To reduce credit exposures on derivatives, the Company may enter into master netting agreements or similar arrangements (collectively, netting agreements) with counterparties that permit it to offset receivables and payables with such counterparties. A netting agreement is a contract with a counterparty that permits net settlement of multiple transactions with that counterparty, including upon the exercise of termination rights by a non-defaulting party. Upon exercise of such termination rights, all transactions governed by the netting agreement are terminated and a net settlement amount is calculated.

The Company may also reduce credit risk with counterparties by entering into agreements that enables it to receive and post cash and securities collateral with respect to its derivatives, subject to the terms of the related credit support agreements or similar arrangements (collectively, credit support agreements). An enforceable credit support agreement grants the non-defaulting party exercising termination provisions the right to liquidate collateral and apply the proceeds to any amounts owed. In order to assess enforceability of our right to setoff under netting and credit support agreements, the Company evaluates various factors, including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement. The collateral it holds consists primarily of cash.

The Company's collateral is managed by an independent control function within the Operations Division. This function is responsible for reviewing exposure calculations, making margin calls with relevant counterparties, and ensuring subsequent settlement of collateral movements. The Company monitors the fair value of the collateral on a daily basis to ensure that our credit exposures are appropriately collateralised.

When the Company does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent, the Company may obtain third-party guarantees of the counterparty's obligations.

**(f) Credit exposure**

**Cash and cash equivalents.** Cash and cash equivalents include both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, the Company places substantially all of its deposits with highly-rated banks.

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**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.2 Credit risk (continued)**

**(f) Credit exposure (continued)**

**OTC derivatives.** Derivative instruments are reported at fair value on a gross-by-counterparty basis in the Company's financial statements, unless the Company has a current legal right of set-off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above.

**Other credit exposures.** The Company is exposed to credit risk from its receivables from customers and counterparties. These primarily comprise receivables from related parties and receivables related to cash collateral paid to counterparties in respect of derivative financial instrument liabilities.

**(g) Exposure to credit risk by class**

The following table discloses the carrying values of financial assets recorded in the financial statements and represents the Company's maximum exposure to credit risk without taking into account any other credit enhancements:

<b>Financial assets</b>	2017 US\$ '000	2016 US\$ '000
Cash and cash equivalents	112,218	101,067
Short-term bank deposits	-	14,545
Financial instruments at fair value	1,020	124
Trade and other receivables	18,573	6,369
	<u>131,811</u>	<u>122,105</u>

The following table shows the carrying value of financial assets grouped by credit ratings. The categories shown reflect our internally determined public rating agency equivalents.

<b>Credit rating</b>	2017 US\$ '000	2016 US\$ '000
AA	41,754	58,439
A	72,749	63,547
BBB	15,029	113
B	2,222	-
Unrated	57	6
	<u>131,811</u>	<u>122,105</u>

The Company had no financial assets that were either past due or impaired as at 31 December 2017 (2016: Nil).

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Notes to Financial Statements For the year ended 31 December 2017

#### 18 Financial risk management (continued)

##### 18.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to fund itself or meet its liquidity needs in the event of a Company-specific, broader industry, or market liquidity stress event. Liquidity is of critical importance to the Firm, as most of the failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, as part of the Firm, the Company has in place a comprehensive and conservative set of liquidity and funding policies. The principal objective is to be able to fund the Company and to enable core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Corporate Treasury has the primary responsibility for assessing, monitoring and managing the Firm's liquidity and funding strategy. Corporate Treasury is independent of the revenue-producing units and reports to the Chief Financial Officer of the Firm.

Liquidity Risk Management and Analysis ("Liquidity Risk Management") is an independent risk management function responsible for control and oversight of the Firm's liquidity risk management framework, including stress testing and limit governance. Liquidity Risk Management is independent of the revenue-producing units and Corporate Treasury, and reports to the Chief Risk Officer of the Firm.

The Company manages liquidity risk according to three principles: (i) hold sufficient excess liquidity to cover outflows during a stressed period, (ii) maintain appropriate asset-liability management and (iii) maintain a viable contingency funding plan.

- **Excess liquidity.** The Company maintains excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment.
- **Asset-liability management.** The Company's liquidity risk management policies are designed to ensure it has a sufficient amount of financing, even when funding markets experience persistent stress. The Company strives to manage the maturities and diversity of its funding across markets, products and counterparties, and seeks to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of its assets.
- **Contingency funding plan.** The Company maintains a contingency funding plan to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and / or market dislocation. The contingency funding plan also describes the Company's potential responses if assessments indicate that the Company has entered a liquidity crisis, which includes pre-funding for what the Company estimates will be its potential cash and collateral needs as well as utilising secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

The following table details the undiscounted cash flows of the Company's financial liabilities by remaining contractual maturity, including interest that will accrue, except for derivatives or where the Company is entitled to repay the liability before its maturity. Financial instruments are presented at their fair value.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.3 Liquidity risk (continued)**

	Less than three months US\$ '000	More than three months but less than one year US\$ '000	More than one year but less than five years US\$ '000	More than five years US\$ '000	Undated US\$ '000	Total US\$ '000
<b>2017</b>						
<b>Financial liabilities</b>						
<b>Current liabilities</b>						
Deposit from an affiliated customer	1,000	-	-	-	-	1,000
Short-term loans payable	2,000	-	-	-	-	2,000
Financial instruments at fair value	245	782	-	-	-	1,027
Trade and other payables	10,780	183	-	-	449	11,412
<b>Non-current liabilities</b>						
Trade and other payables	-	-	3,227	-	-	3,227
<b>Total financial liabilities</b>	<b>14,025</b>	<b>965</b>	<b>3,227</b>	<b>-</b>	<b>449</b>	<b>18,666</b>
	Less than three months US\$ '000	More than three months but less than one year US\$ '000	More than one year but less than five years US\$ '000	More than five years US\$ '000	Undated US\$ '000	Total US\$ '000
<b>2016</b>						
<b>Financial liabilities</b>						
<b>Current liabilities</b>						
Deposit from an affiliated customer	1,000	-	-	-	-	1,000
Financial instruments at fair value	4	122	-	-	-	126
Trade and other payables	3,726	553	-	-	130	4,409
<b>Non-current liabilities</b>						
Long-term loans payable	-	-	2,000	-	-	2,000
Trade and other payables	-	-	1,426	-	-	1,426
<b>Total financial liabilities</b>	<b>4,730</b>	<b>675</b>	<b>3,426</b>	<b>-</b>	<b>130</b>	<b>8,961</b>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.4 Offsetting financial assets and financial liabilities**

**(a) Financial assets**

The following table shows the Company's financial assets that are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross credit exposure US\$ '000	Netting arrangements US\$ '000	Net amount presented in balance sheet US\$ '000	Amounts not offset in the balance sheet		Net amount US\$ '000
				Financial instruments US\$ '000	Cash collateral US\$ '000	
<b><u>2017</u></b>						
Cash and cash equivalents	112,218	-	112,218	-	-	112,218
Short-term bank deposits	-	-	-	-	-	-
Financial instruments at fair value	1,020	-	1,020	(230)	-	790
Trade and other receivables	27,638	(9,065)	18,573	-	(797)	17,776
	<u>140,876</u>	<u>(9,065)</u>	<u>131,811</u>	<u>(230)</u>	<u>(797)</u>	<u>130,784</u>

	Gross credit exposure US\$ '000	Netting arrangements US\$ '000	Net amount presented in balance sheet US\$ '000	Amounts not offset in the balance sheet		Net amount US\$ '000
				Financial instruments US\$ '000	Cash collateral US\$ '000	
<b><u>2016</u></b>						
Cash and cash equivalents	101,067	-	101,067	-	-	101,067
Short-term bank deposits	14,545	-	14,545	-	-	14,545
Financial instruments at fair value	124	-	124	(2)	-	122
Trade and other receivables	10,449	(4,080)	6,369	-	(2)	6,367
	<u>126,185</u>	<u>(4,080)</u>	<u>122,105</u>	<u>(2)</u>	<u>(2)</u>	<u>122,101</u>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.4 Offsetting financial assets and financial liabilities (continued)**

**(b) Financial liabilities**

The following table shows the Company's financial liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross credit exposure US\$ '000	Netting arrangements US\$ '000	Net amount presented in balance sheet US\$ '000	Amounts not offset in the balance sheet		Net amount US\$ '000
				Financial instruments US\$ '000	Cash collateral US\$ '000	
<b>2017</b>						
Deposit from an affiliated customer	1,000	-	1,000	-	-	1,000
Short-term loans payable	2,000	-	2,000	-	-	2,000
Financial instruments at fair value	1,027	-	1,027	(230)	(797)	-
Trade and other payables	23,703	(9,065)	14,638	-	-	14,638
	<u>27,730</u>	<u>(9,065)</u>	<u>18,665</u>	<u>(230)</u>	<u>(797)</u>	<u>17,638</u>

	Gross credit exposure US\$ '000	Netting arrangements US\$ '000	Net amount presented in balance sheet US\$ '000	Amounts not offset in the balance sheet		Net amount US\$ '000
				Financial instruments US\$ '000	Cash collateral US\$ '000	
<b>2016</b>						
Deposit from an affiliated customer	1,000	-	1,000	-	-	1,000
Financial instruments at fair value	126	-	126	(2)	(2)	122
Trade and other payables	9,849	(4,080)	5,769	-	-	5,769
Long-term loans payable	2,000	-	2,000	-	-	2,000
	<u>12,975</u>	<u>(4,080)</u>	<u>8,895</u>	<u>(2)</u>	<u>(2)</u>	<u>8,891</u>



**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.4 Offsetting financial assets and financial liabilities (continued)**

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both intend to settle on a net basis.

**18.5 Fair value estimation**

The tables below show financial instruments carried at fair value, by valuation method. The different levels have been defined 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 are significant and unobservable.

The Company's assets and liabilities that are measured at fair value are:

**2017**

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value				
Derivative instruments	-	1,020	-	1,020
Financial liabilities at fair value				
Derivative instruments	-	1,027	-	1,027

**2016**

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value				
Derivative instruments	-	124	-	124
Financial liabilities at fair value				
Derivative instruments	-	126	-	126

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, OTC derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.5 Fair value estimation (continued)**

There were no significant transfers of financial assets and liabilities between level 1 and level 2 fair value hierarchy classifications.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. There were no level 3 financial instruments held as at 31 December 2017 and 31 December 2016.

The Company's level 2 financial instruments are valued using various derivative pricing models such as incorporate option pricing methodologies, Monte Carlo simulations and discounted cash flows. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility and correlations of such inputs. Inputs to the valuations of level 2 financial instruments can be verified to market transactions, broker or dealer quotations or other alternative pricing source with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided from alternative pricing sources.

The carrying value of other financial assets and liabilities are a reasonable approximation of their fair values.

**18.6 Operational risk management**

Operational risk is the risk of an adverse outcome resulting from inadequate or failed internal processes, people, systems or from external events.

The Company's exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. Potential types of loss events related to internal and external operational risk include: clients, products and business practices, execution, delivery and process management, business disruption and system failures, employment practices and workplace safety, damage to physical assets, internal fraud, and external fraud.

Operational Risk Management is a risk management function independent of the revenue producing units and is responsible for developing and implementing policies, methodologies and a formalised framework for operational risk management.

The Company's risk management framework comprises the following practices:

- risk identification and assessment;
- risk measurement; and
- risk monitoring and reporting.

**18.7 Capital management**

The Company's capital is considered to comprise total equity on the balance sheet. The primary objectives in managing capital are to safeguard the ability of the Company to continue as a going concern and to meet the capital requirements of the Company's regulators in Hong Kong.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2017**

**18 Financial risk management (continued)**

**18.7 Capital management (continued)**

The Company is regulated by the Hong Kong Monetary Authority (“HKMA”) and as such is subject to minimum capital requirements. The Company’s capital is monitored on an ongoing basis in accordance with the Company’s Capital Management Policy to ensure compliance with these requirements. The Company must ensure the capital is sufficient to meet the minimum capital adequacy ratio as required by the HKMA.

The Company met HKMA’s capital adequacy ratio requirements during the years ended 31 December 2017 and 31 December 2016.

The Company did not pay a dividend or return capital to its shareholders for the years ended 31 December 2017 and 31 December 2016.

**19 Approval of financial statements**

The financial statements were approved by the board of directors on 25 April 2018.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement**

**For the year ended 31 December 2017**

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
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## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Unaudited Disclosure Statement For the year ended 31 December 2017**

The following information is disclosed as part of the accompanying information to the financial statements to comply with the Banking (Disclosure) Rules and does not form part of the audited financial statements.

All references to 2017 and 2016 refer to the years ended, or the dates, as the context requires, 31 December 2017 and 31 December 2016, respectively.

#### **1 Corporate governance**

The Board of Directors (“The Board”) and the management of Goldman Sachs Asia Bank Limited (the “Company”), a restricted licence bank, recognises the importance of robust corporate governance to ensure an environment of effective oversight and strong accountability.

To the extent applicable, the Company has complied with the requirements set out in the guideline CG-1 “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority (the “HKMA”).

The Company’s ultimate parent company is The Goldman Sachs Group, Inc. (“Group Inc.”). The term the “Firm” refers to Group Inc. and its consolidated subsidiaries collectively.

The information in this note 1 represents the corporate governance structure of the Company as of 25 April 2018.

##### **1.1 Board of Directors**

The Board is responsible for overseeing the establishment of corporate governance policies and procedures in order to protect the interests of the Company’s stakeholders and to ensure the safety and soundness of the Company’s operations and its compliance with applicable laws and regulations. Directors exercise their independent judgment when managing the Company’s business. The Board oversees the implementation of controls and risk management processes and take the steps it reasonably believes are necessary to ensure that a strong and cooperative relationship with regulators exist.

Currently, the Board comprises five members: one executive director, two non-executive directors and two independent non-executive directors.

The directors of the Board collectively possess a broad range of skills, expertise, industry and other knowledge, and business and other experience useful to the effective oversight of the Company’s business.

The Board meets at least once in each quarter. The Board met four times during the year ended 31 December 2017.

##### **1.2 Board-level committees**

The Board has established a number of board-level committees, the roles, functions and composition of which are set out below. The Board Level Risk Committee, the Remuneration Committee, the Nomination Committee and the Culture Committee were established in February 2018.

###### **(a) Audit Committee**

The Audit Committee is a board-level committee currently comprises of three non-executive directors, of whom the chairperson and one member are independent.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2017**

**1 Corporate governance (continued)**

**1.2 Board-level committees (continued)**

**(a) Audit Committee (continued)**

The purposes of the Audit Committee are to:

- (i) assist the Board in its oversight of the Company's internal control systems including:
  - the integrity of the Company's financial statements;
  - the Company's compliance with the applicable legal and regulatory requirements;
  - the Company's external independent auditors' qualifications, independence, objectivity and performance;
  - the performance of the Company's Internal Audit function;
  - the scope and frequency of audit reviews;
  - the Company's internal controls over financial reporting and related infrastructure controls in light of the Bank's business plan and growth expectations; and
  - the Company's management of financial and operational risks, including market, credit and liquidity risks.
- (ii) reinforce the work of internal and external auditors, with the responsibilities as set out in HKMA Supervisory Policy Manual module headed "IC-2 Internal Audit Function".
- (iii) where not otherwise done on a global basis, recommend for approval to the Board or shareholders (as applicable) the appointment, retention/re-appointment, compensation and termination of appointment of the Company's external auditors, and to pre-approve all audit, audit-related, tax and other services, if any, to be provided by the external auditors.

The Audit Committee shall hold regular meetings from time to time as required. The Audit Committee met three times during the year ended 31 December 2017.

**(b) Board Level Risk Committee**

The Board Level Risk Committee is a board-level committee currently comprises of three non-executive directors, of whom the chairperson and one member are independent.

The Board Level Risk Committee is responsible for the on-going monitoring and management of the Company's (i) market risk, credit risk, operational risk, liquidity risk, interest rate risk, reputational risk, legal risk and strategic risk; and (ii) compliance with the minimum regulatory capital ratios required under the HKMA requirements.

The Board Level Risk Committee shall meet on a quarterly basis, although meetings may occur more or less frequently.

**(c) Remuneration Committee**

The Remuneration Committee is a board-level committee currently comprises of three non-executive directors, of whom two members are independent.

The Remuneration Committee is responsible for assisting the Board in discharging its responsibility for the design and operation of the Company's remuneration system and making recommendations in respect of remuneration policy and practices to the Board to ensure that the Board's judgment and decisions relating to remuneration arrangements are taken independently of management and in the best interests of the Company.



**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2017**

**1 Corporate governance (continued)**

**1.2 Board-level committees (continued)**

**(c) Remuneration Committee (continued)**

The Remuneration Committee shall hold regular meetings from time to time as required.

**(d) Nomination Committee**

The Nomination Committee is a board-level committee currently comprises of three non-executive directors, of whom two members are independent.

The Nomination Committee is responsible for (i) reviewing candidates for the role of the Chief Executive, Alternate Chief Executive and/or directors of the Company proposed by the Company's management and making recommendations to the Board on the appointment and/or re-appointment of the nominated individuals for such positions; and (ii) succession planning for directors, in particular the chair and the Chief Executive.

The Nomination Committee shall meet on an annual basis, although meetings may occur more frequently as needed.

**(e) Culture Committee**

The Culture Committee is a board-level committee currently comprises of three non-executive directors, of whom two members are independent.

The Culture Committee is responsible for advising and assisting the Board in discharging its responsibilities for the Company's culture-related matters.

The Culture Committee shall meet on an annual basis, although meetings may occur more frequently as needed.

**1.3 Management-level committees**

In addition to the Board and the board-level committees set out above, the Company has established management-level committees including the Management Committee, Risk Committee, Credit Sub-committee and Asset and Liability Sub-committee as part of its corporate governance framework. These committees meet regularly and serve as an important means to facilitate and foster ongoing discussions to identify, manage and mitigate risks.

The main duties and responsibilities of the management-level committees are described below. In addition to their duties and responsibilities, all committees are also accountable for business standards and practices, reputational risk management and, where applicable, client service, within the scope of their mission.

**(a) Management Committee**

The Management Committee oversees all activities of the Company, including all risk control functions. The Committee provides this oversight directly and through authority delegated to the committees it has established, if any, and coordinating with other committees and sub-committees of the Company.

The Management Committee is co-chaired by the Chief Executive and Alternate Chief Executive and its membership includes senior managers from the revenue-producing divisions and independent control and support functions.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
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**1 Corporate governance (continued)**

**1.3 Management-level committees (continued)**

**(a) Management Committee (continued)**

The Management Committee reports to the Board.

**(b) Risk Committee**

The Risk Committee is responsible, directly or through its subcommittees, for supporting the Chief Risk Officer, the Board Level Risk Committee, and the Board in overseeing the on-going monitoring and management of the Company's (i) market risk, credit risk, operational risk, liquidity risk, interest rate risk, reputational risk, legal risk and strategic risk; and (ii) compliance with the minimum regulatory capital ratios required under the HKMA requirements.

The Risk Committee is co-chaired by the Alternate Chief Executive and the Chief Risk Officer and its membership includes senior managers from the revenue-producing divisions and independent control and support functions.

The Risk Committee reports to the Board and the Board Level Risk Committee.

**(c) Credit Sub-committee**

The Credit Sub-committee is responsible for (i) ensuring the Company has an appropriate and effective credit risk management process, and (ii) ongoing monitoring and review of the Company's counterparty credit risk exposure.

The Credit Sub-committee is chaired by the Chief Risk Officer and its membership includes senior managers from independent control and support functions.

The Credit Sub-committee reports to the Risk Committee.

**(d) Asset and Liability Sub-committee**

The Asset and Liability Sub-committee considers and addresses matters related to the Company's liquidity, funding and asset liability management. The committee reviews and makes recommendations to the Risk Committee and Corporate Treasury with respect to the Company's liquidity position and funding activities, including related models, frameworks and limits. The committee may also recommend to the Risk Committee business unit-specific asset-liability management frameworks. In addition, the Committee discusses entity and industry-wide initiatives related to liquidity and funding.

The Asset and Liability Sub-committee is chaired by the Chief Risk Officer and Treasurer and its membership includes senior managers from the revenue-producing divisions and independent control and support functions.

The Asset and Liability Sub-committee reports to the Risk Committee.

**2 Remuneration system**

The Company has complied with Part 3 (Disclosure on remuneration) of CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA. Below are the applicable disclosures made pursuant to the requirements set out:

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
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**2 Remuneration system (continued)**

**2.1 Design and implementation of remuneration system**

The Board is responsible for establishing and maintaining the remuneration policy of the Company. The Company has adopted the Firm's global remuneration policy which will be implemented in a manner consistent with the Firm's Amended and Restated Firmwide Performance Assessment & Variable Compensation Framework.

For further details on the Firm's global remuneration policy, please refer to the "Compensation Matters" section of the 2018 Proxy Statement via the link below:

<http://www.goldmansachs.com/investor-relations/financials/current/proxy-statements/2018-proxy-statement-pdf.pdf>

**2.2 Aggregate quantitative information on remuneration for senior management and key personnel**

Senior management is defined as those persons who are responsible for oversight of the Company's strategy or activities and / or those of the Company's material business lines. Key personnel is defined as individual employees whose duties or activities in the course of their employment involve the assumption of material risk or taking on of material exposures on behalf of the Company.

Aggregate quantitative information on remuneration for the year ended 31 December 2017 represents the remuneration of 6 individuals (2016: 6) who are considered as senior management and 2 individuals (2016: 2) who are considered as key personnel during the year. Where the individuals have performed services to the Company as well as other affiliated companies during the relevant period, all quantitative information disclosed below has been apportioned to reflect the individuals' service to the Company.

**(a) Total value of remuneration awards**

	<u>Senior management</u>		<u>Key personnel</u>	
	2017	2016	2017	2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Fixed remuneration				
- Cash-based (non-deferred)	348	228	38	22
Variable remuneration				
- Cash-based (non-deferred)	189	219	42	37
- Shares and share-linked instruments (deferred)	220	102	39	17
- Others (non-cash benefits)	1	-	-	-

**(b) Deferred remuneration**

	<u>Senior management</u>		<u>Key personnel</u>	
	2017	2016	2017	2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Total amount outstanding				
- Shares and share-linked instruments				
- Vested	218	20	31	8
- Unvested	38	95	36	34
Total amount awarded during the financial year	141	-	27	-
Total amount paid out during the financial year	19	-	8	-

No deferred remuneration was reduced through performance adjustments during the financial year (2016: Nil).

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2017**

**2 Remuneration system (continued)**

**2.2 Aggregate quantitative information on remuneration for senior management and key personnel (continued)**

**(c) Deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments**

All deferred remuneration and retained remuneration in shares and share-linked instruments are exposed to ex post explicit and/or implicit adjustments.

No deferred remuneration and retained remuneration was reduced due to ex post explicit or implicit adjustments during the financial year (2016: Nil).

**(d) Other quantitative disclosures**

No sign-on awards were made to senior management and key personnel during the financial year (2016: US\$12,091). The number of sign-on awards and the number of beneficiaries have not been disclosed to preserve confidentiality of such information.

No guaranteed bonuses or severance payments were awarded or made to senior management and key personnel during the financial year (2016: Nil).

**3 Capital framework**

The Company is regulated by the HKMA and as such is subject to minimum capital requirements. The Company computes capital ratios in accordance with the Banking (Capital) Rules (the "BCR") of the Banking Ordinance.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2017**

**4 Regulatory capital disclosures**

**4.1 Balance sheet reconciliation between the Company's balance sheet and the capital components of regulatory capital**

The following table shows a reconciliation of amounts in the balance sheet of the Company to the capital components of regulatory capital:

31 December 2017

	<b>Balance Sheet as in Published Financial Statements</b>	<b>Under regulatory scope of consolidation</b>	<b>Cross reference to Transition Disclosures Template</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	
<b>Assets</b>			
Cash and cash equivalents	112,218	112,218	
Financial instruments at fair value	1,020	1,020	
Trade and other receivables	18,573	18,573	
Deferred income tax assets	783	783	(3)
<b>Total Assets</b>	<b>132,594</b>	<b>132,594</b>	
<b>Liabilities</b>			
Deposit from an affiliated customer	1,000	1,000	
Short-term loans payable	2,000	2,000	
Financial instruments at fair value	1,027	1,027	
Trade and other payables	14,638	14,638	
Current income tax liabilities	366	366	
<b>Total Liabilities</b>	<b>19,031</b>	<b>19,031</b>	
<b>Equity</b>			
Share capital	114,010	114,010	(1)
Accumulated loss	(447)	(447)	(2)
<b>Total Equity</b>	<b>113,563</b>	<b>113,563</b>	
<b>Total Liabilities and Equity</b>	<b>132,594</b>	<b>132,594</b>	

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2017**

**4 Regulatory capital disclosures (continued)**

**4.2 Transition disclosures template**

The following table sets out the detailed composition of the Company's regulatory capital as at 31 December 2017 using the Transition Disclosures Template as specified by the HKMA. The table also shows those items that are currently benefiting from the Basel III transitional arrangements, and are consequently subject to the pre-Basel III treatment, as set out in Schedule 4H to the Banking (Capital) Rules.

31 December 2017

		US\$ '000	Amounts subject to pre-Basel III treatment*	Cross reference to balance sheet reconciliation
		US\$ '000	US\$ '000	
<b>CET1 capital: instruments and reserves</b>				
1	Directly issued qualifying CET1 capital instruments plus any related share premium	114,010		(1)
2	Retained earnings	(447)		(2)
3	Disclosed reserves	-		
4	<i>Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)</i>	Not applicable		
	<i>Public sector capital injections grandfathered until 1 January 2018</i>	Not applicable		
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-		
6	<b>CET1 capital before regulatory deductions</b>	113,563		
<b>CET1 capital: regulatory deductions</b>				
7	Valuation adjustments	-		
8	Goodwill (net of associated deferred tax liability)	-		
9#	Other intangible assets (net of associated deferred tax liability)	-	-	
10#	Deferred tax assets net of deferred tax liabilities	783		(3)
11	Cash flow hedge reserve	-		
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	-	
13	Gain-on-sale arising from securitization transactions	-		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	-	
18#	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
19#	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22	Amount exceeding the 15% threshold	Not applicable		
23	of which: significant investments in the common stock of financial sector entities	Not applicable		
24	of which: mortgage servicing rights	Not applicable		

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4 Regulatory capital disclosures (continued)

4.2 Transition disclosures template (continued)

31 December 2017

		US\$ '000	Amounts subject to pre-Base I treatment*	Cross reference to balance sheet reconciliation
		US\$ '000	US\$ '000	
<b>CET1 capital: regulatory deductions</b>				
25	of which: deferred tax assets arising from temporary differences	Not applicable		
26	National specific regulatory adjustments applied to CET1 capital	-		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-		
26b	Regulatory reserve for general banking risks	-		
26c	Securitization exposures specified in a notice given by the Monetary Authority	-		
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-		
26e	Capital shortfall of regulated non-bank subsidiaries	-	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-		
28	<b>Total regulatory deductions to CET1 capital</b>	783		
29	<b>CET1 capital</b>	112,780		
<b>AT1 capital: instruments</b>				
30	Qualifying AT1 capital instruments plus any related share premium	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	<i>Capital instruments subject to phase out arrangements from AT1 capital</i>	-		
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-		
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	-		
36	<b>AT1 capital before regulatory deductions</b>	-		
<b>AT1 capital: regulatory deductions</b>				
37	Investments in own AT1 capital instruments	-	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	-	
39#	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	-	
41	National specific regulatory adjustments applied to AT1 capital	-		



Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Disclosure Statement  
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4 Regulatory capital disclosures (continued)

4.2 Transition disclosures template (continued)

31 December 2017

		US\$ '000	Amounts subject to pre-Basel III treatment*	Cross reference to balance sheet reconciliation
		US\$ '000	US\$ '000	
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 1 capital	-		
<b>AT1 capital: regulatory deductions</b>				
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	-		
ii	of which: Capital shortfall of regulated non-bank subsidiaries	-		
iii	of which: Investments in own CET1 capital instruments	-		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	-		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-		
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-		
43	<b>Total regulatory deductions to AT1 capital</b>	-		
44	<b>AT1 capital</b>	-		
45	<b>Tier 1 capital (Tier 1 = CET1 + AT1)</b>	112,780		
<b>Tier 2 capital: instruments and provisions</b>				
46	Qualifying Tier 2 capital instruments plus any related share premium	-		
47	<i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	-		
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-		
49	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	-		
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	-		
51	<b>Tier 2 capital before regulatory deductions</b>	-		
<b>Tier 2 capital: regulatory deductions</b>				
52	Investments in own Tier 2 capital instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	-	
54#	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	-	

Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Disclosure Statement  
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4 Regulatory capital disclosures (continued)

4.2 Transition disclosures template (continued)

31 December 2017

		US\$ '000	Amounts subject to pre-Basel III treatment*	Cross reference to balance sheet reconciliation
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-		
<b>Tier 2 capital: regulatory deductions</b>				
56b	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier 2 capital	-		
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	-		
ii	of which: Capital shortfall of regulated non-bank subsidiaries	-		
iii	of which: Investments in own CET1 capital instruments	-		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	-		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-		
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
57	<b>Total regulatory deductions to Tier 2 capital</b>	-		
58	<b>Tier 2 capital</b>	-		
59	<b>Total capital (Total capital = Tier 1 + Tier 2)</b>	112,780		
59a	Deduction items under Basel III which during transitional period remain subject to risk-weighting, based on pre-Basel III treatment			
i	of which: Mortgage servicing rights	-		
ii	of which: Defined benefit pension fund net assets	-		
iii	of which: Investments in own CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments	-		
iv	of which: Capital investment in a connected company which is a commercial entity	-		
v	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
vi	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
60	<b>Total risk weighted assets</b>	56,269		
<b>Capital ratios (as a percentage of risk weighted assets)</b>				
61	CET1 capital ratio	200.43%		
62	Tier 1 capital ratio	200.43%		

Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Disclosure Statement  
For the year ended 31 December 2017

4 Regulatory capital disclosures (continued)

4.2 Transition disclosures template (continued)

31 December 2017

		US\$ '000	Amounts subject to pre- Basel III treatment*	Cross reference to balance sheet reconciliation
63	Total capital ratio	200.43%	US\$ '000	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3A, or s.3B, as the case requires, of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	6.768%		
65	<i>of which: capital conservation buffer requirement</i>	1.250%		
66	<i>of which: bank specific countercyclical buffer requirement</i>	1.018%		
67	<i>of which: G-SIB or D-SIB buffer requirement</i>	0.000%		
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3A, or s.3B, as the case requires, of the BCR	193.662%		
<b>National minima (if different from Basel 3 minimum)</b>				
69	National CET1 minimum ratio	Not applicable		
70	National Tier 1 minimum ratio	Not applicable		
71	National Total capital minimum ratio	Not applicable		
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-		
74	Mortgage servicing rights (net of related tax liability)	Not applicable		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable		
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	-		
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	-		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	-		
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	-		
<b>Capital instruments subject to phase-out arrangements</b>				
80	<i>Current cap on CET1 capital instruments subject to phase out arrangements</i>	Not applicable		
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable		
82	<i>Current cap on AT1 capital instruments subject to phase out arrangements</i>	-		
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-		
84	<i>Current cap on Tier 2 capital instruments subject to phase out arrangements</i>	-		
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-		

\* This refers to the position under the Banking (Capital) Rules in force on 31 December 2012.

Footnote:

# Indicates elements where a more conservative definition has been applied in the BCR relative to that set out in the Basel III capital standards.

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Unaudited Disclosure Statement For the year ended 31 December 2017

#### 4 Regulatory capital disclosures (continued)

##### 4.3 Main features of capital instruments

The following table shows the main features of outstanding capital instruments:

31 December 2017

1	Issuer	Goldman Sachs Asia Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong Law
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules <sup>#</sup>	Not applicable
5	Post-transitional Basel III rules <sup>+</sup>	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares (with voting rights)
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	US\$ 114.01 million
9	Par value of instrument	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	10,000 shares issued on 12 December 2012 1,000,000 shares issued on 14 January 2015 13,000,000 shares issued on 26 June 2015 100,000,000 shares issued on 12 July 2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Footnote:

<sup>#</sup> Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

<sup>+</sup> Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules

\* Include solo-consolidated

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**5 Key capital ratios disclosures**

**Capital adequacy ratios**

The capital adequacy ratios are measures of regulatory capital to risk-weighted amounts ("RWAs"). Risk-weighted amounts represent the sum of the Company's exposure to credit risk, market risk and operational risk calculated in accordance with the relevant provisions of the BCR.

The Common Equity Tier 1 ("CET1") ratio is defined as CET1 divided by RWAs. The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs. The components of the capital base of the Company are set out in note 4.2.

The capital base for each of the capital adequacy ratios and the RWAs are set out below:

	31 December 2017 US\$ '000
CET 1 capital	112,780
Tier 1 capital	112,780
Total capital	112,780
Total RWAs	56,269
CET 1 capital ratio	200.43%
Tier 1 capital ratio	200.43%
Total capital ratio	200.43%

Information relating to the disclosure of the full terms and conditions of the Company's capital instruments can be viewed on the website: <http://www.goldmansachs.com/disclosures/gsab-disclosures/terms-and-conditions.html>

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**6 Leverage ratio disclosures**

**6.1 Leverage ratio**

The leverage ratio is calculated in accordance with the HKMA's completion instructions on the Quarterly Survey on Leverage Ratio under the requirements specified in the leverage ratio framework. It is defined as Tier 1 capital to a measure of total exposures, defined as the sum of on-balance sheet exposures (after certain Tier 1 capital deductions), certain derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.

The Tier 1 capital and the total exposures are set out below:

	31 December 2017 US\$ '000
Tier 1 capital	112,780
Total exposures	132,433
Leverage ratio	85.16%

**6.2 Leverage ratio disclosure template**

**Summary Comparison Table**

31 December 2017

	<b>Item</b>	<b>Leverage ratio framework US\$ '000 equivalent</b>
1	Total consolidated assets as per published financial statements	132,594
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	622
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
7	Other adjustments	(783)
8	<b>Leverage ratio exposure</b>	<b>132,433</b>

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**6 Leverage ratio disclosures (continued)**

**6.2 Leverage ratio disclosure template (continued)**

**Leverage Ratio Common Disclosure Template**

	<b>Item</b>	<b>Leverage ratio framework US\$ '000 equivalent</b>
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	131,574
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(783)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	130,791
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	789
5	Add-on amounts for PFE associated with all derivatives transactions	853
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-
11	Total derivative exposures (sum of lines 4 to 10)	1,642
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amount	-
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	-
<b>Capital and total exposures</b>		
20	Tier 1 capital	112,780
21	Total exposures (sum of lines 3, 11, 16 and 19)	132,433
<b>Leverage ratio</b>		
22	<b>Basel III leverage ratio</b>	<b>85.16%</b>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
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**7 Countercyclical capital buffer (“CCyB”) ratio disclosures**

The geographical breakdown of RWAs in relation to private sector credit exposures as at 31 December 2017 are as follows:

31 December 2017

Jurisdiction	Applicable jurisdictional CCyB ratio in effect	Total RWAs used in the computation of CCyB ratio US\$ '000	CCyB ratio	CCyB amount US\$ '000
Hong Kong	1.25%	10,226		
Cayman Islands	0%	1		
Singapore	0%	5		
United Kingdom	0%	9		
United States	0%	2,312		
		<hr/>		
		12,553	1.018%	128
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**8 Segmental information**

The profit and loss and operating assets of the Company are mainly contributed by Institutional Client Services. Institutional Client Services serves our clients who come to the Firm to buy and sell financial products, raise funding and manage risk. All of the profit and loss, assets and liabilities are managed and booked in Hong Kong for the year ended 31 December 2017.

	2017 Institutional Client Services US\$ '000
Service fee income	16,300
Total operating income	16,778
Profit before income tax	376
Total operating assets	131,811

There are no impairment losses, specific provision and collective provision for impaired assets for the year ended 31 December 2017.

There are no contingent liabilities and commitments as at 31 December 2017.



## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Unaudited Disclosure Statement For the year ended 31 December 2017

#### 9 International claims

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

International claims by major countries or geographical segments are disclosed as follows:

31 December 2017

	Banks US\$ '000	Non-bank financial institutions US\$ '000	Non- financial private sector US\$ '000	Total US\$ '000
Major developed countries:				
United States	17,605	-	2,195	19,800
Australia	14,757	-	-	14,757
Canada	27,102	-	-	27,102
United Kingdom	21,660	22	-	21,682
Total	<u>81,124</u>	<u>22</u>	<u>2,195</u>	<u>83,341</u>
Major offshore centres:				
Hong Kong	<u>30,622</u>	<u>18,974</u>	<u>2,226</u>	<u>51,822</u>

#### 10 Loans and advances – sector information

There are no loans and advances to customers as at 31 December 2017.

#### 11 Overdue and rescheduled assets

There are no impaired, rescheduled or overdue assets as at 31 December 2017.

#### 12 Assets used as security

There are no assets used as security as at 31 December 2017.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
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**13 Mainland activities**

The breakdown of the Company's Mainland exposures to material non-bank counterparties into the specified categories is as follows:

<u>31 December 2017</u>	On-balance sheet exposures US\$ '000	Off-balance sheet exposures US\$ '000	Total US\$ '000	Specific provisions US\$ '000
Type of counterparties				
Other entities of central government not reported in item 1 in Table III Part 3 of MA(BS)20	1,319	789	2,108	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,319	789	2,108	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**14 Currency risk**

The currency risk arising from the Company's operations for those individual currencies which each constitutes more than 10% of the total net positions in all foreign currencies are as follows:

	31 December 2017 US\$ '000
<b>USD currency</b>	
Spot assets	134,520
Spot liabilities	(127,062)
Forward purchases	8,158
Forward sales	(14,198)
	<hr/>
Net long position	1,418
	<hr/> <hr/>

As at 31 December 2017, the Company had no net currency position calculated on the basis of the delta-weighted position of its options contracts.

As at 31 December 2017, the Company had no foreign currency exposure arising from structural positions.

**15 Off-balance sheet exposures (other than derivative transactions)**

There are no off-balance sheet exposures (other than derivative transactions) as at 31 December 2017.

**16 Liquidity information disclosures**

The Company is a category 2 authorized institution under the Banking (Liquidity) Rules.

**Average value of liquidity maintenance ratio**

	For the year ended 31 December 2017
Average liquidity maintenance ratio	160%
	<hr/> <hr/>

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Unaudited Disclosure Statement For the year ended 31 December 2017

#### 16 Liquidity information disclosures (continued)

The average liquidity maintenance ratio is computed in accordance with the Banking (Liquidity) Rules.

The disclosures about liquidity risk management are set forth in note 18.3 to the financial statements “Financial risk management – Liquidity risk”.

#### 17 Interest rate exposures in banking book

The Company is exposed to interest rate risk arising from its banking book activities. The Company's banking book is comprised of assets and liabilities that are intended to be held to maturity, including deposits and cash placements. Changes in market interest rates on banking book assets and liabilities can have an adverse effect on the Company's earnings and economic value.

The Company measures and monitors banking book interest rate exposures by measuring changes in the banking book's earnings with movements in interest rates. The Company uses an instantaneous parallel (upward and downward) interest rate shock across multiple scenarios to evaluate the potential impact of interest rate risk on its economic value on a daily basis.

As at 31 December 2017, the Company's variation in earnings based on an upward interest rate shock of 200 basis points, in accordance with the method used in HKMA Return of Interest Rate Risk Exposures, are as follows:

	2017	
	HKD currency US\$ '000	USD currency US\$ '000
Increase in earnings over the next 12 months if interest rates rise by 200 basis points	133	1,869

#### 18 Overview of risk management

Risks are inherent in the Firm's business and include liquidity, market, credit, operational, model, legal, compliance, regulatory and reputational risks. Effective risk management plays a key role in the overall success of the Firm and the Company. Accordingly, the Firm has established an Enterprise Risk Management framework that employs an integrated approach to risk management, and is designed to enable comprehensive risk management processes through which we monitor, evaluate and manage the risks we assume in conducting our activities. The following sections cover our risk management framework which is built around three core components: governance, processes and people.

##### 18.1 Governance

Risk management governance starts with the Board, which plays an important role in reviewing and approving risk management policies and practices, both directly and through its committees. At our most senior levels, our leaders are experienced risk managers, with a sophisticated and detailed understanding of the risks we take. Senior management in the Company's revenue-producing units and independent control and support functions lead and participate in risk-oriented committees.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Unaudited Disclosure Statement For the year ended 31 December 2017**

#### **18 Overview of risk management (continued)**

##### **18.1 Governance (continued)**

We maintain strong communication about risk and while we believe that the first line of defense in managing risk rests with the managers in our revenue-producing units, we dedicate extensive resources to independent control and support functions in order to ensure a strong oversight structure and an appropriate segregation of duties. The first line of defence comprises of revenue-producing units (including Treasury) and support functions (including Operations and Technology), while the independent second line control and support functions include Compliance, Conflicts Resolution Group, Controllers, Credit Risk Management, Human Capital Management, Legal, Liquidity Risk Management and Analysis (Liquidity Risk Management), Market Risk Management and Analysis (Market Risk Management), Model Risk Management, Operational Risk Management and Analysis (Operational Risk Management) and Tax. We regularly reinforce our strong culture of escalation and accountability across all divisions and functions.

##### **18.2 Processes**

The Company maintains various processes and procedures that are critical components of its risk management framework, including identifying assessing, monitoring and limiting its risks. To effectively assess and monitor the Company's risks, the Company maintains a daily discipline of marking substantially all of its inventory to current market levels. We do so because we believe this discipline is one of the most effective tools for assessing and managing risk and that it provides transparent and realistic insight into our financial exposures. We also apply a rigorous framework of limits to control risk across transactions, products, businesses and markets.

##### **18.3 People**

Even the best technology serves only as a tool for helping to make informed decisions about the risks we are taking. Ultimately, effective risk management requires our people to interpret our risk data on an ongoing and timely basis and adjust risk positions accordingly. In both the revenue-producing units and the independent control and support functions, the experience of the Company's professionals, and their understanding of the nuances and limitations of each risk measure, guide the Company in assessing exposures and maintaining them within prudent levels.

We reinforce a culture of effective risk management in our training and development programs as well as the way we evaluate performance, and recognize and reward our people. Our training and development programs, including certain sessions led by our most senior leaders, are focused on the importance of risk management, client relationships and reputational excellence. As part of our annual performance review process, we assess reputational excellence including how an employee exercises good risk management and reputational judgement. Our review and reward processes are designed to communicate and reinforce to our professional the link between behaviour and how people are recognized, the need to focus on our clients and our reputation, and the need to always act in accordance with the highest standards of the Firm.

##### **18.4 Structure**

The oversight of risk is ultimately the responsibility of the Board, who oversees risk both directly and through delegation to various committees. A series of committees with specific risk management mandates covering important aspects of the Company's businesses also have oversight or decision-making responsibilities.

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#### **18 Overview of risk management (continued)**

##### **18.4 Structure (continued)**

In addition, independent control and support functions, which report to the Chief Executive, are responsible for the day-to-day oversight or monitoring of risk, as described in greater detail in the following sections. Internal Audit, which reports to the Audit Committee of the Board, and includes professionals with a broad range of audit and industry experience, including risk management expertise, is responsible for independently assessing and validating key controls within the risk management framework. The key committees with oversight of our activities are described in note 1 “Corporate governance”.

##### **18.5 Risk profile and strategy**

In the normal course of activities in serving clients, we commit capital, engage in derivative transactions, and otherwise incur risk as an inherent part of our business. However, we endeavour not to undertake risk in form or amount that could potentially and materially impair our capital and liquidity position or the ability to generate revenues, even in a stressed environment. Where possible we employ mitigants and hedges, such as collateral, netting derivatives and controls, in order to manage such risks within our risk appetite levels.

The Company has its own Board and its own Board Level Risk Committee, with the responsibility of assisting the Board in overseeing the implementation of the Company’s risk appetite and strategy.

The Company’s overall risk appetite is established through an assessment of opportunities relative to potential loss, and is calibrated to the Company’s respective capital, liquidity and earnings capability. The primary means of evaluating loss-taking capacity is through the Internal Capital Adequacy Assessment Process (“ICAAP”). The key aspects of risk management documented through the ICAAP process also form part of the Company’s day-to-day decision making culture.

The Risk Appetite Statement (“RAS”) of the Company complements the GS Group RAS, and articulates the risk philosophy, the identification of risks generated by its business activities, as well as the tolerance and limits set in order to manage effectively those risks. Consistent with this objective, we pay particular attention to evaluating risks that are concentrated, correlated, illiquid, or have other adverse characteristics. The intention is to mitigate or eliminate these risks, limiting them to such an extent that they could not, individually or collectively, materially and adversely affect the Company. The Company regularly reviews risk exposure and risk appetite, and takes into consideration the key external constituencies, in particular their clients and regulators. The long-term success of our business model is directly linked to the preservation of strong relationships with each of these key constituents.

The Company’s Board, as well as the Company’s Board Level Risk Committee, are actively engaged in reviewing and approving our overall risk appetite, as well as in reviewing the risk profile. The RAS is reviewed in the first instance by the Board Level Risk Committee and finally, is endorsed by the Board annually. The Board Level Risk Committee also approves any amendment to the risk appetite statements outside of the annual approval process. The Board receives quarterly updates on risk as well as ad-hoc updates, as appropriate.

The consideration of risk appetite and the underlying risk management framework ensures that the Company’s businesses are congruent with our strategy under both normal and stressed environments. We believe that the risk management framework, and the associated risk policies, procedures and systems in place are comprehensive and effective with regard to our profile and strategy. The framework is evaluated on an ongoing basis and subject to independent internal audit assessments to ensure our risk management arrangements remain effective.

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**18 Overview of risk management (continued)**

**18.6 Risk measurement**

On a day-to-day basis risk measurement plays an important role in articulating the risk appetite of the Firm and the Company and in managing the risk profile as expressed in the risk appetite statements. Risk may be monitored against firmwide, product, divisional or business level limits or thresholds or against a combination of such attributes. We measure risk using a suite of metrics, as relevant to each type of risk, including stress metrics to calculate the potential loss from a wide range of scenarios and sensitivity analysis. These risks are tracked systematically, and they are monitored and managed by the independent second line risk functions in accordance with internal policies and procedures manuals and reported to the relevant senior management, Committees and Board on a regular basis.

A number of specialist committees and governance bodies sit within the broader risk management framework with responsibilities for the monitoring of specific risks against limits or tolerances and the escalation of any breaches. Specific governance bodies are in place for the management of credit, market, liquidity, model and operational risk.

For more information about the Company's areas of risk, see note 18 to the financial statements "Financial risk management".

**19 Overview of RWA**

The Company uses the Standardized (Credit Risk) Approach ("STC"), the Standardized (Market Risk) Approach ("STM") and the Basic Indicator Approach, as set out in the BCR, to calculate its credit risk, market risk and operational risk respectively.

Using the standard template as specified by the HKMA, the detailed breakdown of the Company's RWAs and an explanation of material changes in the RWAs during the reporting period is set out below.

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**19 Overview of RWA (continued)**

**Template OV1: Overview of RWA**

		(a)	(b)	(c)	
		RWA		Minimum capital requirements (Note (i))	
		31 December 2017	30 September 2017	31 December 2017	
		US\$ '000	US\$ '000	US\$ '000	Note
1	Credit risk for non-securitization exposures	37,952	42,124	3,036	(ii)
2	Of which STC approach	37,952	42,124	3,036	
2a	Of which BSC approach	-	-	-	
3	Of which IRB approach	-	-	-	
4	Counterparty credit risk	1,950	6,500	156	(iii)
5	Of which SA-CCR	-	-	-	
5a	Of which CEM	1,950	6,500	156	
6	Of which IMM(CCR) approach	-	-	-	
7	Equity exposures in banking book under the market-based approach	-	-	-	
8	CIS exposures – LTA	-	-	-	
9	CIS exposures – MBA	-	-	-	
10	CIS exposures – FBA	-	-	-	
11	Settlement risk	-	-	-	
12	Securitization exposures in banking book	-	-	-	
13	Of which IRB(S) approach – ratings-based method	-	-	-	
14	Of which IRB(S) approach – supervisory formula method	-	-	-	
15	Of which STC(S) approach	-	-	-	
16	Market risk	44	38	4	
17	Of which STM approach	44	38	4	
18	Of which IMM approach	-	-	-	
19	Operational risk	16,323	14,505	1,306	
20	Of which BIA approach	16,323	14,505	1,306	
21	Of which STO approach	-	-	-	
21a	Of which ASA approach	-	-	-	
22	Of which AMA approach	N/A	N/A	N/A	
23	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-	
24	Capital floor adjustment	-	-	-	
24a	Deduction to RWA	-	-	-	
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-	
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-	
25	Total	56,269	63,167	4,502	

N/A: Not applicable in the case of Hong Kong

- (i) The minimum capital requirements are determined by multiplying the Company's RWAs derived from the relevant calculation approach by 8%, not the Company's actual regulatory capital.
- (ii) The decrease in credit risk for non-securitization exposures from the previous reporting period is mainly due to the change in credit rating for a bank counterparty.
- (iii) The decrease in counterparty credit risk RWAs from the previous reporting period is mainly due to the decrease in derivative transaction volumes.

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20 Linkages between financial statements and regulatory exposures

20.1 Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31 December 2017

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Assets</b>							
Cash and cash equivalents	112,218	112,218	112,218	-	-	-	-
Financial instruments at fair value	1,020	1,020	-	903	-	1,020	117
Trade and other receivables	18,573	18,573	18,573	-	-	-	-
Deferred income tax assets	783	783	-	-	-	-	783
<b>Total assets</b>	<b>132,594</b>	<b>132,594</b>	<b>130,791</b>	<b>903</b>	<b>-</b>	<b>1,020</b>	<b>900</b>
<b>Liabilities</b>							
Deposit from an affiliated customer	1,000	1,000	-	-	-	-	1,000
Short-term loans payables	2,000	2,000	-	-	-	-	2,000
Financial instruments at fair value	1,027	1,027	-	114	-	1,020	913
Trade and other payables	14,638	14,638	-	-	-	-	14,638
Current income tax liabilities	366	366	-	-	-	-	366
<b>Total liabilities</b>	<b>19,031</b>	<b>19,031</b>	<b>-</b>	<b>114</b>	<b>-</b>	<b>1,020</b>	<b>18,917</b>

Financial instruments at fair value held in the trading book are exposed to counterparty default risk before the final settlement of the contract as well as the risk of loss arising from fluctuations in the value of positions held. As a result, they are subject to both the counterparty credit risk and market risk framework.

20.1 Template LI2: Main sources of differences between regulatory exposures amounts and carrying values in financial statements

31 December 2017

		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	131,694	130,791	-	903	1,020
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	114	-	-	114	1,020
3	Total net amount under regulatory scope of consolidation	131,580	130,791	-	789	-
4	Off-balance sheet amounts	-	-	-	-	-
5	Potential future exposures	764	-	-	764	-
6	<b>Exposure amounts considered for regulatory purposes</b>	<b>132,344</b>	<b>130,791</b>	<b>-</b>	<b>1,553</b>	<b>-</b>



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**20 Linkages between financial statements and regulatory exposures (continued)**

**20.3 Explanations of differences between accounting and regulatory exposure amounts**

The key difference between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation are potential future exposures for derivatives, offset by netting where an enforceable master netting agreement is in place.

**21 Credit risk for non-securitization exposures**

Using the standard templates as specified by the HKMA, the following sub-sections and templates provide detailed information relating to credit risk for non-securitization exposures under the STC approach.

There were no loans or debt securities or related off-balance sheet exposures as at 31 December 2017.

**21.1 General information about credit risk**

The general information about credit risk is set forth in note 18.2 to the financial statements "Financial risk management – Credit risk."

**21.2 Qualitative disclosures related to credit risk mitigation**

The qualitative disclosures related to credit risk mitigation are set forth in note 18.2 to the financial statements "Financial risk management – Credit risk."

**21.3 Qualitative disclosures on use of ECAI ratings under STC approach**

As at 31 December 2017, the Company has nominated Standard & Poor's Rating Services, Moody's Investors Service and Fitch Ratings as the external credit assessment institutions ("ECAIs") used to determine the risk-weights of exposures subject to the STC approach. The exposure classes for which the ECAIs are used include sovereign, public sector entity, bank, securities firm, corporate and collective investment scheme exposures. For risk-weighting purpose, the Company will use certain credit ratings among the three ECAIs which will result in the highest risk-weights according to the requirements of the BCR.

As at 31 December 2016, the Company had not nominated ECAIs for the purpose of determining risk-weights and exposures were treated as unrated.

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**21 Credit risk for non-securitization exposures (continued)**

**21.4 Template CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach**

31 December 2017

	Exposure classes	(a)	(b)	(c)	(d)	(e)	(f)	Note
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density		
		On-balance sheet amount US\$ '000	Off-balance sheet amount US\$ '000	On-balance sheet amount US\$ '000	Off-balance sheet amount US\$ '000	RWA US\$ '000	RWA density %	
1	Sovereign exposures	-	-	-	-	-	-	
2	PSE exposures	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	
4	Bank exposures	112,248	-	112,248	-	26,952	24	(i)
5	Securities firm exposures	15,085	-	15,085	-	7,542	50	
6	Corporate exposures	3,401	-	3,401	-	3,401	100	(ii)
7	CIS exposures	-	-	-	-	-	-	
8	Cash items	-	-	-	-	-	-	
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	
10	Regulatory retail exposures	-	-	-	-	-	-	
11	Residential mortgage loans	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	57	-	57	-	57	100	
13	Past due exposures	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	
15	<b>Total</b>	130,791	-	130,791	-	37,952	29	

(i) The decrease in RWAs from 30 June 2017 is mainly due to the change in credit rating of a bank counterparty.

(ii) The increase in corporate exposures from 30 June 2017 is mainly due to the increase in receivables from affiliates.

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**21 Credit risk for non-securitization exposures (continued)**

**21.5 Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach**

31 December 2017

	Risk weight Exposure class	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(ha)	(i)	(j)	Note
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	97,240	-	15,008	-	-	-	-	-	112,248	
5	Securities firm exposures	-	-	-	-	15,085	-	-	-	-	-	15,085	
6	Corporate exposures	-	-	-	-	-	-	3,401	-	-	-	3,401	(i)
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-	
8	Cash items	-	-	-	-	-	-	-	-	-	-	-	
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-	
10	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-	
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	-	-	-	-	-	-	57	-	-	-	57	
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
15	Total	-	-	97,240	-	30,093	-	3,458	-	-	-	130,791	

(i) The increase in corporate credit risk exposures from 30 June 2017 is mainly due to the increase in receivables from an affiliate.

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**22 Counterparty credit risk**

There were no credit-related derivative contracts or exposures to central counterparties as at 31 December 2017.

**22.1 Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)**

The risk management objectives and policies, and method for setting operating limits related to counterparty credit risk are set forth in note 18.2 to the financial statements “Financial risk management – Credit risk.”

**(a) Credit risk mitigation and assessments concerning counterparty credit risk**

To reduce our credit exposures on derivatives, the Company may enter into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties. The Company may also reduce credit risk with counterparties by entering into agreements that enable it to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty’s credit rating falls below a specified level. The Company monitors the fair value of the collateral on a daily basis to ensure that its credit exposures are appropriately collateralized. The Company seeks to minimize exposures where there is a significant positive correlation between the creditworthiness of our counterparties and the market value of collateral received.

When the Company does not have sufficient visibility into a counterparty’s financial strength or when it believes a counterparty requires support from its parent, the Company may obtain third-party guarantees of the counterparty’s obligations. The Company may also mitigate its credit risk using credit derivatives or participation agreements.

As part of the risk assessment process, Credit Risk Management performs credit reviews, which include initial and ongoing analyses of our counterparties. For substantially all of the Company’s credit exposures, the core of the process is an annual counterparty credit review. A credit review is an independent analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the counterparty’s industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

The Company’s risk assessment process may also include, where applicable, reviewing certain key metrics, such as delinquency status, collateral values, credit scores and other risk factors.

**(b) Wrong-way risk**

The Company seeks to minimize risk where there is a significant positive correlation between the probability of default of a counterparty and its exposure to that counterparty (net of the market value of any collateral we receive), which is known as “wrong-way risk.” Wrong-way risk is commonly categorized into two types: specific wrong-way risk and general wrong-way risk. The Company categorizes exposure as specific wrong-way risk when the counterparty and the issuer of the reference asset of the transaction are the same entity or are affiliates, or if the collateral supporting a transaction is issued by the counterparty or its affiliates.

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**22 Counterparty credit risk (continued)**

**22.1 Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs) (continued)**

**(b) Wrong-way risk (continued)**

General wrong-way risk arises when there is a significant positive correlation between the probability of default of a counterparty and general market risk factors affecting the exposure to that counterparty. The Company has procedures in place to actively identify, monitor and control specific and general wrong-way risk, beginning at the inception of a transaction and continuing through its life, including assessing the level of risk through stress tests. The Company ensures that material wrong-way risk is mitigated using collateral agreements or increases to initial margin, where appropriate.

**(c) Credit rating downgrade**

Certain of the Company's derivatives have been transacted under bilateral agreements with counterparties who may require the Company to post collateral or terminate the transactions based on changes in the Firm's credit ratings. The Company assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of the Firm at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies.

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to counterparty credit risk and credit valuation adjustment ("CVA") arising from derivative contracts.

**22.2 Template CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches**

31 December 2017

		(a)	(b)	(c)	(d)	(e)	(f)	
		Replace- ment cost (RC)	PFE	Effective EPE	Alpha ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM	RWA	Note
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-	
1a	CEM	789	764		-	1,553	1,553	(i)
2	IMM (CCR) approach			-	-	-	-	
3	Simple Approach (for SFTs)					-	-	
4	Comprehensive Approach (for SFTs)					-	-	
5	VaR (for SFTs)					-	-	
6	<b>Total</b>						1,553	

(i) RWAs calculated under the Current Exposure Method ("CEM") increased from 30 June 2017 due to higher replacement cost and a different mix of counterparties.

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**22 Counterparty credit risk (continued)**

**22.3 Template CCR2: CVA capital charge**

31 December 2017

		(a)	(b)	
		EAD post CRM	RWA	Note
		US\$ '000	US\$ '000	
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-	
1	(i) VaR (after application of multiplication factor if applicable)		-	
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-	
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	1,553	397	(i)
4	Total	1,553	397	

(i) CVA capital charge increased from 30 June 2017 due to higher replacement cost and a different mix of counterparties.

**22.4 Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach**

31 December 2017

		(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)	
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	Note
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	-	-	-	-	-	-	-	-	-	
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-	
6	Corporate exposures	-	-	-	-	-	-	1,553	-	-	-	1,553	(i)
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-	
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-	
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	

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**22 Counterparty credit risk (continued)**

**22.4 Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach (continued)**

Exposure class	Risk weight	(a)	(b)	(c)	(ca)	(d)	(e)	(f)	(g)	(ga)	(h)	(i)	Note
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-	
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
12	Total	-	-	-	-	-	-	1,553	-	-	-	1,553	

(i) The increase in corporate counterparty default risk exposures from 30 June 2017 is mainly due to higher replacement cost and a different mix of counterparties.

**22.5 Template CCR5: Composition of collateral for counterparty default risk exposures (including those for contract or transactions cleared through CCPs)**

31 December 2017

	(a)	(b)	(c)	(d)	(e)	(f)
	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash - domestic currency	-	-	-	2,080	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	-	-	2,080	-	-

There is no collateral received in respect of counterparty default risk exposure as at 31 December 2017.

**23 Securitization exposures**

There were no securitization exposures as at 31 December 2017.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2017**

**24 Market risk**

**24.1 Qualitative disclosures related to market risk**

The framework for market risk management of the Firm and the Company is set forth in note 18.1 of the financial statements “Financial risk management – Market risk”.

The below describes the risk management, process and governance structure specific to the Company.

**(a) Risk management**

Trading book positions are subject to market risk capital requirements which are designed to cover the risk of loss in value of these positions due to changes in market conditions. The Company’s trading book contains OTC derivatives. The Company primarily manages market risk by establishing economic hedges in relation to derivatives with affiliated companies. Market risk exposures on OTC derivatives are monitored by the Company’s risk and finance functions.

The Company’s foreign currency exposures primarily arise from non-trading positions and are subject to market risk capital requirement under the STM approach.

**(b) Risk reporting, measurement and monitoring**

The Company has procedures in place to actively identify, monitor and control market risks arising from OTC derivatives and foreign exchange exposures. These exposures are monitored by the Company’s risk and finance functions against limits on a regular basis.

Using the standard templates as specified by the HKMA, the following table provides detailed information relating to market risk under STM approach.

**24.2 Template MR1: Market risk under STM approach**

31 December 2017

		(a)
		RWA
		US\$ '000
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	-
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	44
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	<b>Total</b>	<b>44</b>