

**GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**

(unlimited company)

**ANNUAL REPORT**

**31 DECEMBER 2016**

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# **GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**

## **(unlimited company)**

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### **STRATEGIC REPORT**

The directors present their strategic report for the year ended 31 December 2016.

#### **1. Introduction**

Goldman Sachs Asset Management International (the company) is an asset management company principally operating in the Europe, the Middle East and Africa (EMEA) region.

The company is authorised and regulated by the Financial Conduct Authority (FCA).

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

As part of the group, the company seeks to be a leading participant in the investment management industry and continues to develop its business having regard to the broader strategy defined by the group.

The company primarily operates in a U.S. dollar environment as part of the group. Accordingly, the company's functional currency is the U.S. dollar and these financial statements have been prepared in that currency.

#### **2. Financial overview**

The financial statements have been drawn up for the year ended 31 December 2016. Comparative information has been presented for the year ended 31 December 2015.

The results of the year are shown in the profit and loss account on page 10.

Turnover increased to US\$555.3 million, from US\$498.9 million in the prior year, primarily due to an increase in incentive fees. Administrative expenses decreased to US\$368.0 million from US\$432.3 million in the prior year. This decrease reflects decreased management fees charged by group undertakings. The profit on ordinary activities before tax was US\$187.9 million compared to US\$66.7 million in the prior year.

The company had total assets of US\$495.4 million compared to US\$418.2 million at 31 December 2015. Net assets were US\$368.2 million compared to US\$216.5 million at 31 December 2015.

Average Assets Under Management (AUM) during the year were US\$126.3 billion, compared to an average of US\$120.3 billion during the prior year. AUM at 31 December 2016 were US\$134.8 billion compared to US\$117.5 billion at the prior year end.

#### **3. Exchange rate**

The British pound/U.S. dollar exchange rate at the balance sheet date was £/\$1.2337 (31 December 2015: £/\$1.4732). The average rate for the year was £/\$1.3439 (31 December 2015: £/\$1.5252).

#### **4. Future outlook**

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

# **GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**

## **(unlimited company)**

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### **STRATEGIC REPORT (continued)**

#### **5. Business environment**

##### **Global**

During 2016, real gross domestic product (GDP) growth appeared to slow in advanced economies and appeared mixed in emerging market economies compared with 2015. In advanced economies, growth was lower in the U.S., the Euro area, the U.K. and Japan. In emerging markets, growth slowed in China, while growth remained stable in India and appeared to contract less in Brazil and Russia than in 2015. Monetary policy divergence continued in 2016, as the U.S. Federal Reserve increased its target interest rate again, while monetary policy remained accommodative in Europe and Japan. In June, the U.K. voted to exit the European Union (Brexit), and in November, the U.S. held its presidential election. The market reaction to both of these outcomes was generally more positive than expectations. The price of crude oil (WTI) rose by 45% in 2016 and, in the fourth quarter, OPEC members announced an agreement to reduce oil production. In investment banking, industry-wide mergers and acquisitions activity remained strong for 2016, but declined compared with the level of activity in 2015. Industry-wide volumes in equity underwriting declined compared with a strong 2015, while industry-wide debt underwriting volumes increased compared with the prior year.

##### **Europe**

In the Euro area, real GDP increased by 1.7% in 2016, compared to an increase of 1.9% in 2015. Growth in consumer spending declined, while growth in fixed investment and government consumption increased. Measures of inflation remained subdued, prompting the European Central Bank (ECB) to announce multiple easing measures in the first quarter, cutting the deposit rate by 10 basis points to (0.40)% and lowering the main refinancing operations rate by 5 basis points to 0.00%, as well as launching a new series of targeted longer-term refinancing operations, increasing the volume of monthly purchases of bonds, and adding investment grade, non-financial corporate bonds to the list of bonds purchased under its asset purchase programme. In December, the ECB announced an extension of its asset purchase programme through at least the end of 2017, although the pace of purchases will be lower. The Euro depreciated by 3% against the U.S. dollar. In the U.K., real GDP appeared to increase by 1.8% in 2016, compared with an increase of 2.2% in 2015. Following the passage of the U.K. referendum, the Bank of England announced a monetary easing package comprised of a 25 basis points cut to the official bank rate, £70 billion of asset purchases, and a Term Funding Scheme. The British pound depreciated by 16% against the U.S. dollar in 2016, reaching its lowest level against the U.S. dollar in over 30 years. Yields on 10-year government bonds in the region generally decreased. In equity markets, the FTSE 100 Index, Dax Index, CAC 40 Index and Euro Stoxx 50 increased by 14%, 7%, 5% and 1%, respectively, during 2016.

#### **6. Principal risks and uncertainties**

The company faces a variety of risks that are substantial and inherent in its business including market, liquidity, credit, operational, legal, regulatory and reputational risks and uncertainties. The following are some of the more important factors that could affect the company's business.

##### **Economic and market conditions**

The company's business, by its nature, produces earnings which are directly linked to its AUM, which can be materially affected by conditions in the global financial markets and economic conditions generally. In the past, these conditions have changed suddenly and, for a period of time, very negatively. Poor investment returns, due to either general market conditions or underperformance (relative to our competitors or to benchmarks) by investment funds or separate accounts that the company manages or investment products that it designs or sells, affects its ability to retain existing assets and to attract new clients or additional assets from existing clients. This could affect the management and incentive fees that the company earns on AUM.

Brexit will likely change the arrangements by which U.K. firms are able to provide services in the European Union (E.U.) which may adversely affect the manner in which the company operates its businesses in the E.U. and could require the company to restructure its operations. The outcome of the negotiations between the U.K. and the E.U. in connection with Brexit is highly uncertain. Such uncertainty has resulted in, and may continue to result in, market volatility and may negatively impact the confidence of investors and clients.

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**STRATEGIC REPORT (continued)**

**6. Principal risks and uncertainties (continued)**

**Liquidity**

Liquidity is essential to the company's business. The company's liquidity could be impaired by an inability to access funds from affiliates or by unforeseen outflows of cash. This situation may arise due to circumstances that the company may be unable to control, such as a general market disruption or an operational problem that affects third parties or the company or its affiliates or even by the perception amongst market participants that the company, or other market participants, are experiencing greater liquidity risk. In order to mitigate this risk, the company has in place what it considers to be a conservative set of liquidity policies.

**Credit quality**

The company generates turnover in the form of fees from investment funds and separate accounts. Fees from investment funds are settled from the AUM of the fund, for which the credit risk is considered minimal. For separate accounts, the company manages its credit risk arising from clients by entering into factoring agreements with Group Inc.

**Operational infrastructure**

The company's business is highly dependent on its ability to process and monitor, on a daily basis, a large number of transactions (investment flows/investor flows), many of which are highly complex, and occur at high volumes and frequencies, across numerous and diverse markets in many currencies. These transactions, as well as information technology services provided to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards.

Many rules and regulations worldwide govern the company's obligations to report transactions and other information to regulators, exchanges and investors. Compliance with these legal and reporting requirements can be challenging, and the group and other financial institutions have been subject to regulatory fines and penalties for failing to report timely, accurate and complete information. As reporting requirements expand, compliance with these rules and regulations has become more challenging.

As the company's client base and geographical reach expands, developing and maintaining operational systems and infrastructure becomes more challenging. Financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the company's control, such as a spike in transaction volume, adversely affecting the ability to process these transactions or provide these services. The company must continuously update these systems to support its operations and growth and to respond to changes in regulations and markets, and invest heavily in systemic controls and training to ensure that such transactions do not violate applicable rules and regulations or, due to errors in processing such transactions, adversely affect markets, clients and counterparties or the company itself. System enhancements and updates, as well as the requisite training, entail significant costs and create risks associated with implementing new systems and integrating them with existing ones.

The company's business is also dependent on its ability to oversee numerous third party vendors including, but not limited to, custodians, prime brokers, administrators and transfer agents. As the company continues to grow its client base, its geographical reach and its transaction breadth and volume, it must continue to evolve its vendor management control framework to ensure all new vendor related risks are captured and changes to regulations considered.

Despite the resiliency plans and facilities that are in place, the company's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports its business. This may include a disruption involving electrical, satellite, undersea or other communications, internet, transportation or other services facilities used by the company or third parties with which the company conducts business. These disruptions may occur as a result of events that affect the company's use of buildings or systems or those of such third parties, or as a result of events with a broader impact globally, regionally or in the cities where those buildings or systems are located, including, but not limited, to natural disasters, war, civil unrest, terrorism, economic or political developments, pandemics and weather events.

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**STRATEGIC REPORT (continued)**

**6. Principal risks and uncertainties (continued)**

**Regulation**

As a participant in the investment management industry and a subsidiary of a systemically important financial institution, the company is subject to extensive regulation principally in the U.K. and the E.U. more generally but also in the U.S. as a subsidiary of Group Inc.. The company faces the risk of intervention by regulatory and tax authorities in all jurisdictions in which it conducts its business. Among other things, as a result of regulators or private parties challenging the company's compliance with enforcing existing laws and regulations, it could be fined, prohibited from engaging in its business activity, subject to limitations or conditions on its business activity or subjected to new or substantially higher taxes or other governmental charges in connection with the conduct of its business. Such limitations or conditions may negatively impact the company's profitability.

If there are new laws or regulations or changes in the enforcement of existing laws or regulations applicable to the company's business or that of the company's clients, including capital and liquidity requirements, reporting requirements, tax burdens and compensation restrictions, that are imposed on a limited subset of financial institutions (either based on size, activities, geography or other criteria) which may include the company or Group Inc., compliance with these new laws and regulations, or changes in the enforcement of existing laws or regulations, could adversely affect the company's ability to compete effectively with other institutions that are not affected in the same way. In addition, regulation imposed on financial institutions or market participants generally, such as taxes on financial transactions, could adversely impact levels of market activity more broadly, and thus impact the company's business.

Regulatory developments, in particular the Markets in Financial Instruments Regulation and the revision of the Markets in Financial Instruments Directive (collectively, MiFID II), may adversely affect the company's competitive position and profitability. Additional market reforms also include rules on the recovery and resolution of E.U. institutions. The implementation of these reforms may adversely affect the company's profitability and competitive position, particularly if these requirements do not apply, or do not apply equally, to the company's competitors or are not implemented uniformly across jurisdictions.

**Legal liability**

Substantial legal liability or significant regulatory action against the company could have material adverse financial effects or cause significant reputational harm, which in turn could seriously harm its business prospects. The company faces significant legal risks in its business, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high.

**Risk management**

The company seeks to monitor and control risk exposure through a risk and control framework encompassing a variety of separate, but complementary investment, financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. Whilst the company employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, the company may, in the course of its activities, incur losses. In addition, refer to the financial risk management section (see note 15).

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**STRATEGIC REPORT (continued)**

**6. Principal risks and uncertainties (continued)**

**Conflicts of interest**

A failure to appropriately identify and address potential conflicts of interest could adversely affect the company's businesses. Due to the broad scope of the group's businesses and client base, the company regularly addresses potential conflicts of interest, including situations where services to a particular client or the group's own investments or other interests conflict, or are perceived to conflict, with the interests of another client, as well as situations where one or more of its businesses have access to material non-public information that may not be shared with other businesses within the group and situations where it may be a creditor of an entity with which the group also has an advisory or other relationship.

Extensive procedures and controls are in place that are designed to identify and address conflicts of interest, including those designed to prevent the improper sharing of information among businesses. However, appropriately identifying and dealing with conflicts of interest is complex and difficult, and the company's reputation, which is one of its most important assets, could be damaged and the willingness of clients to enter into transactions with the company may be affected if it fails, or appears to fail, to identify, disclose and deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions.

**7. Date of authorisation of issue**

The strategic report was authorised for issue by the Board of Directors on 19 April 2017.

**BY ORDER OF THE BOARD**



**D. T. Jackson**

**Secretary**

**GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**  
**(unlimited company)**

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**DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 2016.

**1. Introduction**

In accordance with section 414A of the Companies Act 2006, the directors have prepared a strategic report, which contains a review of the company's businesses and a description of the principal risks and uncertainties facing the company. The directors have chosen to make reference to the future outlook of the company in the strategic report in accordance with section 414C(11) of the Companies Act 2006. The company's risk management objectives and policies, including exposures to market risk, credit risk and liquidity risk are described in note 15 to the financial statements.

**2. Dividends**

The directors do not recommend the payment of a dividend in respect of the year (31 December 2015: US\$nil).

**3. Disclosure of information to auditors**

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**4. Independent auditors**

Prior to 1 October 2007, the company passed an elective resolution under section 386 of the Companies Act 1985 to dispense with the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the company pursuant to section 487(2) of the Companies Act 2006 and paragraph 44 of Schedule 3 to the Companies Act 2006 (Commencement No. 3 Consequential Amendment, Transitional Provisions and Savings) Order 2007.

**5. Directors**

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

Name	Appointed	Resigned
K. P. Uniacke (Chairman)		
L. A. Donnelly	14 July 2016	
S. Gleig CBE		18 May 2016
T. T. Sotir		
G. R. Thorpe		
K. D. Wiancki	30 March 2016	27 January 2017
A. F. Wilson		
C. S. Withey		

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

**GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**  
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**DIRECTORS' REPORT (continued)**

**6. Statement of directors' responsibilities**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**7. Date of authorisation of issue**

The financial statements were authorised for issue by the Board of Directors on 19 April 2017.

**BY ORDER OF THE BOARD**



**D. T. Jackson**

**Secretary**



# **Independent auditors' report to the members of Goldman Sachs Asset Management International (unlimited company)**

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## **Report on the financial statements**

### **Our opinion**

In our opinion, Goldman Sachs Asset Management International's financial statements ("the financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **What we have audited**

Goldman Sachs Asset Management International's Annual Report comprise:

- the Balances Sheet as at 31 December 2016;
- the Profit and Loss Account for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# **Independent auditors' report to the members of Goldman Sachs Asset Management International (unlimited company)**

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## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the directors**

As explained more fully in the statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the directors' report and strategic report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Duncan McNab (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

19 April 2017

**GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**  
**(unlimited company)**

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**PROFIT AND LOSS ACCOUNT**

**for the year ended 31 December 2016**

		Year ended 31 December 2016	Year ended 31 December 2015
	Note	US\$'000	US\$'000
Turnover		555,335	498,888
Administrative expenses	5	(368,030)	(432,348)
<b>OPERATING PROFIT</b>		187,305	66,540
Interest receivable and similar income	8	597	204
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>		187,902	66,744
Tax on profit on ordinary activities	9	(36,166)	(13,376)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		151,736	53,368

The operating profits of the company are derived from continuing operations in the current and prior years.

The company has no recognised gains and losses other than those included in the profit and loss account for the years shown above and therefore no separate statement of comprehensive income has been presented.

**GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**  
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**BALANCE SHEET**

**as at 31 December 2016**

	Note	31 December 2016 US\$'000	31 December 2015 US\$'000
<b>FIXED ASSETS</b>			
Investments	10	101	101
<b>CURRENT ASSETS</b>			
Collateralised agreements with group undertakings		-	70,079
Cash at bank and in hand		134,268	157,855
Debtors	11	361,022	190,138
		495,290	418,072
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	12	(127,168)	(201,686)
<b>NET CURRENT ASSETS</b>		368,122	216,386
<b>NET ASSETS</b>		368,223	216,487
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	1,756	1,756
Share premium account		69,232	69,232
Profit and loss account		297,235	145,499
<b>TOTAL SHAREHOLDER'S FUNDS</b>		368,223	216,487

The financial statements were approved by the Board of Directors on 19 April 2017 and signed on its behalf by:



G. R. Thorpe  
Director

**GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**  
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**STATEMENT OF CHANGES IN EQUITY**

**for the year ended 31 December 2016**

	<b>Called up share capital</b>	<b>Share premium account</b>	<b>Profit and loss account</b>	<b>Total shareholder's funds</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>Balance at 1 January 2015</b>	1,756	69,232	92,131	163,119
Profit for the financial year	-	-	53,368	53,368
<b>Balance at 31 December 2015</b>	1,756	69,232	145,499	216,487
Profit for the financial year	-	-	151,736	151,736
<b>Balance 31 December 2016</b>	1,756	69,232	297,235	368,223

No dividends were paid in 2016 and 2015.

**GOLDMAN SACHS ASSET MANAGEMENT INTERNATIONAL**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**1. GENERAL INFORMATION**

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

The immediate parent undertaking is Goldman Sachs Group UK Limited (GSG UK), a company incorporated and domiciled in England and Wales.

The ultimate parent undertaking and the parent company of the smallest and largest group for which consolidated financial statements are prepared is The Goldman Sachs Group, Inc., a company incorporated in the United States of America. Copies of its consolidated financial statements can be obtained from Investor Relations, 200 West Street, New York, NY 10282, United States of America, the group's principal place of business, or at [www.goldmansachs.com/shareholders/](http://www.goldmansachs.com/shareholders/).

**Basel III Pillar 3 disclosures**

The company is included in the consolidated Pillar 3 disclosures of GSG UK, which are required by the E.U. Capital Requirements Regulation. GSG UK's 2016 Pillar 3 disclosures will be made available in conjunction with the publication of its consolidated financial information at [www.goldmansachs.com/disclosures/](http://www.goldmansachs.com/disclosures/).

**Country-by-Country Reporting**

The company is included in the consolidated country-by-country reporting disclosures of GSG UK, which are required by the Capital Requirements (Country-by-Country Reporting) Regulations 2013. GSG UK's 2016 country-by-country disclosures will be made available by 31 December 2017 at [www.goldmansachs.com/disclosures/](http://www.goldmansachs.com/disclosures/).

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES**

**a. Basis of preparation**

The company prepares financial statements under United Kingdom Generally Accepted Accounting Practices (U.K. GAAP). These financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' (FRS 101).

These financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006.

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

- (i) IFRS 2 'Share-based Payment' paragraph 45(b) and 46 to 52. These disclosure are provided in the consolidated financial statements of Group Inc.;
- (ii) IAS 1 'Presentation of Financial Statements' paragraph 38 to present comparative information in respect of IAS 1 'Presentation of Financial Statements' paragraphs 79 (a)(iv);
- (iii) IAS 1 'Presentation of Financial Statements' paragraphs 10(f), 16, and 40A-D;
- (iv) IAS 7 'Statement of Cash Flows';
- (v) IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31;
- (vi) IAS 24 'Related Party Disclosures' paragraph 17; and
- (vii) IAS 24 'Related Party Disclosures' requirements to disclose transactions with companies also wholly owned within the group.

**b. Revenue recognition**

Turnover comprises of the following:

***Management fees***

Management fees are recognised on an accruals basis and are generally calculated as a percentage of an account's average net asset value and are recognised over the period that the related service is provided.

***Incentive fees***

Incentive fees are calculated as a percentage of an account's return or a percentage of an account's excess return above a specified benchmark or other performance target. Incentive fees are only recognised at the end of the performance period when the fee has crystallised.

**c. Dividends**

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES (continued)**

**d. Cash at bank and in hand**

Cash at bank and in hand is highly liquid overnight deposits held in the ordinary course of business.

**e. Foreign currencies**

The company's financial statements are presented in U.S. dollars, which is also the company's functional currency.

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

**f. Fixed asset investments**

Fixed asset investments are stated at cost less provision for any impairment.

**g. Current and deferred tax**

The tax expense for the year comprises current tax. Tax is recognised in the profit and loss account.

Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income.

Deferred tax is recognised in respect of all temporary differences that have originated, but not reversed at the balance sheet date, where transactions or events have occurred by that date that will result in an obligation to pay more tax or a right to pay less tax in the future with the following exceptions:

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

**h. Financial assets and financial liabilities**

**(i) Recognition and derecognition**

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



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**2. ACCOUNTING POLICIES (continued)**

**h. Financial assets and financial liabilities (continued)**

**(ii) Classification and measurement**

Financial assets comprise all of the company's current assets, and financial liabilities comprise all of the company's creditors.

The company classifies its financial assets and financial liabilities as loans and receivables and financial liabilities measured at amortised cost, respectively. The classification, which is determined at initial recognition, depends on the purpose for which they were acquired or originated.

Loans and receivables and financial liabilities measured at amortised cost are initially recognised at fair value and are subsequently remeasured at amortised cost, with finance income and expense recognised on an accruals basis. All finance income and expense is recognised in the profit and loss account.

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

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

- (i) currently a legally enforceable right to set off the recognised amounts; and
- (ii) intent to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

**i. Collateralised agreements**

Collateralised agreements are recognised on settlement date and are carried at amortised cost. Collateral is received in the form of securities and is not recognised on balance sheet. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in these financial statements. The nature of estimation means that actual outcomes could differ from those estimates. In the opinion of management, there were no judgements made that had a significant effect on amounts recognised in the financial statements.

**4. SEGMENTAL REPORTING**

All operating profits arise from the Investment Management segment. The directors manage the company's activities as a single business and in the same geographic region (EMEA) and accordingly no segmental analysis has been provided.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**5. ADMINISTRATIVE EXPENSES**

	Year ended 31 December 2016	Year ended 31 December 2015
	US\$'000	US\$'000
Management fees charged by group undertakings (note a)	277,964	317,909
Brokerage, clearing and distribution fees	82,401	105,473
Market development	3,899	3,881
Other expenses	3,723	5,026
Auditors' remuneration - audit services	43	59
	<b>368,030</b>	<b>432,348</b>

a. Management fees charged by group undertakings relate to operational and administrative support, and management services received from group undertakings.

**6. STAFF COSTS**

As in the prior year, the company has no employees. All persons involved in the company's operations are employed by fellow group undertakings. The charges made by these group undertakings for all services provided to the company are included in the management fees charged by group undertakings (see note 5).

**7. DIRECTORS' EMOLUMENTS**

The table below presents the company's directors' emoluments:

	Year ended 31 December 2016	Year ended 31 December 2015
	US\$'000	US\$'000
<b>Directors:</b>		
Aggregate emoluments	2,662	2,072
Company pension contributions to money purchase schemes	5	5
	<b>2,667</b>	<b>2,077</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Highest paid director:</b>		
Aggregate emoluments	2,332	1,547
Company pension contributions to money purchase schemes	4	3
Accrued annual pension at end of year	-	-

In accordance with the Companies Act 2006, directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only. This total only includes the value of cash and benefits in kind, and does not include the value of equity awards in accordance with Schedule 5 of Statutory Instrument 2008/410. Directors also receive emoluments for non-qualifying services which are not required to be disclosed.

Five directors are members of a defined contribution pension plan and four directors are members of a defined benefit pension plan. Five directors, including the highest paid director, have been granted Group Inc. shares in respect of a long-term incentive scheme during the year. One director has exercised options during the year.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**8. INTEREST RECEIVABLE AND SIMILAR INCOME**

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Interest on overnight deposits	295	6
Interest on collateralised agreements with group undertakings	228	198
Interest on loans to group undertakings (note 11)	74	-
	<b>597</b>	<b>204</b>

**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
<b>Current tax:</b>		
U.K. corporation tax	36,168	13,434
Adjustments in respect of prior periods	(2)	(58)
<b>Total tax on profit on ordinary activities</b>	<b>36,166</b>	<b>13,376</b>

The table below presents a reconciliation between tax on profit on ordinary activities and the amount calculated by applying the weighted average rate of U.K. corporation tax applicable to the company for the year of 20.00% (2015: 20.25%) to the profit on ordinary activities before tax.

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Profit on ordinary activities before tax	187,902	66,744
Profit on ordinary activities multiplied by the weighted average rate in the U.K. of 20.00% (2015: 20.25%)	37,580	13,516
Permanent differences	12	7
Exchange differences	(1,424)	(89)
Adjustments in respect of prior periods	(2)	(58)
<b>Total tax on profit on ordinary activities</b>	<b>36,166</b>	<b>13,376</b>

**10. INVESTMENTS**

	31 December 2016 US\$'000	31 December 2015 US\$'000
Investments	101	101

Fixed asset investments represent an investment in a global messaging network. The directors consider that the value of the investment is not less than its carrying amount.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**11. DEBTORS**

Debtors, all of which are due within one year of the balance sheet date comprise:

	31 December 2016	31 December 2015
	US\$'000	US\$'000
Amounts due from group undertakings	226,396	42,665
Amounts due from customers	134,574	138,677
Group relief receivable	-	7,476
Other debtors	52	1,320
	<b>361,022</b>	<b>190,138</b>

Amounts due from group undertakings includes US\$5.1 million (31 December 2015: US\$14.9 million) of cash balances held on account by a fellow group undertaking.

Amounts due from group undertakings in the current year includes a loan of US\$220.0 million advanced by the company to Goldman Sachs International, a fellow group undertaking, under the terms of a new loan agreement dated 22 December 2016. The loan is unsecured and carries interest at a variable margin over the U.S. Federal Reserve's federal funds rate. The loan is repayable 94 days from when the company demands repayment or 22 December 2065.

**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31 December 2016	31 December 2015
	US\$'000	US\$'000
Amounts due to group undertakings	63,722	160,001
Accruals	37,344	26,970
Group relief payable	26,102	14,715
	<b>127,168</b>	<b>201,686</b>

**13. CALLED UP SHARE CAPITAL**

At 31 December 2016 and 31 December 2015 called up share capital comprised:

	31 December 2016		31 December 2015	
	No.	US\$'000	No.	US\$'000
<b><u>Allotted, called up and fully paid</u></b>				
Ordinary shares of US\$1 each	1,755,715	1,756	1,755,715	1,756
Class B ordinary shares of £1 each	2	-	2	-
		<b>1,756</b>		<b>1,756</b>

The Class B ordinary shares are not entitled to participate in any dividend or other distribution paid or made by the company.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**14. FINANCIAL COMMITMENTS AND CONTINGENCIES**

The company had no financial commitments or contingencies outstanding at year end (31 December 2015: US\$nil).

**15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT**

The company monitors its capital on an ongoing basis. The company's objective is to be prudently capitalised in terms of the amount and composition of its equity base compared to the company's risk exposures. The appropriate level and composition of equity capital is determined by multiple factors including the company's current and future regulatory capital requirements, the results of the company's capital planning and stress testing process and other factors such as the business environment and conditions in the financial markets.

During 2016 and 2015, the company was in compliance with the capital requirements set by the FCA.

Tier 1 capital was US\$368.2 million and US\$216.5 million at 31 December 2016 and 31 December 2015, respectively.

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

**a. Market risk**

Market risk is the risk of loss in the value of the company's financial assets and financial liabilities due to changes in market conditions. Risks are monitored and controlled through strong firmwide oversight and independent control and support functions across the company's business. Relevant market risks for the company are interest rate risk and currency risk.

Interest rate risk results from exposures to changes in level, slope and curvature of yield curves, volatilities of interest rates and credit spreads.

Currency risk results from changes in spot prices, forward prices and volatilities in currency rates.

The company manages its interest rate and currency risk as part of the group's risk management policy, by establishing economic hedges as appropriate to the circumstances of the company.

If interest rates had been 50 basis points higher/lower and all other variables were held constant the company's profit for the year ended 31 December 2016 would increase/decrease by US\$1.1 million (2015: US\$0.4 million).

**b. Credit risk**

Credit risk represents the potential for loss due to the default or deterioration in the credit quality of a counterparty. Credit risk is managed by reviewing the credit quality of counterparties and reviewing, if applicable, the underlying collateral against which the assets are secured. The company's maximum exposure to credit risk is equivalent to the carrying value of its financial assets as at 31 December 2016 and 31 December 2015.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**15. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)**

**b. Credit risk (continued)**

**Credit exposures**

The company's credit exposures are described further below.

**Cash at bank and in hand.** Cash at bank and in hand 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.

**Debtors.** The company is exposed to credit risk from its amounts due from customers and amounts due from group undertakings. Fees from investment accounts are settled from the AUM of the account, for which the credit risk is considered minimal. For separate accounts, the company manages its credit risk arising from clients by entering into factoring agreements with Group Inc.

**Collateralised agreements with group undertakings.** The company bears credit risk related to collateralised agreements only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. The company's credit exposure on these transactions is therefore significantly lower than the amounts recorded on the balance sheet, which represent contractual value before consideration of collateral received. The company has received financial instruments as collateral in respect of collateralised agreement with group undertakings. The company did not have any collateralised agreements with group undertakings as at 31 December 2016. The collateral amount was US\$76.9 million as of 31 December 2015.

**c. Liquidity risk**

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

**16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

**a. Financial assets and financial liabilities by category**

All financial assets are categorised as loans and receivables in the current and prior years. All liabilities are held at amortised cost in the current and prior years.

**b. Fair value of financial assets and financial liabilities not measured at fair value**

The company has US\$495.3 million (31 December 2015: US\$418.1 million) of current financial assets and US\$127.2 million (31 December 2015: US\$201.7 million) of current financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, the carrying amounts of the financial assets and financial liabilities on the balance sheet are a reasonable approximation of fair value.

**c. Maturity of financial liabilities**

All financial liabilities are due within one month of the balance sheet date.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016**

**16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

**d. Collateral received**

The company receives financial instruments as collateral in connection with collateralised arrangements with group undertakings. The company obtains securities as collateral on an upfront basis for collateralised agreements to reduce its credit exposure to individual counterparties.

The company received collateral in respect of collateralised agreements with group undertakings during the year. The company did not have any collateralised agreements with group undertakings as at 31 December 2016. The collateral amount was US\$76.9 million as of 31 December 2015.