Annual Financial Statements and Management Report

December 31, 2018

Goldman Sachs Bank Europe SE
(until January 15, 2019 Goldman Sachs AG)

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Introduction

Goldman Sachs Bank Europe SE (GSBE or the company) provides a wide range of financial services to a diversified client base that includes corporations, financial institutions, and high-net-worth individuals, from its registered office in Frankfurt am Main. The company reports its activities in the following business lines: Investment Banking, Investment Management and Institutional Client Services. The company's key markets are the German-speaking regions.

All references to 2018 and 2017 refer to the years ended, or the dates, as the context requires, December 31, 2018 and December 31, 2017, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Any statements relating to future periods are subject to uncertainties.

Legal Structure

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. The shareholders of GSBE are Goldman, Sachs & Co. Finanz GmbH with its registered office in Frankfurt am Main (1%), and Goldman Sachs (Cayman) Holding Company with its registered office in George Town, Cayman Islands (99%).

The company was known as Goldman Sachs AG (GSAG) with register number HRB 91313 until January 15, 2019. On January 15, 2019, GSAG merged with its wholly-owned subsidiary, Goldman Sachs Gestión S.A. (GS Gestión), on a retroactive basis as of January 1, 2018. At the same time, the name was changed to Goldman Sachs Bank Europe and the legal form to a Societas Europaea (SE). The company is since registered with the register number HRB 114190. The operations of the former GS Gestión are continued within the Spanish Branch of GSBE (Goldman Sachs Bank Europe SE, Sucursal en España).

Management and Control

The Company is managed by the Executive Board at its own discretion. The Executive Board currently consists of four members: Dr. Wolfgang Fink (Chair), Thomas Degn-Petersen (since March 6, 2018), Dr. Matthias Bock and Pierre Chavenon (since February 21, 2019).

The Executive Board bears full responsibility for the management of the company consistent with the German Stock Corporation Act. The members are appointed and removed by an independent body, the Supervisory Board.

The Supervisory Board currently consists of Dermot McDonogh (Chair) (since February 21, 2018), Esta Stecher (Vice Chair) (since February 21, 2018) and Sally A. Boyle.

GSBE is integrated into the global control system of Group Inc. Its business operations are conducted in close cooperation, in particular, with its affiliates Goldman Sachs International (GSI) and Goldman Sachs & Co. LLC (GS&CO).

Business Environment

Global

During 2018, real gross domestic product (GDP) growth appeared to increase in the U.S., but generally decreased in other major economies. In advanced economies, growth in the Euro area, U.K., and Japan each appeared to be lower and in emerging markets, growth in China decreased slightly. Economic activity in several major emerging market economies was impacted by concerns about the vulnerability of these economies to a stronger U.S. dollar and higher U.S. Treasury rates. Global asset markets experienced significant periods of volatility in the beginning and towards the end of the year driven by concerns about the prospect of slowing global growth and tighter monetary policy. The U.S. presidential administration implemented and proposed new tariffs on imports from China, which prompted retaliatory measures, and rising global trade tensions remained a meaningful source of uncertainty affecting asset prices throughout the year. Political uncertainty in Europe increased as a new coalition government formed in Italy in May 2018 and the future of the relationship between the U.K. and E.U. remained uncertain. During 2018, the U.S. Federal Reserve increased the target federal funds rate three times and the Bank of England increased its official target interest rate in August 2018.

Europe

In the Euro area, real GDP slowed down in 2018 compared with 2017, while measures of inflation remained low. The European Central Bank maintained its main refinancing operations rate at 0% and its deposit rate at (0.40)%, but reduced its monthly asset purchases to a pace of €15 billion per month after September 2018 and through December 2018, after which net asset purchases ended. Measures of unemployment decreased, and the Euro depreciated by 4% against the U.S. dollar compared with the end of 2017.

Following the formation of a new coalition government in May 2018, political uncertainty in Italy remained high and the yield on 10-year government bonds in Italy increased significantly. Elsewhere in the Euro area, yields on 10-year government bonds mostly decreased. In equity markets, the DAX Index decreased by 18%, Euro Stoxx 50 Index decreased by 14% and the CAC 40 Index decreased by 11% compared with 2017.

In March 2018, it was announced that terms were agreed upon for the transitional period of the U.K.'s withdrawal from the E.U. and, in November 2018, the U.K. and the E.U. agreed on a draft withdrawal agreement. However, as of December 2018, there was still significant uncertainty about the future relationship between the U.K. and the E.U. looking forward.

After peaking at an annual growth of 2.5% in 2017, German economic growth slowed down in 2018, mainly due to sector-specific disruptions in the automobile, chemical and pharmaceutical sectors. After experiencing growth of 1.0% in the first half of 2018, German real GDP growth reversed in the second half of 2018 with a decline of 0.2%. Albeit transitory in nature, these disruptions have increased uncertainty over the future pace of economic expansion in Germany.

Results of Operations

Net Revenues

Net revenues include net commission income arising from transactions with both third parties and affiliates. This is inclusive of associated interest.

The table below presents the net revenues of the company's business lines, and net interest and other operating income.

	Year Ended December	
€ in thousands	**2018**	2017
Investment Banking	**€ 63,268**	€ 77,155
Investment Management	**50,813**	45,379
Institutional Client Services	**19,470**	11,909
Net Interest and Other Operating Income	**13,690**	11,612
Total net revenues	**€147,241**	€146,055

GSBE uses certain key performance indicators (KPIs) to manage the development of its business and assets. The primary KPI for the development of the business is the net revenues (prior year: net commission income). The company was managed based on commission income in the past. Due to the start of trading activity in 2019, net revenues is the primary KPI. For 2018, GSBE originally expected a slight increase of net commission income. However, net commission income decreased marginally compared to prior year. For total net revenues GSBE expected to remain consistent with prior year, however total net revenues increased slightly compared to prior year. The capital plan foresaw to keep the total capital ratio consistent with prior year, which was achieved in 2018 and reported to the regulatory authorities.

Investment Banking

Investment Banking consists of:

Financial Advisory. Includes strategic advisory engagements with respect to mergers and acquisitions, divestitures, corporate defence activities, restructurings, spin-offs, risk management and derivative transactions directly related to these client advisory engagements.

Underwriting. Includes equity and debt underwriting of public offerings and private placements, including local and cross-border transactions and acquisition financing, of a wide range of securities and other financial instruments, including loans, and derivative transactions directly related to these client underwriting activities.

All underwriting business relating to the German market is conducted by GSI, and GSBE receives allocations of the underwriting revenues in accordance with global transfer pricing agreements.

2018 versus 2017. After a strong performance in the prior year Investment Banking revenues declined for 2018.

In comparison to 2017, the general market activity in the areas of mergers and acquisitions increased. The volume of announced mergers and acquisitions transactions in Germany increased from $226 billion in 2017 to $256 billion in 2018. GSBE achieved a market share of approximately 50%. (Source for all data relating to mergers and acquisitions: Dealogic).

Issuance of equity in Germany decreased slightly after a strong prior year from $38.6 billion in 2017 to $34.4 billion in 2018. GSBE's market share increased from 7% in 2017 to 9% in 2018. Debt capital issuances from corporate bonds in the high yield area dropped from $10.6 billion to $6.1 billion, while GSBE increased its market share to approximately 11%. The volume of debt capital issuances from corporate bonds in the investment grade business in Germany increased slightly from $384 billion in 2017 to $416 billion in 2018 with a slightly decreased market share of GSBE (source for all data relating to capital markets: Dealogic).

Investment Management

Investment Management consists of Private Wealth Management (PWM) and Goldman Sachs Asset Management (GSAM).

Private Wealth Management. PWM provides investment advisory services to high-net-worth clients, private investment offices and foundations. Key service offerings within PWM are discretionary asset management services for clients and investment advice for professional clients. Recommendations for strategic and tactical asset allocation by our investment strategy group, efficient implementation by our portfolio management team, and active risk management are key factors in achieving optimal risk-adjusted earnings for our clients.

Goldman Sachs Asset Management. GSAM is responsible for offering marketing to institutional clients in the area of asset investment and also supports the business partners of GSAM funds through banking and financial services providers to end clients, primarily in Germany and Austria. For marketing with institutional clients, the target group is primarily composed of insurance companies, pension funds, companies, corporate pension funds, banks and public institutions, which either invest in existing funds or select an international GSAM group company to use as an outsourced investment manager for their special Alternative Investment Funds issued by a German capital management company.

The Retail business works together with distribution partners, who sell the mutual funds from Group Inc. to end customers. The retail team is not in direct contact with the investors.

The Advisory business involves the cooperation between the retail team and private banks, German local savings banks (Sparkassen) and German credit unions (Genossenschaftsbanken). In the Asset Allocator business, the team serves the largest umbrella funds and independent asset allocators in the region.

2018 versus 2017. Investment Management net revenues increased by 12% to €50.8 million, with €19.2 million relating to PWM and €31.6 million relating to GSAM.

PWM net revenues increased significantly by 67% to €19.2 million, with revenues related to private banking commission income of €7.8 million and asset management services for clients of €11.4 million. Private banking commission income increased compared to prior year due to increased net cash inflows. 2018 net cash inflows were approximately 7% of the managed assets. Growth was mainly driven by discretionary multi-asset mandates.

GSAM net revenues decreased by 7% to €31.6 million. With regard to the growth of the assets under supervision (AUS) and revenue, 2018 was a solid year for the GSAM institutional team. In view of the current low interest environment in Europe, the importance of a guaranteed interest rate for institutional investors and achieving the desire of adequate income streams, GSAM was able to win a number of mandates from institutional clients, especially in the areas fixed income and equities. There was a high demand from investors for investments in emerging markets.

The GSAM retail team focuses on supporting the distribution of mutual funds in Germany and Austria. In recent years it has been able to steadily increase both AUS and distribution partners' revenues.

Institutional Client Services

GSBE acts as an issuing and paying agent and provides the entire asset servicing for issuances primarily for Goldman Sachs & Co. Wertpapier GmbH (GSWP).

2018 versus 2017. Net revenues increased significantly by 63% to €19.5 million. The increase of net revenues was consistent with the increase of the issuance volume. Compared with last year, the number of warrants, certificates and structured bonds issued increased by 50%. The increase reflects the expansive business strategy, as well as the opening of new product segments on the issuance side.

Net interest and other operating income. Net interest income increased by €0.2 million with no significant changes from prior year. Other operating income of €11.9 million primarily includes income from group internal recharges for services.

Expenses

Total expenses mainly relate to administrative expenses and other operating expenses. Administrative expenses primarily consist of compensation (including the impact of Group Inc. share price on share-based compensation), headcount and levels of business activity.

The table below presents the company's administrative expenses and headcount.

	Year Ended December	
€ in thousands	**2018**	2017
Salaries and wages	**€52,666**	€53,721
Social security contributions	**3,025**	2,702
Other administrative expenses	**21,791**	16,091
Depreciation, amortization	**359**	330
Other operating expenses	**7,203**	4,950
Total expenses	**€85,044**	€77,794
Headcount in FTE	**165**	136

2018 versus 2017. Total expenses of €85.0 million for 2018 were 9% higher than 2017.

Salaries and wages are down 2% to €52.7 million. Despite an increase in headcount total salaries and wages decreased due to a decrease in costs related to share-based compensation.

Other administrative expenses increased by €5.7 million to €21.8 million mainly relating to higher cost recharges from affiliated entities.

Other operating expenses increased by €2.3 mainly relating to the interest expense component of the pension accruals.

Extraordinary result

For 2018, GSBE disclosed an extraordinary expense of €2.3 million as a result of the merger of GSBE (former GSAG) with GS Gestión. The company's expense represents the difference between the carrying value of the investment in GS Gestión recorded as of December 2017 and the book values of all assets and liabilities which were assumed by GSBE on a retroactive basis as of January 1, 2018 as part of the merger.

Tax on Profit

The effective tax rate for 2018 was 28.5%. The effective tax rate represents the company's tax on profit divided by its profit before taxation.

Overall, taking the above into consideration, the net earnings were consistent with expectations. Net income in 2018 was €44.1 million and decreased by 1.7% compared to prior year. The return on equity, calculated as a ratio of net profit to total assets, was 6% for 2018 and decreased slightly year over year (prior year 7%).

Balance Sheet and Funding Sources

The table below presents the company's balance sheet.

	As of December	
€ in thousands	**2018**	2017
Cash	**€336,113**	€349,880
Receivables from banks/customers	**390,078**	313,595
Non-current assets	**3,566**	7,107
Other assets	**20,533**	9,497
Total assets	**€750,290**	€680,079
Liabilities to banks/customers	**€212,763**	€194,252
Provisions	**109,834**	99,452
Other liabilities	**41,041**	43,805
Shareholder's equity	**386,652**	342,570
Total liabilities and shareholders' equity	**€750,290**	€680,079

In the table above:

- Receivables from banks/customers increased by €76 million to €390 million mainly due to receivables from affiliated companies. These receivables from banks/customers included reverse repurchase agreements of €19 million that where conducted within the financial year. Other assets increased by €11 million mainly due to increased tax receivables and default fund contributions to clearing houses and exchanges.

- Liabilities to banks/customers increased by €19 million to €213 million. These liabilities included deposits of €19 million that were accepted within the financial year. Provisions increased by €10 million, mainly related to increased provisions for pensions and taxes offset by decreased other provisions.

- Shareholder's equity increased by prior year distributable profit of €44.8 million. Regulatory capital increased by the same amount of €44.8 million and is composed of subscribed capital (€10 million), capital reserves (€86 million), other retained earnings (€246 million), and subordinated liabilities (€20 million), which constitute supplementary capital according to supervisory law.

The table below presents the unsecured credit ratings and outlook of the company and Group Inc.

	As of December 2018		
	Fitch	**Moody's**	**S&P**
GSBE			
Short-term debt	**F1**	**P-1**	**A-1**
Long-term debt	**A**	**A1**	**A+**
Ratings outlook	**Stable**	**Negative**	**Stable**
Group Inc.			
Short-term debt	**F1**	**P-2**	**A-2**
Long-term debt	**A**	**A3**	**BBB+**
Ratings outlook	**Stable**	**Stable**	**Stable**

The liquidity management of GSBE is designed to ensure sufficient liquidity is available at all times. In addition to internal liquidity management, this is ensured through compliance with the regulatory ruleset.

As of December 2018, GSBE invested €328 million of its excess free liquidity in overnight placements with affiliated entities (prior year: €280 million) and €336 million with the German central bank (prior year: €350 million).

GSBE has outstanding registered bonds (Namensschuld-verschreibungen) and promissory notes (Schuldschein-darlehen) with a nominal value of €152 million. The fixed interest was hedged to three months floating by way of hedge transactions.

GSBE had sufficient liquidity to meet its payment obligations at all times during the financial year. The financial situation of GSBE was sound at all times.

GSBE is a subsidiary of Group Inc., the equity of which (total shareholders' equity) was $90 billion as of December 2018 and $82 billion as of December 2017. Group Inc. makes a comprehensive range of liquidity and financing possibilities available, allowing the greatest possible flexibility in refinancing.

Forecast and Opportunities Report

Economy

Although some of the disruptions in activity at the end of 2018 are largely expected to be transitory, recent economic indicators suggest that the recovery will be more gradual than expected. We reduced our Euro area growth projections, with our area-wide growth projection down to an annual average of 1% for 2019. The weakening of real GDP growth at the end of 2018/early 2019 amid subdued inflation led the ECB to extend its forward guidance on negative interest rates until the end of 2019.

For Germany, we noticed sector-specific disruptions in the automobile, chemical and pharmaceutical sectors in 2018. Albeit transitory in nature, we see a more gradual recovery in Germany moving real GDP above trend from the second part of 2019. On average, real GDP in Germany is expected to grow by 0.7% in 2019, compared to 1.5% in 2018 and 2.5% in 2017.

A sequential pickup into the second half of 2019 is expected. First, some reacceleration in global growth is likely in the second half of 2019, as U.S. growth stabilizes and China regains some momentum on the back of looser macro policy. Second, a rebound in sectors that have been affected by idiosyncratic factors, including the auto industry in Germany and the services sector in France, is also likely. Lastly, more expansionary fiscal policy, lower oil prices and firm wage growth to support consumer spending are foreseen. Overall, German economic growth would rebound to 0.7% in 2019 and 1.4% in 2020.

A number of political risks continue to cloud the German and European outlook. The outcome of Brexit remains uncertain with a hard Brexit still being a threat. The Italian fiscal outlook remains vulnerable in light of the deterioration of the macro landscape. Further, the U.S. is expected to make a decision on auto tariffs by May 18, 2019.

After a base effect coming from its volatile components (energy and food prices) increasing German headline inflation from 1.7% in 2017 to 1.9% in 2018, inflation is expected to stabilise at around 1.4% in 2019 and 2020 owing to a more gradual than expected wage contribution to core inflation.

Business Outlook

The Management Board continues to be cautiously optimistic about the business outlook for 2019. For the overall result of GSBE, Investment Banking is of significant importance. The continued solid economic development of the market environment in this area should also have a positive impact on the earnings of GSBE. Overall we expect a solid increase in net revenues for 2019. The shareholders of GSBE injected a total of €300 million of equity into the entity in the form of 300 million new shares issued on February 25, 2019, so it is our expectation that total capital ratio will remain sufficiently above minimum requirements.

In the wake of the Brexit referendum in 2016, Group Inc. has planned for potential expansion of the business in continental Europe. GSBE has played a central role in these plans and has expanded its capabilities and market access to enable a broader range of product flows across the member states of the European Union. Apart from the Spain Branch, which continues the activities of the former GS Gestión, GSBE has opened branches in the Republic of Ireland and the United Kingdom and is preparing to open further branches in France, Italy, the Netherlands, Poland and Sweden. Consistent with these preparations, limited new activity has commenced during 2019, but the timing and extent to which additional activity will transfer from other GS entities remains uncertain, and depends on the possible agreement of transitional periods as part of any Brexit deal.

Investment Banking

In investment banking, we expect a continuously solid market environment for advisory services on mergers, acquisitions and capital market transactions in 2019. Additionally we plan to expand our underwriting activities. We therefore expect a solid increase in net income.

The main risks to business development are the further escalation of trade conflicts, the potential consequences of Brexit, uncertainties about the central banks' monetary policy and, in general, a worsening of key market factors, such as further interest rate, currency and commodity price developments and further political developments. Opportunities for the entity arise from a possible better development of macroeconomic factors beyond today's expectations, since the development of revenue for the Investment Banking usually correlates with the development of the German GDP and the overall economic situation.

Investment Management

Private Wealth Management. Within Europe, Germany is a core market for our PWM transactions with wealthy private clients, family offices and foundations. As a service provider with a clear orientation towards larger assets with professional clients, we differentiate ourselves from other providers.

For PWM, we view the near term opportunities as positive. Increased demands of clients with regards to the qualification of their advisors and the access to global investment opportunities are positive prospects for GSBE’s PWM business to grow further in the German market. This will also support our availability to service ultra high-net-worth clients in Germany.

Goldman Sachs Asset Management. For 2019 we expect GSAM to grow its AUS moderately and expect this growth to translate to an increase in revenues earned by transfer pricing. The AUS growth in the institutional business is to be achieved through the marketing of GSAM investment strategies to clients and supporting the implementation of individual investment solutions by international GSAM group companies. This growth projection is based on the current size of the existing business. The search for returns by investors with their focus on fixed income strategies should contribute to increasing our business on a gross basis. Underperformance in a number of small and large mandates could constitute a risk for the growth of the business on a net basis. A potential shift of business activities to the German entity in light of Brexit could trigger additional local growth.

The retail business is working to generate AUS growth primarily through marketing and sales support in bond and equity mutual funds to important clients such as large banks, umbrella funds and asset managers. This assumes that investor demand will remain at current levels or will increase. Growth in our business depends greatly on macroeconomic development factors, general investment behaviour and trends, client relationships, product range and product performance.

We generally believe that our business with both client groups (asset allocator and advisory) will continue to grow in 2019 due to positive momentum in the German mutual fund industry. Asset managers with a broad product range and outsourcing capabilities combined with consistent and persistent performance will probably continue to benefit from this positive momentum in the market. Unforeseen developments in the markets and their impact on the investor behaviour could be a risk.

Institutional Client Services

Management of GSWP is targeting a strong increase in the issuance activity which would result in a higher profit for 2019 for GSBE as the issuance and paying agent. This is due to increased client demand in warrants and structured products, particularly in the German market, as well as additional distribution channels for GSI. Furthermore it is expected that in a volatile market there will be a multitude of follow-up issuances in the area of turbo warrants, mini-futures and bonus certificates.

New Areas of Business

In 2019, GSBE will continue to assess possibilities of expanding its business activities to increase its overall result in addition to a number of opportunities linked to Brexit.

Risk Report

Risk Strategy and Risk Management System

As in previous years, GSBE maintained a conservative risk policy and has adequate organizational structures for quantifying, monitoring and control processes to guarantee the implementation of the directives and thus sustainably assure the risk capacity at GSBE. The risks associated with GSBE's subsidiaries are integrated in the risk management system. The risk strategy principles created by the Executive Board were maintained and generally provide for the hedging of market price risks (apart from the unhedged risks described in the following), as well as the minimization or limitation of counterparty, operational, business and other risks.

While the Executive Board is responsible for overall risk management, some of the daily risk monitoring and control functions are delegated to individual people, committees and departments within GSBE. These mainly include the Chief Risk Officer, the Risk Committee, the Operational Risk Committee, the Credit Risk Council, the New Activity Review Group, the New Products Review Group, as well as the Controllers, Credit Risk, Market Risk, Operational Risk, Model Risk, Legal, Compliance, Operations and Internal Audit departments. GSBE used the same risk management system as in the previous year. GSBE has its own control and risk management systems which integrate into the global control and risk management systems at Group Inc. and it exercises its responsibilities in close cooperation with the its affiliates GS&CO, GSI, Goldman Sachs Poland Services sp. z.o.o., Warsaw, and Goldman Sachs Services Private Limited, Bengaluru.

Risk Types

As part of an annual risk inventory, GSBE identifies relevant risk categories and individual risks for bank activities, including outsourced functions, as well as their importance in accordance with MaRisk AT 2.2. No. 2. As in previous years, GSBE has specified the following risk categories that are consequently included in the bank's risk management processes:

- Market price risk
- Counterparty default risk
- Liquidity risk
- Operational risk (including legal risk)
- Business and earning risk (including reputational risk)
- Other risks

Risk Control and Risk Measurements

Risk management regularly reviews and monitors risk limits (in particular for market price risk and counterparty risk) and results of stress-test analyses. These include the daily credit limit and large loan monitoring, the monthly FRIP (Frankfurt Risk Information Package), which contains among others the total capital ratio report, monthly report on the income statement and the semi-annual assessments and interim monthly commentary on the company's risk-bearing capacity, as well as a detailed risk inventory, operational risk and internal audit report which are presented to the Executive Board at least once per year. Additional stress-test analyses are also performed on a quarterly basis.

For 2018, key regulatory figures were determined using the standardized approach, as well as the operational risk using the basic indicator method. As part of determining GSBE's risk-bearing capacity, proprietary risk calculation processes are used, which are based partially on value-at-risk approaches, capital models, scenario analyses, as well as expert estimates. In addition, GSBE also uses additional stress test procedures in the form of scenario and sensitivity analyses.

Market Risks

Other than provisions for equity awards and pension provisions, GSBE generally did not have any material market risk sensitive positions that are not hedged using back-to-back or other hedge transactions. With the exception of these risks and any moderate market price risks associated with possible new activities, the risk policy requires hedge transactions with terms identical to the hedged transactions to be executed promptly. Hedging was adjusted appropriately when changes occur to the hedged transactions. The valuation of provisions for the equity awards is based on the share price of Group Inc. Thus, the administrative expenses increase if the share price rises compared to the price at the time the shares were granted.

Interest rate risk existed in reporting year primarily from GSBE's unfunded pension provisions. All other receivables and liabilities bear a variable rate of interest or have a maximum fixed interest period of three months, or are hedged against interest rate risks through interest rate swaps. A present value change of €(35.9) million / €30.0 million was calculated as of December 2018 based on an internal method under scenarios 1 and 2 (-/+ 200bps parallel shock), which represents -9.89% / +8.29% of eligible capital

Currency risks from balance sheet businesses existed only to a limited extent in reporting year, since open currency positions were closed immediately. For 2018, there was an expense from foreign exchange translation of €0.2 million (prior year: €0.0 million).

In addition to the regulatory risk indicators with mandatory disclosure, GSBE also quantified its market price risk in reporting year, especially via the potential losses from interest rate, currency and share price risk and other market risks related to GSBE's trading activities, which it calculates as part of its risk-bearing capacity analysis, which are modelled using in-house procedures for a confidence level of 99.9% and contained within limits approved by the Executive Board. Furthermore, GSBE regularly analyses stress scenarios in order to observe, measure and mitigate the risk arising from possible share price developments. There were no further market price risks during the year ended or as of December 2018.

Counterparty Risk

Counterparty risk in reporting year existed primarily with affiliated companies in the Goldman Sachs Group, and especially in relation to the secured and unsecured investment of GSBE's excess liquidity and to selective derivative transactions for hedging purposes. In 2018, the company did not engage in any classic lending, securities, derivative or money dealing business with non-affiliated companies, and therefore any other counterparty risk was limited primarily to outstanding fees from clients, moderate monetary deposits at third-party banks, and placements of excess liquidity with central banks.

The credit risk strategy in reporting year aimed to maintain a high credit quality standard and to minimize credit risks through the extensive use of collateral. Based on its external rating and internal credit analyses, the counterparty risk of Group Inc. continued to be categorized as low. The other counterparties are predominantly highly-rated and therefore considered to have a very low level of counterparty risk, as well as a few smaller sub-investment grade borrowers or credit risks for which collateral may be provided to the extent deemed required. In 2018, GSBE had no need for individual or general write-downs of risk positions.

In addition to approving and consistently monitoring the counterparty risk associated with individual borrowers or borrowing units, GSBE also quantified its counterparty risk in terms of potential portfolio losses which were calculated as part of its risk-bearing capacity analysis for a confidence level of 99.9% and an analysis period of one year using default probabilities based on in-house rating assessments, assumed risk exposure per borrower, simulated loss given default ratios, as well as assumptions with regard to the correlation between borrower defaults. The resulting loss potential was contained within limits approved by the Executive Board. The loss potential also included assumed losses from short-term bank deposits and investments in affiliated companies. Furthermore, GSBE analysed stress scenarios in order to measure and mitigate possible risk concentrations, in particular, and the impacts of any impairment of collateral. GSBE also regularly studied the country and sector concentration of the default risks.

Liquidity Risk

There were no material liquidity or funding risks in 2018 due to constant excess liquidity and the available funding options with Group Inc.

Operational Risk

A comprehensive risk inventory is performed annually, in which each department examines potential operational risk sources and scenarios and their effects on the bank's financial position and reputation. In addition, the controls and monitoring functions which had been implemented were reviewed for their effectiveness. Based on this analysis, the bank identifies residual risks that are added to its monitoring and management coverage. In addition to the local monitoring and management of operational risks by the Risk Committee, operational risk management is also integrated into the Group Inc. risk management system.

GSBE quantified its operational risks, especially the potential losses which are calculated as part of its risk-bearing capacity analysis for a confidence level of 99.9% using an in-house model and the results of the annual risk inventory and are contained within limits approved by the Executive Board. Furthermore, GSBE performed additional stress and sensitivity analyses in order to measure and mitigate the impacts of adverse assumptions with regard to the probability and severity of operational loss incidents and the correlation between loss events.

Business and Earnings Risk

Business and earnings risk is the potential loss of future income and therefore earnings which could result from internal decisions and/or external influences. Key business and earnings risks identified in reporting year as potential risk drivers were reputational risk, strategy risk, project and expense risk and the risk of negative market developments. In order to minimize and manage these risks, GSBE has implemented a broad range of processes and business standards that are based on measures to build trust and integrity, the promotion of sustainable client relationships, and the responsibilities assigned to committees, departments and individual employees. In addition to conflict management, these measures also include the remuneration system, which sets incentives for the achievement of sustainable business performance by GSBE and is consequently also designed to minimise risk.

The Executive Board and Risk Committee monitor the current earnings situation using a monthly report that provides comparative figures for the previous year and budget figures. The commission income is itemised by business segment.

Furthermore, GSBE quantified the business and earnings risk in terms of the potential losses, which are calculated as part of its analysis of risk-bearing capacity based on a scenario analysis and are contained within limits approved by the Executive Board. In addition, GSBE performed further stress calculations for adverse scenarios.

Risk Concentrations

Consistent with its risk strategy, GSBE pursues the goal of minimizing or limiting risks and any related concentration risks. Concentration risks resulting from the bank's activities are identified and analysed during risk inventory, and as a consequence in scope of increased control and monitoring processes, as well as regular stress test analyses. GSBE uses risk limits, hedge transactions and/or collateral to avoid or limit concentration risk as much as possible. Stress-test and risk calculations are used to appropriately include or quantify any remaining concentration risks during the analysis of the bank's risk-bearing capacity. The results are presented to the Risk Committee and Executive Board in quarterly reports.

Risk-Bearing Capacity

In 2018, GSBE conducted the calculation of risk-bearing capacity at least semi-annually on the basis of the primary liquidation approach (confidence level 99.9%) and the complementary going concern approach (99%). In addition to the risk-bearing capacity calculation, GSBE examined on a monthly basis and ad-hoc as necessary whether the risk-bearing capacity situation has changed materially and may require a new calculation.

The risk-bearing capacity was maintained at all times of observation, and risk utilization at the level of total risk was adequate within the limits and risk cover potential respectively set by the Executive Board. Operational and counterparty risk were the main sources of risk in the financial year, followed by the market price risks of the Bank (including share price, interest rate, and currency risks).

The risk positions as of both December 2018 and December 2017 are as shown below in the table, and all changes were in the scope of normal fluctuation margins.

	As of December	
€ in millions	**2018**	2017
Market risk	**€ 6.3**	€ 9.1
Counterparty Risk	**19.3**	16.6
Operational Risk	**23.4**	26.4
Business and earnings risk	**0.0**	0.0
Total risk	**€ 49.0**	€ 52.1
Total risk cover potential (RCP)	**€362.6**	€317.7
Risk utilization of RCP in %	**14%**	16%

Capital Planning

At least once a year, GSBE plans its capital requirements over several years consistent with its strategy and business plans. This is an integral part of its business strategy and budget planning procedure, and involves stress test analysis to take into account the impacts of possible adverse market and risk trends in context with a potential economic recession in order to identify potential repercussions on its strategic plans and to ensure sufficient capital for GSBE at all times.

Use of Financial Instruments

Apart from the financial instruments that GSBE buys and sells in its capacity as an intermediary or paying agent and without exposure to market price risk, the only financial instruments GSBE used are financial derivatives for hedging risks associated with other balance sheet items, especially interest rate risk. These hedges were entered into on individual transaction level and aim to completely exclude any underlying risk by ensuring that the characteristics of the balance sheet item are identical to those of the hedge transaction.

As of the reporting date, GSBE did not engage in proprietary trading of financial instruments.

Miscellaneous

GSBE is a member of the deposit insurance scheme offered by the Federal Association of German Banks.

Relationship with Affiliated Companies

Based on the circumstances known to it at the time that the transaction was performed or delivered, the Management Board declares that GSBE received appropriate consideration for each transaction and the performance or delivery of the transactions was not detrimental to GSBE.

Frankfurt am Main, May 14, 2019

Goldman Sachs Bank Europe SE

The Management Board

Dr. Wolfgang Fink

Thomas Degn-Petersen

Dr. Matthias Bock

Pierre Chavenon

GOLDMAN SACHS BANK EUROPE SE (until January 15, 2019 Goldman Sachs AG)

Balance Sheet

Balance Sheet as of December 31, 2018

Assets in € in thousands		Note	As of December 2018	2017
Cash reserve				
a)	Balances with central banks		**€336,113**	€349,880
	thereof: with Deutsche Bundesbank		**336,112**	349,879
			336,113	349,880
Receivables from banks				
a)	on demand		**6,474**	1,504
			6,474	1,504
Receivables from customers		3	**383,604**	312,091
Investments in affiliated companies		7	**444**	5,284
Fixed assets		7	**3,122**	1,823
Other assets		8	**20,188**	9,280
Prepaid expenses		10	**245**	217
Total assets			**€750,290**	€680,079

Liabilities and shareholder's equity in € thousands			Note	As of December 2018	2017
Liabilities to banks					
a)	on demand			**€ 375**	€ 110
b)	with agreed term or notice period		3	**10,028**	10,028
				10,403	10,138
Liabilities to customers					
a)	Other liabilities				
	aa)	on demand		**40,586**	41,089
	ab)	with agreed term or notice period	3	**161,775**	143,025
				202,361	184,114
Other liabilities			11	**19,242**	22,893
Deferred income			12	**1,798**	912
Provisions			13		
a)	Provisions for pensions and similar commitments			**48,295**	41,354
b)	Tax provisions			**24,580**	15,692
c)	Other provisions			**36,959**	42,406
				109,834	99,452
Subordinated debt			14	**20,000**	20,000
Equity					
a)	Ordinary share capital		15	**10,000**	10,000
b)	Capital surplus			**86,307**	86,307
c)	Other profit reserves			**246,263**	201,430
d)	Distributable profit		26	**44,082**	44,833
				386,652	342,570
Total liabilities and shareholders' equity				**€750,290**	€680,079

Income Statement for the period from January 1, 2018 to December 31, 2018

€ in thousands			Note	Year Ended December 2018	Year Ended December 2017
Interest income			17		
a)	Lending and money market business			**€ 3,161**	€ 2,817
	thereof: negative interest			**(1,414)**	(1,522)
Interest expense			17	**(1,323)**	(1,203)
	thereof: positive interest			**145**	148
				1,838	1,614
Commission income			18	**142,974**	147,758
Commission expense				**(9,423)**	(13,315)
				133,551	134,443
Other operating income			19	**11,852**	9,998
General administration expenses			20		
a)	Staff expenses				
	aa)	Wages and salaries		**(52,666)**	(53,721)
	ab)	Compulsory social security contributions and expenses for pensions and other employee benefits		**(3,025)**	(2,702)
		thereof: for pensions		**(483)**	(288)
b)	Other administration expenses			**(21,791)**	(16,091)
				(77,482)	(72,514)
Depreciation, amortization, and valuation allowance for intangible and fixed assets			21	**(359)**	(330)
Other operating expense			22	**(7,203)**	(4,950)
Result from ordinary activities				**62,197**	68,261
Extraordinary expenses			23	**(2,267)**	-
Extraordinary result				**(2,267)**	-
Income Taxes			24	**(15,848)**	(23,428)
Net Income				**44,082**	44,833
Profit carried forward from previous year				**44,833**	52,682
Allocation to revenue reserves				**(44,833)**	(52,682)
Distributable profit			26	**€44,082**	€44,833

Note 1.

General Information

Goldman Sachs Bank Europe SE (GSBE or the company) is registered under HRB 114190 of the local district court in Frankfurt am Main, Germany. The company was known as Goldman Sachs AG (GSAG) with register number HRB 91313 until January 15, 2019. On that day, GSAG merged with its wholly-owned subsidiary Goldman Sachs Gestión S.A. (GS Gestión) on a retroactive basis as of January 1, 2018. At the same time the name was changed to Goldman Sachs Bank Europe and the legal form to a Societas Europaea (SE). The operations of the former GS Gestión are continued within the Spanish Branch of GSBE (Goldman Sachs Bank Europe SE, Sucursal en España).

The annual financial statements of GSBE have been prepared in accordance with the requirements of the German Commercial Code (HGB), the German Stock Corporation Act (AktG) and the Ordinance Regulating the Accounting Requirements for Banks and Financial Services Institutions (RechKredV). For clarity, figures are presented as € thousands, except where otherwise stated.

Prior year numbers relate to the financial statements of GSAG without consideration of the merger with GS Gestión. The merger did not have any material impact on the financial statements for 2018 and did not materially impact prior year comparative disclosures.

Note 2.

Accounting and Valuation Methods

Cash Reserve and Receivables

The cash reserve is recognized at its nominal value. Receivables from credit institutions and from customers are recognized at their nominal values less any irrecoverable receivables and include accrued interest.

Investments in Affiliated Companies

Investments in affiliated companies are recognized at their acquisition cost less any write down due to impairment. If the reasons for prior write downs performed are no longer applicable, then they are reversed in compliance with Section 253 (5) HGB.

Fixed and Intangible Assets

The carrying value of assets with limited useful economic lives has been valued at acquisition cost less regular straight-line depreciation. Regardless of whether the useful life is limited the valuation of assets is carried out in accordance with Section 253 (3) sentence 5 HGB and any needed impairment is recorded.

Other Assets

Other assets are valued at their acquisition cost in accordance with the lowest value principle. One-time payments made in the context of hedging transactions are amortized over the term of the transaction.

Prepaid Expenses and Deferred Revenues

In accordance with Section 250 HGB, deferred expenses and revenue are recognized in order to ensure correct timing in profit allocation.

Deferred Tax Assets

The accounting choice to consider deferred tax assets on the balance sheet has not been taken for the year.

Liabilities

Liabilities are recognized with their settlement amounts in accordance with Section 253 (1) sentence 2 HGB. Registered bonds and promissory notes issued by GSBE are recognized at nominal value and presented as liabilities to banks/customers with agreed term or notice period.

Hedge Accounting

In order to hedge interest rate risks arising from the issuance of registered bonds and promissory notes GSBE entered into interest rate swaps. On the basis of the hedging relationship, the hedging transactions are micro-hedges that represent an effective and complete hedging relationship over the entire term. The determination of the market value of the interest rate swaps is made on the basis of standard valuation models. Measurement of effectiveness is performed by comparing the market value of the liabilities and their respective interest rate swaps. There were nine valuation units established in accordance with Section 254 HGB. The recognition of the effective parts of the valuation units is performed using the net hedge presentation method.

Provisions

Provisions are measured at the amount that is determined as necessary in accordance with reasonable commercial judgment. Provisions with a remaining term of more than one year are discounted with the average market interest rate of the past seven years according to their remaining term. The applicable discount rate is determined and announced by the German central bank (Deutsche Bundesbank) in accordance with the German discounting ordinance (Rückabzinsungsverordnung).

A potential provision requirement for interest rate risk for the purposes of the loss-free valuation was assessed for all interest bearing financial instruments in the non-trading book using the present value method. The company used the simplified two step approach. The assessment resulted in no need to recognize a provision for anticipated losses.

Provisions for pensions are valued using the Projected Unit Credit Method (method according to IAS 19). The basis for valuation is the periodic allocation of the benefit obligation during the service period of the employee, the present value of this obligation is calculated with the help of actuarial assumptions. The actuarial assumptions reflect the fair value of cash flows (actuarial interest rate) and the likelihood of payments (assumptions about mortality, fluctuation and early retirement, etc.). The interest expense component and the effect from changes in the interest rate are recognized in other operating expenses. The interest rate is based on the average interest rate of the previous ten years.

The table below presents the actuarial assumptions used in the calculation.

	As of December 2018
Biometrics	**Mortality tables Heubeck 2018 G**
Actuarial interest rate	**3.31%**
Dynamic of eligible payments	**3.00%**
Dynamics of the social security contribution ceiling of the statutory pension scheme	**2.75%**
Dynamics of adjustments to current pensions (inflation rate p.a.)	**1.00% for commitments after 1 Dec 2007, otherwise 1.80%**

Provisions for share-based compensation are recognized from the granting date up to the delivery date and are valued as of December 2018 with the share price of The Goldman Sachs Group, Inc. (Group Inc.).

Equity

The ordinary share capital is recognized at nominal value and is fully paid in.

Currency translation

Assets and liabilities in foreign currencies were converted to Euro on the balance sheet date using group-wide currency conversion rates. Expenses and income are converted using the foreign exchange rates valid at the time of the transaction. Net income from the conversion is recognized in other operating income and net expenses are recognized in other operating expenses. Foreign currency exposures are monitored and hedged as appropriate.

Notes to the Balance Sheet

Note 3.

Residual Maturity of Receivables and Liabilities

	As of December	
€ in thousands	**2018**	2017
Receivables from customers		
With a remaining maturity of:		
up to three months	**€ 8,739**	€ -
more than three months up to one year	**11,472**	1,471
Total	**€20,211**	€1,471

Receivables from customers do not include receivables with an indefinite term.

	As of December	
€ in thousands	**2018**	2017
Liabilities to banks with agreed term or notice period		
With a remaining maturity of:		
up to three months	**€ -**	€ -
more than three months up to one year	**28**	28
more than three months up to five years	**10,000**	-
more than five years	**-**	10,000
Total	**€10,028**	€10,028
Other liabilities to customers with agreed term or notice period		
With a remaining maturity of:		
up to three months	**€ 8,742**	€ -
more than three months up to one year	**1,525**	1,525
more than one year up to five years	**36,507**	16,500
more than five years	**115,000**	125,000
Total	**€161,775**	€143,025
Interest rate swap notional amounts		
With a remaining maturity of:		
more than one year up to five years	**€ 36,500**	€ 16,500
more than five years	**115,000**	135,000
Total	**€151,500**	€151,500

Note 4.

Receivables and Liabilities with Affiliated Companies

The table below presents the company's receivables and liabilities with affiliated companies.

	As of December	
€ in thousands	**2018**	2017
Receivables from banks	**€ 3,500**	€ 577
Receivables from customers	**€ 354,706**	€ 296,945
Liabilities to banks	**€ 375**	€ 110
Liabilities to customers	**€ 49,327**	€ 40,987
Subordinated liabilities	**€ 20,000**	€ 20,000

Note 5.

Foreign Currency Volumes

€ in thousands	As of December 2018	2017
Assets	**€50,876**	€39,783
Liabilities	**32,499**	32,657
Total	**€18,377**	€ 7,126

Note 6.

Equities and Non-Interest Bearing Securities

In accordance with Section 246 (2) sentence 2 HGB, shares and other variable-income securities relating to the employee benefit plan were set off against the commitment for the employee benefit plans with a fair value of €39.4 million. There is no excess amount resulting from the offsetting of assets with the obligations.

Note 7.

Non-Current Assets

Non-current assets include fixed assets and investments in affiliated companies. Book values of fixed assets included furniture and office equipment of €0.8 million (prior year: €0.7 million).

Investments in affiliated companies of €0.4 million (prior year: €5.3 million) are neither tradable nor listed on a stock exchange. The decrease of €4.8 million is due to the retroactive merger as of January 1, 2018 with GS Gestión.

The table below presents the company's fixed assets and investments in affiliated companies.

€ in thousands	Investments in affiliated companies	Fixed assets	Total
Acquisition cost			
As of December 2017	€5,617	€31,708	€37,325
Additions	**-**	**1,659**	**1,659**
Disposals	**(4,807)**	**(3)**	**(4,810)**
As of December 2018	**810**	**33,364**	**34,174**
Accumulated depreciation			
As of December 2017	333	29,885	30,218
Additions	**33**	**359**	**391**
Disposals	**-**	**(2)**	**(2)**
As of December 2018	**366**	**30,242**	**30,608**
Net book value			
As of December 2017	5,284	1,823	7,107
As of December 2018	**€ 444**	**€ 3,122**	**€ 3,566**

The table below presents companies that GSBE owns more than 20%.

Name	Register	Share of capital in %	Equity in € (k)	Net profit 2017 in € (k)
Goldman, Sachs & Co. Verwaltungs GmbH	**Frankfurt a.M.**	**100**	**26**	**21**
Goldman, Sachs Management GP GmbH	**Frankfurt a.M.**	**100**	**25**	**321**
Goldman Sachs Gives gGmbH	**Frankfurt a.M.**	**100**	**25**	**1**

Note 8.

Other Assets

Other assets primarily consisted of one-time premiums of €7.8 million (prior year: €8.5 million) paid for hedging transactions, which are being amortized over the term of the transaction, tax assets of €6.4 million (prior year: €0.6 million) and default fund contributions to various clearing houses and exchanges of €5.6 million (prior year: -).

Note 9.

Valuation Units

Registered bonds, promissory notes and offsetting interest rate swaps with a nominal value of €151.5 million were designated to valuation units. The amount of hedged risk is €9.4 million (prior year: €10.1 million) and represents the net cumulative increase in fair value of assets/increase in liabilities that were not recognized in profit and loss, after considering hedges.

Note 10.

Prepaid Expenses

Expenses related to subsequent financial years of €0.2 million (prior year: €0.2 million) were recognized as deferred expenses on the asset side of the balance sheet.

Note 11.

Other Liabilities

Other liabilities mainly consisted of employee-related benefit obligations of €13.8 million, which will be paid out in the following year (prior year: €19.3 million).

Note 12.

Deferred Income

Income related to subsequent financial years of €1.8 million (prior year: €0.9 million) was recognized as deferred income on the liability side of the balance sheet.

Note 13.

Provisions

Provisions of €48.3 million were held for pension obligations (prior year: €41.4 million). The pension obligation was calculated with the average interest rate of the past ten years. The difference, according to Section 253 para. 6 sentence 1 HGB, when applying the average interest rate from the past seven years was €11.1 million.

Other provisions included provisions for the share-based compensation program of €12.5 million (prior year: €23.1 million). The change over the previous year is mainly due to the change in the valuation of the provisions due to the change in the share price of Group Inc. as of December 2018 of $167.05 and the delivery of awards from prior years. Other provisions also included provisions for bonuses of €20.1 million (prior year: €15.6 million).

Note 14.

Subordinated debt

In 2018, there was subordinated debt of €20.0 million, which was granted for an indefinite period of time by Group Inc. First-time termination of the loan is possible as of December 2019. For this loan, interest of €0.2 million (prior year: €0.2 million) has been paid, with interest charged equal to 3-month euro LIBOR plus 150 basis points. An early repayment obligation does not exist. In the event of insolvency proceedings against the assets of GSBE or the liquidation of GSBE, the claim of Group Inc. for repayment of the loan will only be serviced after all other claims of non-subordinated lenders have been settled.

Note 15.

Ordinary Share capital

The Goldman Sachs (Cayman) Holding Company, George Town, Cayman Islands, holds 9,900,000 par value registered shares with equal rights, and Goldman, Sachs & Co. Finanz GmbH, Frankfurt am Main, holds 100,000 par value registered shares also with equal rights in the company's share capital with a shareholding of €10,000,000 divided into 10,000,000 par value registered shares.

The table below presents the number of shares in circulation for 2018.

Beginning balance	10,000,000
Issuance of new shares	-
Ending balance	**10,000,000**

Notes to the Income Statement

Note 16.

Breakdown of Income by Geographical Markets

	Year Ended December	
€ in thousands	**2018**	2017
Europe	**€111,890**	€123,425
USA	**45,475**	38,669
Asia	**623**	-
Total	**€157,988**	€162,094

In the table above, 71% of interest, commission and other operating income was generated in the European market (prior year: 76%).

Note 17.

Interest Income and Expense

Interest income of €3.2 million (prior year: €2.8 million) also included negative interest from financial assets of €1.4 million (prior year: €1.5 million). Interest expenses of €1.3 million (prior year: €1.2 million) also included positive interest on financial liabilities of €0.1 million (prior year: €0.2 million). Positive and negative interest is presented as "thereof" positions in the income statement. Interest expense generated from the valuation units was €1.1 million. (prior year: €1.1 million).

Note 18.

Commission Income

The table below presents commission income in GSBE's business lines.

	Year Ended December	
€ in thousands	**2018**	2017
Investment Banking	**€ 71,904**	€ 89,214
Goldman Sachs Asset Management	**31,626**	33,860
Private Wealth Management	**19,974**	11,902
Paying Agent Function	**19,470**	12,782
Total	**€142,974**	€147,758

Services to third parties were provided in Investment Banking, as well as Investment Brokerage, Financial Portfolio Management and Investment Advisory. Commission income in Private Wealth Management included private banking commission income of €8.1 million (prior year: €8.0 million) and commission income of the securities business of €11.9 million (prior year: €3.9 million).

Note 19.

Other Operating Income

Other operating income primarily included income from group internal reimbursements for services and investments of €11.5 million (prior year: €10.0 million).

Note 20.

General Administration Expenses

General administration expenses included personnel expenses of €55.7 million (prior year: €56.4 million) and other administration expenses of €21.8 million (prior year: €16.1 million).

Note 21.

Depreciation, Amortization and Valuation Allowance for Intangible and Fixed Assets

This item consists of regular straight-line depreciation of fixed assets of €0.2 million (prior year: €0.3 million). In 2018, no extraordinary write downs on fixed assets occurred.

Note 22.

Other Operating Expenses

Other operating expenses consisted primarily of the interest expense component resulting from discounting of pension provisions and similar commitments of €6.5 million (prior year: €4.5 million). Other operating expenses included expenses from currency translation of €0.2 million (prior year: €0.0 million).

Note 23.

Extraordinary Result

For 2018, GSBE shows an extraordinary expense of €2.3 million as a result of the merger of GSBE (formerly GSAG) with GS Gestión The loss amounts to the difference between the book value of the investment in GS Gestión recorded as of December 2017 and the book values of all assets and liabilities which were assumed by GSBE on a retroactive basis as of January 1, 2018 as part of the merger.

Note 24.

Income Taxes

Income taxes for 2018 were €17.7 million (prior year: €22.4 million) and were deducted from net income from ordinary operations.

Note 25.

Profit Distribution

The net profit for 2018 was €44.3 million. The Management Board and Supervisory Board will propose that net profit is transferred to retained earnings at the Annual General Meeting.

Note 26.

Report on Subsequent Events

The shareholders of GSBE injected a total of €300 million of equity into the entity in the form of 300 million new shares issued on February 25, 2019.

See Note 1 for information about the retroactive merger with GS Gestión.

No other relevant issues occurred after the end of the reporting period that might significantly impact the financial situation of the Company.

Note 27.

Other Information

Other Financial Obligations

Other financial obligations primarily included obligations arising from lease agreements for office facilities and vehicles, as well as other external services of €54.8 million (prior year: €56.1 million).

Total Auditor's Fee

In 2018, the auditor's fees consisted of:

a) Audit fees of €374k (prior year: €255k) and

b) Other audit-related services of €97k (prior year: €57k).

Other audit-related services relate to services according to Section 89 of the Securities Trading Act. Current year amounts include audit fees of €32k and fees for other audit-related services of €7k, which relate to the prior reporting period.

Management Board

The table below presents the Management Board of GSBE, which currently consists of four members.

Name
Dr. Wolfgang Fink, Managing Director (Chairman)
Dr. Jörg Kukies, Managing Director (until March 19, 2018)
Thomas Degn-Petersen, Managing Director (since March 6, 2018)
Dr. Matthias Bock, Managing Director
Pierre Chavenon, Managing Director (since February 21, 2019)

The publication of the information required under Section 285, no. 9, letter a and b HGB has been waived in accordance with the derogating provision of Section 286, no. 4, HGB. In 2018, no advances or loans were granted to the members of the Board.

Supervisory Board

The table below presents the Supervisory Board of GSBE, which currently consists of three members.

Name
Dermot W. McDonogh, Managing Director (since February 21, 2018) (Chairman)
Esta Stecher, Managing Director (since February 21, 2018) (Deputy Chairman)
Sally A. Boyle, Managing Director
Richard J. Gnodde, Managing Director (until February 19, 2018)
Michael R. Housden, Managing Director (until February 19, 2018)

The Supervisory Board receives no remuneration from the company for its work and no advances or loans were granted to the members.

Headcount

The table below presents the average headcount in FTE employed by GSBE.

	Year Ended December	
	2018	2017
Investment Banking	**57**	56
Investment Management	**40**	40
Federation	**53**	45
Total	**150**	141

Consolidated Financial Statements

GSBE and its subsidiaries are indirectly wholly-owned by the parent company, Group Inc. and included in its consolidated financial statements for the largest group of companies. The largest group of companies is also simultaneously the smallest group of companies for which consolidated financial statements are prepared. Due to immateriality of its subsidiaries pursuant to § 296, section 2, HGB, GSBE waives its obligation from preparing consolidated financial statements. The parent company's consolidated financial statements are available both at Group Inc.'s principal place of business, or at https://www.goldmansachs.com/investor-relations/financials/.

Frankfurt am Main, May 14, 2019

Goldman Sachs Bank Europe SE

The Management Board

Dr. Wolfgang Fink

Thomas Degn-Petersen

Dr. Matthias Bock

Pierre Chavenon

Independent auditors' report to Goldman Sachs Bank Europe SE

The following independent auditors' report is a translation from the authoritative German text which was issued on the German version of the annual financial statements and management report of Goldman Sachs Bank Europe SE.

Report on the audit of the annual financial statements and of the management report

Audit Opinions

We have audited the annual financial statements of Goldman Sachs Bank Europe SE, Frankfurt am Main, which comprise the balance sheet as at December 31, 2018, and the statement of profit and loss for the financial year from January 1, 2018 to December 31, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Goldman Sachs Bank Europe SE for the financial year from January 1, 2018 to December 31, 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2018 and of its financial performance for the financial year from January 1, 2018 to December 31, 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report.

We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1, 2018 to December 31, 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was:

❶ Transfer pricing of revenues within commission income

Our presentation of this key audit matter has been structured as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matter:

❶ Transfer pricing of revenues within commission income

① Commission income is the largest income position.

The business line Investment Banking contributes the largest portion of the commission income amounting to €71,904k, although only a limited part of these revenues is based on transfer pricing. The business activity of the business segment comprises mainly of the consultation and advisory services for companies and investors regarding mergers and acquisitions and of the assistance of companies with raising capital. Transfer pricing between the involved group entities is in principle performed on the basis of internal hourly rates.

The business line Investment Management with Goldman Sachs Asset Management and Private Wealth Management contributes €51,600k of the total commission income. It mainly consists of group internal transfer pricing based on local coverage.

The business line Paying Agent Function contributes €19,470k of the commission income. It mainly consists of fees in connection with the bank's paying agent function for an affiliate.

From our point of view, transfer pricing within commission income was of particular importance for our audit as it relies to a large extent on complex internal calculations, and a large portion of revenues in the business lines Investment Management and Paying Agent Function are not generated by external revenues.

② Regarding the commission income from the business line Investment Banking, we have performed tests of controls with regard to the transfer pricing and the approval of sales invoices. Further to that, we have performed tests of details with regard to the invoicing process.

Regarding the business line Investment Management, we have performed analytical audit procedures with regard to the growth of the income. Further to that, we have reconciled the transfer pricing with cash transactions on the bank accounts.

Regarding the commission income from the business line Paying Agent Function, we have received a transaction confirmation of the respective affiliate with regards to the amount of invoiced fees.

Further to that, we have utilized the group internal intercompany reconciliation for all business lines. This reconciliation ensures that commission income resulting from the revenue split corresponds to the commission expenses of other group companies.

③ Further information can be found in the notes in section 18. "Commission income".

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, 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 audit opinions.

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 controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive 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 the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. 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 be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on June 7, 2018. We were engaged by the supervisory board on March 29, 2019. We have been the auditor of Goldman Sachs Bank Europe SE, Frankfurt am Main, without interruption since the financial year 1991.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditors responsible for the engagement

The German Public Auditor responsible for the engagement is Kay Böhm.

Frankfurt am Main, May 14, 2019

PricewaterhouseCoopers GmbH

Wirtschaftsprüfungsgesellschaft

sgd. Kay Böhm	sgd. ppa. Benjamin Kunz
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)