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# Unaudited Quarterly Financial Report

## August 31, 2020

Goldman Sachs International (unlimited company)  
Company Number: 02263951

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## Management Report

### Introduction

Goldman Sachs International (GSI or the company) provides a wide range of financial services to clients located worldwide. The company also operates a number of branches and representative offices across Europe, the Middle East and Africa (EMEA) to provide financial services to clients in those regions.

The company's primary regulators are the Prudential Regulation Authority (PRA) and 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 (FRB). In relation to the company, "group undertaking" means Group Inc. or any of its subsidiaries. Group Inc., together with its consolidated subsidiaries, form "GS Group". GS Group is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and individuals.

The company seeks to be the advisor of choice for its clients and a leading participant in global financial markets. As part of GS Group, the company also enters into transactions with affiliates in the normal course of business as part of its market-making activities and general operations.

The company generates revenues from the following business activities: Investment Banking; Fixed Income, Currency and Commodities (FICC); Equities; and Investment Management, which includes Asset management and Wealth management.

The company strives to maintain a work environment that fosters professionalism, excellence, diversity, cooperation among employees and high standards of business ethics. The company recognises that it needs the most talented people to deliver outstanding results for clients. A diverse workforce in terms of gender, ethnicity, sexual orientation, background, culture and education ensures the development of better ideas, products and services. For further information about Goldman Sachs' people, culture and commitment to diversity, see [www.goldmansachs.com/our-firm/people-and-culture](http://www.goldmansachs.com/our-firm/people-and-culture).

References to "the financial statements" are to the unaudited financial statements as presented in Part II of this financial report. All references to August 2020, May 2020 and August 2019 refer to the periods ended, or the dates, as the context requires, August 31, 2020, May 31, 2020 and August 31, 2019. All references to November 2019 refer to the date November 30, 2019. All references to "the 2019 Annual Report" are to the company's Annual Report for the period ended November 30, 2019.

Unless otherwise stated, all amounts in this annual report are prepared in accordance with United Kingdom Generally Accepted Accounting Practices (U.K. GAAP). The company also prepares results under United States Generally Accepted Accounting Principles (U.S. GAAP), which are included in the consolidated financial statements of GS Group.

### Executive Overview

#### Profit and Loss Account

**Three Months Ended August 2020 versus August 2019.** The profit and loss account is set out on page 19 of this financial report. The company's profit for the three months ended August 2020 was \$845 million, an increase of \$404 million compared with the three months ended August 2019.

Net revenues were \$2.81 billion for the three months ended August 2020, 38% higher than the three months ended August 2019, primarily due to significantly higher net revenues in FICC, Equities and Investment Banking and higher net revenues in Investment Management.

Administrative expenses were \$1.55 billion for the three months ended August 2020, 11% higher than the three months ended August 2019, primarily due to significantly higher other expenses and higher brokerage, clearing, exchange and distribution fees, partially offset by lower direct costs of employment and occupancy.

**Nine Months Ended August 2020 versus August 2019.** The company's profit for the nine months ended August 2020 was \$2.03 billion, an increase of 50% compared with the nine months ended August 2019.

Net revenues were \$7.29 billion for the nine months ended August 2020, 20% higher than the nine months ended August 2019, primarily due to significantly higher net revenues in FICC and Investment Banking. Net revenues in Equities and Investment Management were essentially unchanged.

Administrative expenses were \$4.38 billion for the nine months ended August 2020, 6% higher than the nine months ended August 2019, primarily due to significantly higher other expenses and brokerage, clearing, exchange and distribution fees, and higher depreciation and amortisation, partially offset by significantly lower occupancy.

## Management Report

### Capital Ratios

As of August 2020, the company's Common Equity Tier 1 (CET1) capital ratio was 10.5% under the E.U. Capital Requirements Directive (CRD).

### Balance Sheet

The balance sheet is set out on page 20 of this financial report. In the subsequent paragraphs, total assets are the sum of "Fixed assets", "Current assets" and "Pension surplus". Total liabilities are the sum of "Creditors: amounts falling due within one year", "Creditors: amounts falling due after more than one year" and "Provisions for liabilities".

As of August 2020, total assets were \$1.31 trillion, an increase of \$273.13 billion from November 2019, primarily reflecting an increase in financial instruments owned of \$236.85 billion (primarily due to an increase in derivative instruments, principally as a result of an increase in interest rates, equities and currencies derivatives), debtors of \$21.50 billion (primarily due to an increase in cash collateral posted) and collateralised agreements of \$12.51 billion (primarily due to changes in firm activity).

As of August 2020, total liabilities were \$1.28 trillion, an increase of \$270.54 billion from November 2019, primarily reflecting an increase in financial instruments sold, but not yet purchased of \$251.03 billion (primarily due to an increase in derivative instruments, principally as a result of an increase in interest rates, equities and currencies derivatives) and other creditors of \$16.34 billion (primarily due to an increase in cash collateral received).

Total level 3 financial assets were \$6.82 billion as of August 2020 and \$5.33 billion as of November 2019. Level 3 financial assets as of August 2020 increased compared with November 2019, primarily reflecting an increase in Level 3 derivative instruments. See Note 17 to the financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurement.

Under U.S. GAAP, as of August 2020, total assets were \$431.93 billion and total liabilities were \$403.86 billion. The company's total assets and total liabilities under U.S. GAAP differ from those reported under U.K. GAAP primarily due to the company presenting derivative balances gross under U.K. GAAP if they are not net settled in the normal course of business, even where it has a legally enforceable right to offset those balances.

### Business Environment

Although uncertainty about the coronavirus (COVID-19) pandemic persisted into the three months ended August 2020, the operating environment continued to recover, as global economic activity rebounded significantly during the three months ended August 2020 following a sharp contraction at the beginning of the three months ended May 2020 and market volatility declined modestly. The reopening of businesses and relaxation of earlier lockdowns contributed to improving economic indicators, including higher consumer spending and lower U.S. and U.K. unemployment, and actions from central banks and governments globally remained accommodative. As a result, equity prices increased and credit spreads tightened. Unemployment benefits were extended in the U.S. as well as across other economies, including in the U.K. and across the E.U. Additionally, the ECB continued to intervene with monetary easing measures.

Despite broad improvements in the overall economy since March and April, an increase in new COVID-19 cases during October 2020 in certain regions of the world heightened concerns about the trajectory of the coronavirus, the reinstatement of lockdown measures, and the impact on the pace of economic recovery going forward. Additionally, the ongoing discussion around additional fiscal stimulus in the U.S. and the U.K. contributed to uncertainty about the economic outlook.

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### Results of Operations

#### Net Revenues

Net revenues include the net profit arising from transactions, with both third parties and affiliates, in securities, foreign exchange and other financial instruments, and fees and commissions. This is inclusive of associated interest and dividends.

The table below presents the company's net revenues by business activity.

<i>\$ in millions</i>	Three Months Ended August		Nine Months Ended August	
	2020	2019	2020	2019
Investment Banking	\$ 537	\$ 339	\$1,287	\$ 973
FICC	1,069	800	3,179	2,289
Equities	990	727	2,163	2,159
Investment Management	212	167	661	662
<b>Total net revenues</b>	<b>\$2,808</b>	<b>\$2,033</b>	<b>\$7,290</b>	<b>\$6,083</b>

In the table above, reclassifications have been made to previously reported amounts to conform to the current presentation of net revenues by business activity. See Note 2 to the financial statements for further information.

During the period, based on discussions with various tax authorities, GS Group updated its methodology for allocating net revenues among affiliates for their participation in GS Group's FICC and Equities business activities. This change is effective from January 1, 2020 and resulted in net revenues increasing by approximately \$425 million (\$225 million in FICC and \$200 million in Equities) in comparison to the three and nine months ended August 2019 (approximately \$309 million of which relates to the six months ended May 2020).

#### Investment Banking

Investment Banking consists of:

**Financial advisory.** Includes strategic advisory engagements with respect to mergers and acquisitions, divestitures, corporate defence activities, restructurings and spin-offs.

**Underwriting.** Includes 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.

**Corporate lending.** Includes lending to corporate clients, including relationship lending, middle-market lending and acquisition financing.

**Three Months Ended August 2020 versus August 2019.** Net revenues in Investment Banking were \$537 million for the three months ended August 2020, 58% higher than the three months ended August 2019, reflecting significantly higher net revenues in Underwriting and higher net revenues in Financial advisory, partially offset by significantly lower net revenues in Corporate lending.

The increase in Underwriting reflected significantly higher net revenues in Debt and Equity underwriting. The increase in Financial advisory reflected an increase in completed mergers and acquisitions transactions.

As of August 2020, the EMEA investment banking transaction backlog was essentially unchanged compared with May 2020, primarily due to higher estimated net revenues from potential equity underwriting transactions partially offset by lower estimated net revenues from potential advisory transactions. Estimated net revenues from potential debt underwriting transactions were essentially unchanged.

#### Nine Months Ended August 2020 versus August 2019

**Net revenues in Investment Banking** were \$1.29 billion for the nine months ended August 2020, 32% higher than the nine months ended August 2019, reflecting significantly higher net revenues in Underwriting, partially offset by significantly lower net revenues in Corporate lending and lower net revenues in Financial advisory.

The increase in Underwriting reflected significantly higher net revenues in Debt underwriting and Equity underwriting. The decrease in Financial advisory reflected a decrease in completed mergers and acquisitions transactions.

As of August 2020, the EMEA investment banking transaction backlog was lower compared with November 2019, primarily due to significantly lower estimated net revenues from potential advisory transactions, lower estimated net revenues from potential debt underwriting transactions and slightly lower estimated net revenues from potential equity underwriting transactions.

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The backlog represents an estimate of net revenues from future transactions where the company believes that future revenue realisation is more likely than not. The changes in backlog may be a useful indicator of client activity levels which, over the long term, impact net revenues. However, the time frame for completion and corresponding revenue recognition of transactions in the backlog varies based on the nature of the engagement, as certain transactions may remain in the backlog for longer periods of time, which could occur in light of the impact of the COVID-19 pandemic on mergers and acquisitions. In addition, the backlog is subject to certain limitations, such as assumptions about the likelihood that individual client transactions will occur in the future. Transactions may be cancelled or modified, and transactions not included in the estimate may also occur, including underwriting transactions for which the time frame from discussion to completion has shortened in the current environment.

### FICC

FICC generates revenues from intermediation and financing activities.

- **FICC intermediation.** Includes client execution activities related to making markets in both trading cash and derivative instruments, as detailed below.

**Interest Rate Products.** Government bonds (including inflation-linked securities) across maturities, other government-backed securities, and interest rate swaps, options and other derivatives.

**Credit Products.** Investment-grade corporate securities, high-yield securities, credit derivatives, exchange-traded funds, bank and bridge loans, municipal securities, emerging market and distressed debt, and trade claims.

**Mortgages.** Commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives, and other asset-backed securities, loans and derivatives.

**Currencies.** Currency options, spot/forwards and other derivatives on G-10 currencies and emerging-market products.

**Commodities.** Commodity derivatives and, to a lesser extent, physical commodities, involving crude oil and petroleum products, natural gas, base, precious and other metals, electricity, coal, agricultural and other commodity products.

- **FICC financing.** Includes providing financing to the company's clients through securities sold under agreements to repurchase (repurchase agreements), as well as through structured credit and asset-backed lending, which are typically longer term in nature.

**Three Months Ended August 2020 versus August 2019.** Net revenues in FICC were \$1.07 billion for the three months ended August 2020, 34% higher than the three months ended August 2019 due to significantly higher net revenues in FICC intermediation and higher net revenues in FICC financing. The increase in FICC intermediation reflected significantly higher net revenues in interest rate products and credit products, higher net revenues in commodities and mortgages, partially offset by significantly lower net revenues in currencies.

**Nine Months Ended August 2020 versus August 2019.** Net revenues in FICC were \$3.18 billion for the nine months ended August 2020, 39% higher than the nine months ended August 2019 due to significantly higher net revenues in FICC intermediation and higher net revenues in FICC financing. The increase in FICC intermediation reflected significantly higher net revenues in interest rate products, commodities and credit products and higher net revenues in currencies, partially offset by lower net revenues in mortgages.

### Equities

Equities generates revenues from intermediation and financing activities.

- **Equities intermediation.** Includes client execution activities related to making markets in equity products and commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide, as well as over-the-counter (OTC) transactions.
- **Equities financing.** Includes prime brokerage and other equities financing activities, including securities lending, margin lending and swaps and generates revenues primarily in the form of interest rate spreads or fees.

The company's net revenues are influenced by a combination of interconnected drivers, including (i) client activity levels and transactional bid/offer spreads and (ii) changes in the fair value of its inventory, and interest income and interest expense related to the holding, hedging and funding of its inventory.

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**Three Months Ended August 2020 versus August 2019.** Net revenues in Equities were \$990 million for the three months ended August 2020, 36% higher than the three months ended August 2019 due to significantly higher net revenues in Equities intermediation, partially offset by significantly lower net revenues in Equities financing. The increase in Equities intermediation reflected significantly higher net revenues in derivatives and cash products. The decrease in Equities financing primarily reflected higher net funding costs.

**Nine Months Ended August 2020 versus August 2019.** Net revenues in Equities were \$2.16 billion for the nine months ended August 2020, essentially unchanged compared with the nine months ended August 2019 due to significantly higher net revenues in Equities intermediation, largely offset by significantly lower net revenues in Equities financing. The increase in Equities intermediation reflected significantly higher net revenues in derivatives. The decrease in Equities financing primarily reflected a decrease in dividends in the six months ended May 2020 and higher net funding costs.

### Investment Management

Investment Management includes Asset management and Wealth management.

Asset management includes direct investments made by the company, which are typically longer-term in nature, and investing services provided to group undertakings or funds managed by GS Group.

Wealth management includes wealth advisory services, including portfolio management and financial counselling, brokerage and other transaction services to high-net-worth individuals and families.

**Three Months Ended August 2020 versus August 2019.** Net revenues in Investment Management were \$212 million for the three months ended August 2020, 27% higher than the three months ended August 2019, primarily due to higher net revenues in Wealth management.

**Nine Months Ended August 2020 versus August 2019.** Net revenues in Investment Management were \$661 million for the nine months ended August 2020, essentially unchanged compared with the nine months ended August 2019, primarily due to lower net revenues in Asset management, partially offset by significantly higher net revenues in Wealth management.

### Administrative Expenses

Administrative expenses are primarily influenced by compensation (including the impact of the Group Inc. share price on share-based compensation), headcount and levels of business activity. Direct costs of employment include salaries, allowances, estimated year-end discretionary compensation, amortisation and mark-to-market of share-based compensation and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, overall financial performance, prevailing labour markets, business mix, the structure of share-based compensation programmes and the external environment.

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

<i>\$ in millions</i>	Three Months Ended August		Nine Months Ended August	
	2020	2019	2020	2019
Direct costs of employment	\$ 619	\$ 668	\$1,946	\$1,921
Brokerage, clearing, exchange and distribution fees	270	240	810	670
Market development	4	19	33	68
Communications and technology	36	29	99	91
Depreciation and amortisation	48	32	130	85
Occupancy	2	43	10	159
Professional fees	33	36	118	134
Management charges from group undertakings	198	216	634	643
Management charges to group undertakings	(65)	(65)	(226)	(259)
Other expenses	407	178	830	618
<b>Total administrative expenses</b>	<b>\$1,552</b>	<b>\$1,396</b>	<b>\$4,384</b>	<b>\$4,130</b>
<b>Total headcount at period-end</b>	<b>4,368</b>	<b>4,225</b>		

In the table above:

- Direct costs of employment included a charge of \$36 million for the three months ended August 2020, a charge of \$92 million for the three months ended August 2019, a credit of \$11 million for the nine months ended August 2020 and a charge of \$93 million for the nine months ended August 2019 relating to the mark-to-market of share-based compensation.
- Occupancy includes rent and other occupancy-related costs for the company's legacy London campus. Management charges from group undertakings includes occupancy-related costs for the company's new London campus.

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**Three Months Ended August 2020 versus August 2019.** Administrative expenses were \$1.55 billion for the three months ended August 2020, 11% higher than the three months ended August 2019.

Direct costs of employment were \$619 million for the three months ended August 2020, 7% lower than the three months ended August 2019. Excluding the mark-to-market of share-based compensation for both periods, direct costs of employment were \$583 million for the three months ended August 2020, essentially unchanged compared with the three months ended August 2019.

Brokerage, clearing, exchange and distribution fees were \$270 million for the three months ended August 2020, 13% higher than the three months ended August 2019, reflecting an increase in activity levels.

Occupancy and management charges from group undertakings collectively were \$200 million for the three months ended August 2020, 23% lower than the three months ended August 2019, primarily due to non-recurring expenses incurred in the prior period related to the company's legacy London campus.

Other expenses were \$407 million for the three months ended August 2020, \$229 million higher than the three months ended August 2019. This reflected increased expenses for regulatory proceedings and an increase in activity where the company is principal to transactions for which it engages other GS Group entities to satisfy some or all of its performance obligations, resulting in a gross up in net revenues and expenses as required by IFRS 15 'Revenue from Contracts with Customers' (IFRS 15). See Note 18 for further information on regulatory proceedings.

As of August 2020, headcount was 3% higher compared with May 2020.

**Nine Months Ended August 2020 versus August 2019.** Administrative expenses were \$4.38 billion for the nine months ended August 2020, 6% higher than the nine months ended August 2019.

Direct costs of employment were \$1.95 billion for the nine months ended August 2020, essentially unchanged compared with the nine months ended August 2019. Excluding the mark-to-market of share-based compensation for both periods, direct costs of employment were \$1.96 billion for the nine months ended August 2020, 7% higher than the nine months ended August 2019, reflecting an increase in operating performance.

Brokerage, clearing, exchange and distribution fees were \$810 million for the nine months ended August 2020, 21% higher than the nine months ended August 2019, reflecting an increase in activity levels.

Depreciation and amortisation expenses were \$130 million for the nine months ended August 2020, 53% higher than the nine months ended August 2019, primarily due to an increase in computer software.

Occupancy and management charges from group undertakings collectively were \$644 million for the nine months ended August 2020, 20% lower than the nine months ended August 2019, primarily due to non-recurring expenses incurred in the prior period related to the company's legacy London campus.

Other expenses were \$830 million for the nine months ended August 2020, 34% higher than the nine months ended August 2019. This reflected increased expenses for regulatory proceedings and an increase in activity where the company is principal to transactions for which it engages other GS Group entities to satisfy some or all of its performance obligations, resulting in a gross up in net revenues and expenses as required by IFRS 15. See Note 18 for further information on regulatory proceedings.

As of August 2020, headcount was 3% higher compared with November 2019.

### Interest Payable and Similar Expenses

Interest payable and similar expenses consists of interest on long-term subordinated loans from parent and group undertakings.

**Three Months Ended August 2020 versus August 2019.** Interest payable and similar expenses was \$39 million for the three months ended August 2020, 35% lower than the three months ended August 2019 due to a decrease in average interest rates.

**Nine Months Ended August 2020 versus August 2019.** Interest payable and similar expenses was \$134 million for the nine months ended August 2020, 29% lower than the nine months ended August 2019 due to a decrease in average interest rates.

### Tax on Profit

The effective tax rate was 26.7% for the nine months ended August 2020, which compares to the U.K. corporation tax rate applicable to the company of 27%. The effective tax rate represents the company's tax on profit divided by its profit before taxation.

## Management Report

### Balance Sheet and Funding Sources

#### Balance Sheet Management

One of the company's risk management disciplines is its ability to manage the size and composition of its balance sheet. The company leverages the firmwide balance sheet management process performed at the GS Group level to manage these factors. While the asset base of the company changes due to client activity, market fluctuations and business opportunities, the size and composition of the company's balance sheet also reflects factors including (i) overall risk tolerance, (ii) the amount of equity capital held and (iii) the company's funding profile, among other factors. See "Equity Capital Management and Regulatory Capital — Equity Capital Management" for information about the company's equity capital management process.

In order to ensure appropriate risk management, the company seeks to maintain a sufficiently liquid balance sheet and leverages GS Group's processes to dynamically manage its assets and liabilities, which include (i) balance sheet planning, (ii) balance sheet limits, (iii) monitoring of key metrics and (iv) scenario analyses. See "Balance Sheet and Funding Sources — Balance Sheet Management" in Part I of the 2019 Annual Report for further information about the company's balance sheet management process.

#### Funding Sources

The company's primary sources of funding are collateralised financings, intercompany unsecured borrowings, external unsecured borrowings and shareholder's funds. The company raises this funding through a number of different products, including:

- Repurchase agreements and securities loaned;
- Intercompany loans from Group Inc. and other affiliates;
- Debt securities issued including notes, certificates, and warrants; and
- Other borrowings including funded derivatives and transfers of assets accounted for as financings rather than sales.

The table below presents information about the company's funding sources.

\$ in millions	As of			
	August 2020		November 2019	
Collateralised financings	\$133,255	52%	\$130,087	52%
Intercompany unsecured borrowings	60,732	23%	64,311	25%
External unsecured borrowings	27,262	11%	23,139	9%
Total shareholder's funds	36,842	14%	34,248	14%
<b>Total funding sources</b>	<b>\$258,091</b>	<b>100%</b>	<b>\$251,785</b>	<b>100%</b>

The company generally distributes funding products through its own sales force and third-party distributors to a large, diverse creditor base in a variety of global markets. The company believes that its relationships with external creditors are critical to its liquidity. These creditors include banks, securities lenders, corporations, pension funds, insurance companies, mutual funds and individuals. The company has imposed various internal guidelines to monitor creditor concentration across its external funding programmes.

**Secured Funding.** The company funds a significant amount of inventory on a secured basis, with external counterparties, as well as with affiliates. Secured funding includes collateralised financings in the balance sheet.

The company may also pledge its inventory as collateral for securities borrowed under a securities lending agreement. The company also uses its own inventory to cover transactions in which the company or its clients have sold securities that have not yet been purchased. Secured funding is less sensitive to changes in Group Inc. and/or the company's credit quality than unsecured funding, due to the posting of collateral to lenders. Nonetheless, the company analyses the refinancing risk of its secured funding activities, taking into account trade tenors, maturity profiles, counterparty concentrations, collateral eligibility and counterparty rollover probabilities. The company seeks to mitigate its refinancing risk by executing term trades with staggered maturities, diversifying counterparties, raising excess secured funding and pre-funding residual risk through the global core liquid assets (GCLA).

The company seeks to raise secured funding with a term appropriate for the liquidity of the assets that are being financed, and seeks longer maturities for secured funding collateralised by asset classes that may be harder to fund on a secured basis, especially during times of market stress.

A majority of the company's secured funding for securities not eligible for inclusion in the GCLA is executed through term repurchase agreements and securities loaned contracts. The company also raises secured funding through debt securities issued, other borrowings and intercompany loans.

The weighted average maturity of the company's external secured funding included in collateralised financings in the balance sheet, excluding funding that can only be collateralised by liquid government and agency obligations, exceeded 120 days as of August 2020.

**Intercompany Unsecured Borrowings.** The company sources funding through intercompany unsecured borrowings, primarily from its immediate parent undertaking, Goldman Sachs Group UK Limited, and Goldman Sachs Funding LLC (Funding IHC).

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Funding IHC is a wholly-owned, direct subsidiary of Group Inc. that facilitates the execution of GS Group's preferred resolution strategy. The majority of GS Group's unsecured funding is raised by Group Inc., which lends the necessary funds to Funding IHC and other subsidiaries, including the company, to meet asset financing, liquidity and capital requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of the company and other subsidiaries. Intercompany unsecured borrowings include loans, subordinated loans and other borrowings.

**External Unsecured Borrowings.** External unsecured borrowings include debt securities issued, other borrowings, bank loans and overdrafts.

**Shareholder's Funds.** Shareholder's funds is a stable and perpetual source of funding. See Notes 11 and 12 to the financial statements for further information.

## Equity Capital Management and Regulatory Capital

Capital adequacy is of critical importance to the company. The company has in place a comprehensive capital management policy that provides a framework, defines objectives and establishes guidelines to assist the company in maintaining the appropriate level and composition of capital in both business-as-usual and stressed conditions.

### Equity Capital Management

The company determines the appropriate amount and composition of its equity capital by considering multiple factors including the company's current and future regulatory capital requirements, the results of the company's capital planning and stress testing process, the results of resolution capital models and other factors, such as rating agency guidelines, the business environment and conditions in the financial markets.

The company's capital planning and stress testing process incorporates internally designed stress tests developed in accordance with the guidelines of the PRA's Internal Capital Adequacy Assessment Process (ICAAP). It is also designed to identify and measure material risks associated with business activities, including market risk, credit risk, operational risk and other risks. The company's goal is to hold sufficient capital to ensure that it remains adequately capitalised after experiencing a severe stress event. The company's assessment of capital adequacy is viewed in tandem with its assessment of liquidity adequacy and is integrated into its overall risk management structure, governance and policy framework.

In addition, as part of the company's comprehensive capital management policy, a contingency capital plan is maintained that provides a framework for analysing and responding to a perceived or actual capital deficiency, including, but not limited to, identification of drivers of a capital deficiency, as well as mitigants and potential actions. It outlines the appropriate communication procedures to follow during a crisis period, including internal dissemination of information, as well as timely communication with external stakeholders.

### Regulatory Capital

The company is subject to the capital framework for E.U.-regulated financial institutions prescribed in the CRD and the E.U. Capital Requirements Regulation (CRR). These capital regulations are largely based on the Basel Committee on Banking Supervision's (Basel Committee) capital framework for strengthening international capital standards (Basel III). The Basel Committee is the primary global standard setter for prudential bank regulation, and its member jurisdictions implement regulations based on its standards and guidelines. During the Brexit transition period, the current E.U. rules on prudential regulation will continue to apply to the company. The U.K. government has introduced legislation to provide that the current prudential rules will continue to apply from January 1, 2021.

The risk-based capital requirements are expressed as capital ratios that compare measures of regulatory capital to risk-weighted assets (RWAs). The CET1 capital ratio is defined as CET1 capital divided by RWAs. The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs.

The CET1 capital, Tier 1 capital and Total capital ratio requirements (collectively, the Pillar 1 capital requirements) are supplemented by:

- A capital conservation buffer of 2.5% of RWAs, consisting entirely of capital that qualifies as CET1 capital.
- A countercyclical capital buffer of up to 2.5% of RWAs (and also consisting entirely of CET1 capital) in order to counteract excessive credit growth. The buffer only applies to the company's exposures to certain types of counterparties based in jurisdictions which have announced a countercyclical buffer. The buffer was negligible as of August 2020. The countercyclical capital buffer applicable to the company could change in the future and, as a result, the company's risk-based capital requirements could increase.
- The individual capital requirement under Pillar 2A (an additional amount to cover risks not adequately captured in Pillar 1). The PRA performs a periodic supervisory review of the company's ICAAP, which leads to a final determination by the PRA of the individual capital requirement under Pillar 2A. This is a point in time assessment of the minimum amount of capital the PRA considers that a firm should hold.

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### Regulatory Risk-Based Capital Ratios

The table below presents information about the company's minimum risk-based capital requirements.

	As of	
	August 2020	November 2019
<b>Minimum risk-based capital requirements</b>		
CET1 capital ratio	8.2%	8.8%
Tier 1 capital ratio	10.1%	10.7%
Total capital ratio	12.7%	13.4%

In the table above:

- The minimum risk-based capital requirements incorporate the Pillar 2A capital requirement received from the PRA and could change in the future.
- Minimum risk-based capital requirements for the company have decreased compared with November 2019 due to a reduction in the countercyclical capital buffer and modification to the Pillar 2A capital requirements issued by the company's regulators in response to the COVID-19 pandemic.

In addition to the Pillar 2A capital requirement, the PRA also defines the forward-looking capital requirement which represents the PRA's view of the capital that the company would require to absorb losses in stressed market conditions. This is known as Pillar 2B or the "PRA buffer" and is not reflected in the requirements shown above.

The table below presents information about the company's risk-based capital ratios.

	As of	
	August 2020	November 2019
<i>\$ in millions</i>		
<b>Risk-based capital and RWAs</b>		
CET1 capital	\$ 25,914	\$ 24,082
Additional Tier 1 notes	\$ 8,300	\$ 8,300
Tier 1 capital	\$ 34,214	\$ 32,382
Tier 2 capital	\$ 5,224	\$ 5,377
Total capital	\$ 39,438	\$ 37,759
RWAs	\$245,865	\$206,768
<b>Risk-based capital ratios</b>		
CET1 capital ratio	10.5%	11.6%
Tier 1 capital ratio	13.9%	15.7%
Total capital ratio	16.0%	18.3%

In the table above:

- The company's CET1 capital ratio, Tier 1 capital ratio and Total capital ratio as of August 2020 decreased compared with November 2019, primarily due to an increase in the company's RWAs. See "Risk-Weighted Assets" for further information.
- CET1 capital, Tier 1 capital and Total capital as of August 2020 excluded the company's profit from July 1, 2020 through August 31, 2020, as such profits have not yet been approved to be included as regulatory capital by the PRA.

During the nine months ended August 2020 and the year ended November 2019, the company was in compliance with the capital requirements set by the PRA.

Certain prudential rules are subject to additional guidance and clarifications, which will be issued by the company's supervisors. All capital, RWAs and estimated ratios are based on current interpretation, expectations and understanding of the applicable rules and may evolve as the interpretation and application is discussed with the company's regulators.

### Risk-Based Capital

The table below presents information about the company's risk-based capital.

	As of	
	August 2020	November 2019
<i>\$ in millions</i>		
Called up share capital	\$ 598	\$ 590
Share premium account	5,568	5,196
Retained earnings	22,466	20,330
Profit from July 1, 2020 through August 31, 2020	(467)	—
Accumulated other comprehensive income	(90)	(168)
Deductions	(2,161)	(1,866)
<b>CET1 capital</b>	<b>25,914</b>	<b>24,082</b>
Additional Tier 1 notes	8,300	8,300
<b>Tier 1 capital</b>	<b>\$34,214</b>	<b>\$32,382</b>
<b>Tier 2 and Total capital</b>		
Long-term subordinated loans	\$ 5,377	\$ 5,377
Deductions	(153)	—
Tier 2 capital	5,224	5,377
<b>Total capital</b>	<b>\$39,438</b>	<b>\$37,759</b>

### Risk-Weighted Assets

The table below presents information about the company's RWAs.

	As of	
	August 2020	November 2019
<i>\$ in millions</i>		
Credit RWAs	\$123,659	\$106,329
Market RWAs	106,053	85,031
Operational RWAs	16,153	15,408
<b>Total</b>	<b>\$245,865</b>	<b>\$206,768</b>

In the table above:

- Credit RWAs as of August 2020 increased by \$17.33 billion compared with November 2019, primarily reflecting an increase in exposure on derivatives.
- Market RWAs as of August 2020 increased by \$21.02 billion compared with November 2019, primarily reflecting an increase in Value-at-Risk (VaR), principally due to higher market volatility.

See "Equity Capital Management and Regulatory Capital" in Part I of the 2019 Annual Report for a description of each RWA component.

## Management Report

### Leverage Ratio

The company is required to monitor and disclose its leverage ratio using the CRR's definition of exposure. The CRR establishes a 3% minimum leverage ratio requirement for certain E.U. financial institutions, including the company. This requirement has been incorporated into U.K. legislation. The company expects the leverage ratio requirement to become binding in June 2021. This leverage ratio compares the CRR's definition of Tier 1 capital to a measure of leverage exposure, defined as the sum of certain assets plus certain off-balance-sheet exposures (which include a measure of derivatives, securities financing transactions, commitments and guarantees), less Tier 1 capital deductions.

The table below presents information about the company's leverage ratio.

<i>\$ in millions</i>	As of	
	August 2020	November 2019
Tier 1 capital	\$ 34,214	\$ 32,382
Leverage exposure	\$775,786	\$740,306
<b>Leverage ratio</b>	<b>4.4%</b>	<b>4.4%</b>

In the table above, the leverage ratio as of August 2020 was unchanged compared with November 2019.

This leverage ratio is based on the company's current interpretation and understanding of this rule and may evolve as the interpretation and application of this rule is discussed with the company's regulators.

### Minimum Requirement for Own Funds and Eligible Liabilities

The company is subject to a minimum requirement for own funds and eligible liabilities (MREL) issued to affiliates. This requirement is subject to a transitional period which began to phase in from January 1, 2019 and will become fully effective on January 1, 2022. The company's regulatory capital and a portion of its intercompany borrowings, which have been amended to meet subordination and maturity requirements, satisfies its MREL requirement.

As of August 2020, the company's MREL was \$56.28 billion, which is in excess of its minimum transitional requirement and consists of the company's total regulatory capital, excluding Tier 2 capital deductions, of \$39.59 billion and eligible senior intercompany borrowings of \$16.69 billion.

## Regulatory Matters and Other Developments

### Regulatory Matters

The company's businesses are subject to extensive regulation and supervision worldwide. Regulations have been adopted or are being considered by regulators and policy-makers. The expectation is that the principal areas of impact from regulatory reform for the company will be increased regulatory capital requirements and increased regulation and restriction on certain activities. However, given that many of the new and proposed rules are highly complex, the full impact of regulatory reform will not be known until the rules are implemented and market practices develop under the final E.U. and/or U.K. regulations.

As a result of Brexit the company expects considerable change in the regulatory framework that will govern transactions and business undertaken by the company.

**Risk-Based Capital Ratios.** On June 27, 2020, the E.U. adopted amendments to the CRR to ease prudential constraints for banks and encourage lending to the economy during the COVID-19 pandemic. These changes do not have a material impact on the company's binding capital constraints.

See "Regulatory Matters and Other Developments" in Part I of the 2019 Annual Report for further information about the laws, rules and regulations and proposed laws, rules and regulations that apply to the company and its operations.

### Other Developments

**Brexit.** The E.U. and the U.K. have not yet completed their assessments of equivalence and there is increasing uncertainty as to the likelihood of those assessments being in place by the end of the transition period. GS Group is monitoring the ongoing development related to Brexit and continues to prepare for a scenario where U.K. financial services firms will lose access to E.U. markets on December 31, 2020 (a "hard" Brexit) while ensuring it remains flexible and well positioned to allow its clients to benefit from any more favourable scenarios. GS Group's planning also recognises that after the end of the transition period, it can rely on a degree of continuing access for its U.K. entities pursuant to national cross-border access regimes in certain jurisdictions (for example, based on specific licences or exemptions). See "Regulatory Matters and Other Developments — Other Developments" in Part I of the 2019 Annual Report for further information about GS Group's plan to manage a hard Brexit scenario.

## Management Report

### **Replacement of Interbank Offered Rates (IBORs), including London Interbank Offered Rate (LIBOR).**

The FCA, alongside the Bank of England and the members of the Working Group on Sterling Risk-Free Reference Rates, issued a statement on March 25, 2020 reaffirming that firms cannot rely on LIBOR being published after 2021. In October 2020, the International Swaps and Derivatives Association (ISDA) launched the IBOR Fallbacks Protocol, which will become effective in January 2021, and will provide derivatives market participants with new fallbacks for legacy and new derivatives contracts. Both counterparties will have to adhere to the Fallbacks Protocol or engage in bilateral amendments for the terms to be effective for derivative contracts. The company has adhered to the Fallbacks Protocol for its derivative contracts. The company continues to make progress on its LIBOR transition programme in line with this deadline.

**Impact of COVID-19 Pandemic.** The persistence of the COVID-19 pandemic poses ongoing challenges for the global economy. While economic activity has generally accelerated from earlier in the year when widespread lockdown measures were in place, progress has been uneven across countries and the sustainability of global economic recovery is vulnerable to the risk of a resurgence in infections. Governments and central banks around the world have remained proactive in responding to the crisis through unprecedented accommodative monetary policy and fiscal stimulus.

The company has continued to successfully execute on its Business Continuity Planning (BCP) strategy since initially activating it in March 2020 in response to the emergence of the COVID-19 pandemic. The company's priority has been to safeguard its employees and to seek to ensure continuity of business operations on behalf of its clients. As a result of the company's BCP strategy, the majority of its employees worked remotely during the three months ended August 2020, as in the three months ended May 2020. The company has established policies and protocols to enable a phased return to office, taking into account the readiness of people, communities and facilities. These policies and protocols continue to be reviewed and updated in light of the changing public health situation and legislative requirements.

The company's systems and infrastructure have continued to support all of its activities. Furthermore, the company has ongoing dialogues with vendors intended to ensure that they continue to meet the company's criteria for business continuity.

The company's liquidity position during the three months ended August 2020 remained strong. The company's GCLA averaged \$62.26 billion for the three months ended August 2020, an increase of \$4.06 billion compared with the three months ended May 2020. The company's capital ratios increased as of August 2020 compared with May 2020, primarily driven by a decrease in RWAs, and remained well in excess of minimum requirements. See "Liquidity Risk Management" and "Equity Capital Management and Regulatory Capital" for further information.

The company's average daily VaR for the three months ended August 2020 was \$56 million, an increase of \$26 million compared with the three months ended August 2019, reflecting higher levels of volatility. The company continued to provide market making services to its clients while managing market risk levels proactively through ongoing review of exposure limits and focusing on ways to mitigate risk. Credit risk, in general, remains elevated across the banking industry. Throughout the crisis, the company has remained highly focused on monitoring of credit exposures and management of margin calls and disputes. The company's risk positions remain balanced and controlled both in terms of counterparty risk and sector exposure. See "Market Risk Management" and "Credit Risk Management" for further information.

The COVID-19 pandemic has created significant uncertainty regarding the operating environment for the future, as the duration and course of the pandemic cannot be predicted at this time. A sustained period of weak economic conditions as a result of the pandemic would be detrimental to the company's businesses as it would negatively affect factors that are important to its operating performance, such as the level of client activity and creditworthiness of counterparties. The company is monitoring the ongoing developments related to the COVID-19 pandemic and will take further action as may be required by government authorities or that it determines are in the best interests of its employees, clients and counterparties. For further information about the risks associated with the COVID-19 pandemic, see "Principal Risks and Uncertainties — COVID-19".

## **Principal Risks and Uncertainties**

The company faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, model, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2019 Annual Report other than as described below.

## Management Report

### COVID-19

The COVID-19 pandemic has created economic and financial disruptions that have in the past adversely affected, and may in the future adversely affect the company's business, financial condition, liquidity and results of operations. The extent to which the COVID-19 pandemic will negatively affect the company's businesses, financial condition, liquidity and results of operations will depend on future developments, which are highly uncertain and cannot be predicted.

While financial markets have rebounded from the significant declines that occurred earlier in the pandemic and global economic conditions showed signs of improvement in the three months ended August 2020, many of the circumstances that arose or became more pronounced after the onset of the COVID-19 pandemic persisted at the end of the period, including (i) muted levels of business activity across many sectors of the economy, relatively weak consumer confidence and high unemployment; (ii) elevated levels of market volatility; (iii) certain overnight interest rates and yields on certain government securities near zero; (iv) substantial uncertainty about whether previously announced merger and acquisition deals will be completed or restructured; (v) heightened credit risk with regard to industries that have been most severely impacted by the pandemic, including oil and gas, gaming and lodging, and airlines; (vi) greater emphasis by investors on liquidity products, which generate lower fees, relative to risk assets; and (vii) higher cybersecurity, information security and operational risks as a result of work-from-home arrangements.

Depending on the duration and severity of the pandemic going forward, as well as the effects of the pandemic on consumer and corporate confidence, the conditions noted above could continue for an extended period and other adverse developments may occur or reoccur, including (i) a repeat, or worse, of the decline in the valuation of equity, fixed-income and commodity markets that occurred at the outset of the pandemic; (ii) further declines in certain interest rates, to zero or below; (iii) market dislocations that may make hedging strategies less effective or ineffective; (iv) disruption in the new issuance markets for debt and equity, leading to a decline in activity; (v) a further deterioration in the liquidity profile of corporate borrowers, resulting in additional draws on credit lines; and (vi) greater challenges in valuing derivative positions and associated collateral, leading to significant increases in collateral calls and valuation disputes.

The effects of the COVID-19 pandemic on economic and market conditions have in the past and may in the future also increase demands on the company's liquidity as it meets client needs. Likewise, these adverse developments have in the past and may in the future affect the company's capital and leverage ratios.

Governmental authorities worldwide have taken increased measures from March 2020 onwards to stabilise the markets and support economic growth. The continued success of these measures is unknown and they may not be sufficient to address future market dislocations or avert severe and prolonged reductions in economic activity. The company also faces an increased risk of client disputes, litigation and governmental and regulatory scrutiny as a result of the effects of the COVID-19 pandemic on economic and market conditions.

The length of the pandemic and the efficacy of the extraordinary measures that have been put in place to address it are unknown. Until the pandemic subsides, the company may experience reduced activity levels in investment banking, reduced revenues in investment management and increased client defaults. Even after the pandemic subsides, most major economies may continue to experience a recession, and the company anticipates its businesses would be materially and adversely affected by a prolonged recession in major markets.

## Risk Management

Risks are inherent in the company's businesses and include liquidity, market, credit, operational, model, legal, compliance, conduct, regulatory and reputational risks. The company's risks include the risks across its risk categories, regions or global businesses, as well as those which have uncertain outcomes and have the potential to materially impact the company's financial results, its liquidity and its reputation. For further information about the company's risk management processes, see "Risk Management — Overview and Structure of Risk Management" in Part I of the 2019 Annual Report and for information about the company's areas of risk, see "Liquidity Risk Management", "Market Risk Management", "Credit Risk Management", "Operational Risk Management", "Model Risk Management" below and "Principal Risks and Uncertainties" in Part I of the 2019 Annual Report.

## Overview and Structure of Risk Management

### Overview

The company believes that effective risk management is critical to its success. Accordingly, the company has established an enterprise risk management framework that employs a comprehensive, integrated approach to risk management, and is designed to enable comprehensive risk management processes through which the risks associated with the company's business are identified, assessed, monitored and managed.

## Management Report

The implementation of the company's risk governance structure and core risk management processes are overseen by Enterprise Risk, which reports to the company's chief risk officer, and is responsible for ensuring that the company's enterprise risk management framework provides the company's board of directors, the company's risk committees and senior management with a consistent and integrated approach to managing the various risks in a manner consistent with the company's risk appetite.

Together with the company's board of directors, an extensive cross-divisional committee structure with representation from senior management of the company is the key to the risk management culture throughout the company. The company's risk management structure, consistent with GS Group, is built around three core components: governance; processes; and people. See "Risk Management — Overview and Structure of Risk Management" in Part I of the 2019 Annual Report for further information.

### Liquidity Risk Management

#### Overview

Liquidity risk is the risk that the company will be unable to fund itself or meet its liquidity needs in the event of company-specific, broader industry or market liquidity stress events. The company has in place a comprehensive and conservative set of liquidity and funding policies. The company's principal objective is to be able to fund itself and to enable its core businesses to continue to serve clients and generate revenues, even under adverse circumstances. See "Risk Management — Liquidity Risk Management" in Part I of the 2019 Annual Report for further information about the company's liquidity risk management process.

**GCLA.** GCLA is liquidity that the company maintains to meet a broad range of potential cash outflows and collateral needs in a stressed environment. A primary liquidity principle is to pre-fund the company's estimated potential cash and collateral needs during a liquidity crisis and hold this liquidity in the form of unencumbered, highly liquid securities and cash. The company believes that the securities held in its GCLA would be readily convertible to cash in a matter of days, through liquidation, by entering into repurchase agreements or from maturities of securities purchased under agreements to resell (resale agreements), and that this cash would allow it to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets.

The company's GCLA is distributed across asset types, issuers and clearing agents to provide sufficient operating liquidity to ensure timely settlement in all major markets, even in a difficult funding environment.

#### Stress Tests

In order to determine the appropriate size of the company's GCLA, the company models liquidity outflows over a range of scenarios and time horizons. One of the company's primary internal liquidity risk models, referred to as the Modeled Liquidity Outflow, quantifies the company's liquidity risks over a 30-day stress scenario. Other factors are considered including, but not limited to, an assessment of potential intraday liquidity needs through an additional internal liquidity risk model, referred to as the Intraday Liquidity Model, the results of the company's long-term stress testing models, resolution liquidity models and other applicable regulatory requirements and a qualitative assessment of the condition of the company, as well as the financial markets. The results of the Modeled Liquidity Outflow, the Intraday Liquidity Model and the long-term stress testing models are reported to senior management on a regular basis. GS Group and the company also perform stress tests. See "Risk Management — Liquidity Risk Management" in Part I of the 2019 Annual Report for further information about company-wide stress tests.

**GCLA.** Based on the results of the company's internal liquidity risk models, described above, as well as consideration of other factors, including, but not limited to, a qualitative assessment of the condition of the company, as well as the financial markets, the company believes its liquidity position as of both August 2020 and November 2019 was appropriate. The company strictly limits its GCLA to a narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. The company does not include other potential sources of excess liquidity in its GCLA, such as less liquid unencumbered securities or committed credit facilities.

The table below presents information about the company's GCLA by asset class.

\$ in millions	Average for the Three Months Ended	
	August 2020	May 2020
Overnight cash deposits	\$18,004	\$20,170
U.S. government obligations	14,045	14,734
Non-U.S. government obligations	30,210	23,298
<b>Total</b>	<b>\$62,259</b>	<b>\$58,202</b>

The minimum GCLA required is held by the company directly and is intended for use only by the company to meet its liquidity requirements and is assumed not to be available to Group Inc. or Funding IHC. In addition to GCLA held in the company, GS Group holds a portion of global GCLA directly at Group Inc. or Funding IHC, which in some circumstances may be additionally provided to the company or other major subsidiaries.

## Management Report

### Liquidity Regulatory Framework

The implementation of the Basel Committee's international framework for liquidity risk management, standards and monitoring calls for a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR).

The company is subject to a minimum LCR of 100% under the LCR rule approved by the U.K. regulatory authorities and the European Commission. The company's average monthly LCR for the trailing twelve-month period ended August 2020 exceeded the minimum requirement.

The NSFR is designed to promote medium- and long-term stable funding of the assets and off-balance-sheet activities of banking organisations over a one-year time horizon. In June 2019, the European Commission finalised rules amending the CRR to implement the NSFR for certain E.U. financial institutions, including the company. This requirement has been incorporated into U.K. legislation. The company expects the NSFR requirement to become effective in June 2021.

The implementation of these rules and any amendments adopted by the regulatory authorities could impact the company's liquidity and funding requirements and practices in the future.

### Credit Ratings

The company relies on the debt capital markets to fund a portion of its day-to-day operations and the cost and availability of debt financing is influenced by its credit rating and that of Group Inc. Credit ratings are also important when the company is competing in certain markets, such as OTC derivatives, and when it seeks to engage in longer-term transactions. See "Principal Risks and Uncertainties — Liquidity" in Part I of the 2019 Annual Report for information about the risks associated with a reduction in the company's and/or Group Inc.'s credit ratings.

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

	As of August 2020		
	Fitch	Moody's	S&P
<b>GSI</b>			
Short-term debt	F1	P-1	A-1
Long-term debt	A+	A1	A+
Ratings outlook	Negative	Stable	Stable
<b>Group Inc.</b>			
Short-term debt	F1	P-2	A-2
Long-term debt	A	A3	BBB+
Subordinated debt	BBB+	Baa2	BBB-
Trust preferred	BBB-	Baa3	BB
Preferred stock	BBB-	Ba1	BB
Ratings outlook	Negative	Stable	Stable

In October 2020, Moody's placed on review for upgrade the long-term and short-term debt ratings of Group Inc.

Certain of the company's derivatives have been transacted under bilateral agreements with counterparties who may require the company to post collateral or terminate the transactions based on changes in the credit ratings of either the company and/or Group Inc. The company assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies of both Group Inc. and the company simultaneously and of each entity individually.

The table below presents the additional collateral or termination payments related to the company's net derivative liabilities under bilateral agreements that could have been called by counterparties in the event of a one- or two-notch downgrade in Group Inc.'s and/or the company's credit ratings.

\$ in millions	As of	
	August 2020	November 2019
Additional collateral or termination payments:		
One-notch downgrade	\$318	\$166
Two-notch downgrade	\$962	\$594

## Market Risk Management

### Overview

Market risk is the risk of loss in the value of the company's inventory and other financial assets and liabilities accounted for at fair value due to changes in market conditions. The company employs a variety of risk measures, each described in the respective sections below, to monitor market risk. Categories of market risk include the following:

- Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, prepayment speeds and credit spreads;
- Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices;
- Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates; and
- Commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil and metals.

See "Risk Management — Market Risk Management" in Part I of the 2019 Annual Report for further information about the company's market risk management process.

## Management Report

**VaR.** VaR is the potential loss in value due to adverse market movements over a defined time horizon with a specified confidence level. A one-day time horizon with a 95% confidence level is typically employed. The VaR model is a single model that captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk across the company. The VaR model is applied consistently across GS Group, including the company. See “Risk Management — Market Risk Management” in Part I of the 2019 Annual Report for further information.

### Metrics

VaR is analysed at the company level and a variety of more detailed levels, including by risk category and business. Diversification effect in the tables below represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

The table below presents the company’s average daily VaR.

\$ in millions	Three Months Ended			Nine Months Ended	
	August 2020	May 2020	August 2019	August 2020	August 2019
<b>Categories</b>					
Interest rates	\$ 44	\$ 54	\$ 23	\$ 41	\$ 23
Equity prices	31	57	16	35	18
Currency rates	11	13	7	11	7
Commodity prices	2	2	1	2	1
Diversification effect	(32)	(42)	(17)	(32)	(18)
<b>Total</b>	<b>\$ 56</b>	<b>\$ 84</b>	<b>\$ 30</b>	<b>\$ 57</b>	<b>\$ 31</b>

The company’s average daily VaR decreased to \$56 million for the three months ended August 2020 from \$84 million for the three months ended May 2020, primarily due to decreases in the equity prices and interest rates categories, partially offset by a decrease in the diversification effect. The overall decrease was due to lower levels of volatility.

The company’s average daily VaR increased to \$56 million for the three months ended August 2020 from \$30 million for the three months ended August 2019, primarily due to increases in the interest rates, equity prices and currency rates categories, partially offset by an increase in the diversification effect. The overall increase was due to higher levels of volatility.

The company’s average daily VaR increased to \$57 million for the nine months ended August 2020 from \$31 million for the nine months ended August 2019, primarily due to increases in the interest rates, equity prices and currency rates categories, partially offset by an increase in the diversification effect. The overall increase was due to higher levels of volatility.

The table below presents the company’s period-end VaR.

\$ in millions	As of		
	August 2020	May 2020	August 2019
<b>Categories</b>			
Interest rates	\$ 36	\$ 51	\$ 28
Equity prices	29	36	18
Currency rates	10	14	14
Commodity prices	3	2	1
Diversification effect	(31)	(40)	(12)
<b>Total</b>	<b>\$ 47</b>	<b>\$ 63</b>	<b>\$ 49</b>

The company’s period-end VaR decreased to \$47 million as of August 2020 from \$63 million as of May 2020, primarily due to decreases in the interest rates, equity prices and currency rates categories, partially offset by a decrease in the diversification effect. The overall decrease was due to lower levels of volatility.

The company’s period-end VaR decreased to \$47 million as of August 2020 from \$49 million as of August 2019, primarily due to an increase in the diversification effect and a decrease in the currency rates category, partially offset by increases in the equity prices and interest rates categories. The overall decrease was due to reduced exposures.

The table below presents the company’s high and low VaR.

\$ in millions	Three Months Ended					
	August 2020		May 2020		August 2019	
	High	Low	High	Low	High	Low
<b>Categories</b>						
Interest rates	\$60	\$36	\$ 77	\$21	\$28	\$19
Equity prices	\$42	\$27	\$118	\$25	\$24	\$13
Currency rates	\$16	\$ 8	\$ 20	\$ 7	\$14	\$ 4
Commodity prices	\$ 7	\$ 2	\$ 6	\$ 1	\$ 1	\$ 1
<b>Company-wide</b>						
VaR	\$77	\$47	\$155	\$33	\$49	\$25

### Sensitivity Measures

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure for these positions.

**10% Sensitivity Measures.** The market risk for positions, accounted for at fair value, that are not included in VaR is determined by estimating the potential reduction in net revenues of a 10% decline in the value of these positions. The market risk of these positions was \$33.1 million as of August 2020, \$32.2 million as of May 2020 and \$32.5 million as of August 2019

## Management Report

### Credit Risk Management

#### Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments the company holds. The company's exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and debtors. In addition, the company holds other positions that give rise to credit risk (e.g., bonds). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk. See "Risk Management — Credit Risk Management" in Part I of the 2019 Annual Report for further information about the company's credit risk management process.

#### Credit Exposures

The company's credit exposures are described further below.

**Financial Instruments Owned.** Financial instruments owned includes cash instruments and derivatives. In the tables below cash instruments are included in the gross exposure; however, to the extent that they have been captured by market risk they are removed to arrive at net credit exposure. Derivatives are reported at fair value on a gross by counterparty basis in the company's financial statements unless the company has a current legal right of set-off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above, and in more detail in "Risk Management — Credit Risk Management" in Part I of the 2019 Annual Report.

**Collateralised Agreements.** 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 in the balance sheet, which represent fair values or contractual value before consideration of collateral received. The company also has credit exposure on collateralised financings, which are liabilities on its balance sheet, to the extent that the value of collateral pledged to the counterparty for these transactions exceeds the amount of cash or collateral received.

**Debtors.** The company is exposed to credit risk from its debtors through its amounts due from broker/dealers and customers; and amounts due from parent and group undertakings. These primarily consist of receivables related to cash collateral paid to counterparties and clearing organisations in respect of derivative financial instrument liabilities. Debtors also includes collateralised receivables related to customer securities transactions, which generally have minimal credit risk due to both the value of the collateral received and the short-term nature of these receivables.

**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 and central banks.

The tables below present the company's gross credit exposure to financial assets and net credit exposure after taking account of assets captured by market risk in the company's risk management process, counterparty netting (i.e., the netting of financial assets and liabilities for a given counterparty when a legal right of set-off exists under an enforceable netting agreement), and cash and security collateral received and cash collateral posted under credit support agreements, which management considers when determining credit risk.

The table below presents a summary of the company's gross credit exposure and net credit exposure by financial asset class.

<i>\$ in millions</i>	Financial instruments owned	Collateralised agreements	Debtors	Cash at bank and in hand	Total
<b>As of August 2020</b>					
Gross credit exposure	\$1,025,253	\$ 168,853	\$ 94,758	\$24,448	\$1,313,312
Assets captured by market risk	(95,776)	-	-	-	(95,776)
Counterparty netting	(828,952)	(56,694)	(7,941)	-	(893,587)
Cash collateral	(48,762)	-	(53,926)	-	(102,688)
Security collateral received	(21,872)	(109,751)	(8,311)	-	(139,934)
<b>Net credit exposure</b>	<b>\$ 29,891</b>	<b>\$ 2,408</b>	<b>\$ 24,580</b>	<b>\$24,448</b>	<b>\$ 81,327</b>
<b>As of November 2019</b>					
Gross credit exposure	\$ 788,407	\$ 156,348	\$ 73,256	\$22,397	\$1,040,408
Assets captured by market risk	(101,104)	-	-	-	(101,104)
Counterparty netting	(611,789)	(65,240)	(4,199)	-	(681,228)
Cash collateral	(40,382)	-	(39,222)	-	(79,604)
Security collateral received	(15,939)	(88,933)	(10,159)	-	(115,031)
<b>Net credit exposure</b>	<b>\$ 19,193</b>	<b>\$ 2,175</b>	<b>\$ 19,676</b>	<b>\$22,397</b>	<b>\$ 63,441</b>

## Management Report

The tables below present the company's gross credit exposure and net credit exposure by the company's internally determined public rating agency equivalents.

<i>\$ in millions</i>	Investment-Grade	Non-Investment-Grade / Unrated	Total
<b>As of August 2020</b>			
Gross credit exposure	\$1,149,929	\$ 163,383	\$1,313,312
Assets captured by market risk	–	(95,776)	(95,776)
Counterparty netting	(872,773)	(20,814)	(893,587)
Cash collateral	(87,331)	(15,357)	(102,688)
Security collateral received	(117,438)	(22,496)	(139,934)
<b>Net credit exposure</b>	<b>\$ 72,387</b>	<b>\$ 8,940</b>	<b>\$ 81,327</b>

<b>As of November 2019</b>			
Gross credit exposure	\$ 888,440	\$ 151,968	\$1,040,408
Assets captured by market risk	–	(101,104)	(101,104)
Counterparty netting	(665,664)	(15,564)	(681,228)
Cash collateral	(70,607)	(8,997)	(79,604)
Security collateral received	(95,424)	(19,607)	(115,031)
<b>Net credit exposure</b>	<b>\$ 56,745</b>	<b>\$ 6,696</b>	<b>\$ 63,441</b>

<i>\$ in millions</i>	Investment-Grade				Total
	AAA	AA	A	BBB	
<b>As of August 2020</b>					
Gross credit exposure	\$ 37,132	\$108,280	\$ 895,781	\$108,736	\$1,149,929
Counterparty netting	(4,659)	(53,642)	(758,118)	(56,354)	(872,773)
Cash collateral	(11,812)	(13,831)	(40,624)	(21,064)	(87,331)
Security collateral received	(902)	(21,871)	(75,176)	(19,489)	(117,438)
<b>Net credit exposure</b>	<b>\$ 19,759</b>	<b>\$ 18,936</b>	<b>\$ 21,863</b>	<b>\$ 11,829</b>	<b>\$ 72,387</b>

<b>As of November 2019</b>					
Gross credit exposure	\$ 30,513	\$ 83,355	\$ 677,734	\$ 96,838	\$ 888,440
Counterparty netting	(3,525)	(42,927)	(572,147)	(47,065)	(665,664)
Cash collateral	(9,529)	(13,099)	(30,812)	(17,167)	(70,607)
Security collateral received	(571)	(15,343)	(57,495)	(22,015)	(95,424)
<b>Net credit exposure</b>	<b>\$ 16,888</b>	<b>\$ 11,986</b>	<b>\$ 17,280</b>	<b>\$ 10,591</b>	<b>\$ 56,745</b>

<i>\$ in millions</i>	Non-Investment-Grade / Unrated		
	BB or lower	Unrated	Total
<b>As of August 2020</b>			
Gross credit exposure	\$ 59,276	\$ 104,107	\$ 163,383
Assets captured by market risk	–	(95,776)	(95,776)
Counterparty netting	(20,747)	(67)	(20,814)
Cash collateral	(15,316)	(41)	(15,357)
Security collateral received	(15,840)	(6,656)	(22,496)
<b>Net credit exposure</b>	<b>\$ 7,373</b>	<b>\$ 1,567</b>	<b>\$ 8,940</b>

<b>As of November 2019</b>			
Gross credit exposure	\$ 47,813	\$ 104,155	\$ 151,968
Assets captured by market risk	–	(101,104)	(101,104)
Counterparty netting	(15,547)	(17)	(15,564)
Cash collateral	(8,916)	(81)	(8,997)
Security collateral received	(18,041)	(1,566)	(19,607)
<b>Net credit exposure</b>	<b>\$ 5,309</b>	<b>\$ 1,387</b>	<b>\$ 6,696</b>

In the table above, the unrated net credit exposure of \$1.57 billion as of August 2020 and \$1.39 billion as of November 2019 related to financial assets for which the company has not assigned an internally determined public rating agency equivalent.

## Impairment

The company's financial assets measured at amortised cost were \$172.47 billion as of August 2020 and \$160.42 billion as of November 2019, which are all classified within stage 1 of the company's impairment model, namely, they were not credit-impaired on initial recognition and there has been no significant increase in credit risk since initial recognition. The expected credit losses on these financial instruments were not material as of both August 2020 and November 2019. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

## Operational Risk Management

### Overview

Operational risk is the risk of an adverse outcome resulting from inadequate or failed internal processes, people, systems or from external events. The company's exposure to operational risk arises from routine processing errors, as well as extraordinary incidents, such as major systems failures or legal and regulatory matters.

See "Risk Management — Operational Risk Management" in Part I of the 2019 Annual Report for further information about the company's operational risk management process.

## Model Risk Management

### Overview

Model risk is the potential for adverse consequences from decisions made based on model outputs that may be incorrect or used inappropriately. The company relies on quantitative models across its business activities primarily to value certain financial assets and liabilities, to monitor and manage its risk, and to measure and monitor its regulatory capital.

See "Risk Management — Model Risk Management" in Part I of the 2019 Annual Report for further information about the company's model risk management process.

## Directors

S. P. Gyimah was appointed to the board of directors on November 5, 2020.

There were no other changes in the directorship of the company between the date of issue of this financial report and the 2019 Annual Report.

## Date of Issue

This financial report was issued on November 11, 2020.

## Unaudited Financial Statements

GOLDMAN SACHS INTERNATIONAL (UNLIMITED COMPANY)

### Profit and Loss Account (Unaudited)

\$ in millions	Note	Three Months Ended August		Nine Months Ended August	
		2020	2019	2020	2019
Net revenues	4	\$ 2,808	\$ 2,033	\$ 7,290	\$ 6,083
Administrative expenses		(1,552)	(1,396)	(4,384)	(4,130)
<b>Operating profit</b>		<b>1,256</b>	<b>637</b>	<b>2,906</b>	<b>1,953</b>
Interest payable and similar expenses		(39)	(60)	(134)	(189)
Net finance income		1	3	4	9
<b>Profit before taxation</b>		<b>1,218</b>	<b>580</b>	<b>2,776</b>	<b>1,773</b>
Tax on profit	5	(373)	(139)	(742)	(417)
<b>Profit for the financial period</b>		<b>\$ 845</b>	<b>\$ 441</b>	<b>\$ 2,034</b>	<b>\$ 1,356</b>

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

### Statements of Comprehensive Income (Unaudited)

\$ in millions	Note	Three Months Ended August		Nine Months Ended August	
		2020	2019	2020	2019
Profit for the financial period		\$ 845	\$ 441	\$ 2,034	\$ 1,356
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified subsequently to profit or loss</b>					
Actuarial profit/(loss) relating to the pension scheme		(45)	121	105	142
Debt valuation adjustment	10	(329)	(35)	(35)	(112)
U.K. deferred tax attributable to the components of other comprehensive income		98	(22)	(25)	(8)
U.K. current tax attributable to the components of other comprehensive income	10	2	—	9	—
<b>Other comprehensive income/(loss) for the financial period, net of tax</b>		<b>(274)</b>	<b>64</b>	<b>54</b>	<b>22</b>
<b>Total comprehensive income for the financial period</b>		<b>\$ 571</b>	<b>\$ 505</b>	<b>\$ 2,088</b>	<b>\$ 1,378</b>

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

## Balance Sheet (Unaudited)

\$ in millions	Note	As of	
		August 2020	November 2019
<b>Fixed assets</b>		\$ 518	\$ 409
<b>Current assets</b>			
Financial instruments owned (includes \$30,662 and \$35,335 pledged as collateral)	6	1,025,253	788,407
Collateralised agreements	7	168,853	156,348
Debtors	8	95,192	73,693
Cash at bank and in hand		24,448	22,397
		<b>1,313,746</b>	<b>1,040,845</b>
<b>Creditors: amounts falling due within one year</b>			
Financial instruments sold, but not yet purchased	6	(965,673)	(714,640)
Collateralised financings	9	(128,681)	(124,740)
Other creditors	10	(106,309)	(93,476)
		<b>(1,200,663)</b>	<b>(932,856)</b>
<b>Net current assets</b>		<b>113,083</b>	<b>107,989</b>
<b>Total assets less current liabilities</b>		<b>113,601</b>	<b>108,398</b>
<b>Creditors: amounts falling due after more than one year</b>			
Collateralised financings	9	(4,574)	(5,347)
Other creditors	10	(72,570)	(69,066)
		<b>(77,144)</b>	<b>(74,413)</b>
<b>Provisions for liabilities</b>		<b>—</b>	<b>(1)</b>
<b>Net assets excluding pension surplus</b>		<b>36,457</b>	<b>33,984</b>
Pension surplus		385	264
<b>Net assets including pension surplus</b>		<b>\$ 36,842</b>	<b>\$ 34,248</b>
<b>Capital and reserves</b>			
Called up share capital	11	\$ 598	\$ 590
Share premium account		5,568	5,196
Profit and loss account		22,466	20,330
Accumulated other comprehensive income		(90)	(168)
Other equity instruments	12	8,300	8,300
<b>Total shareholder's funds</b>		<b>\$ 36,842</b>	<b>\$ 34,248</b>

## Statements of Changes in Equity (Unaudited)

<i>\$ in millions</i>	Note	Nine Months Ended August	
		2020	2019
<b>Called up share capital</b>			
Beginning balance		\$ 590	\$ 582
Shares issued	11	8	8
Ending balance		598	590
<b>Share premium account</b>			
Beginning balance		5,196	4,864
Shares issued	11	372	332
Ending balance		5,568	5,196
<b>Profit and loss account</b>			
Beginning balance		20,330	20,070
Profit for the financial period		2,034	1,356
Transfer of realised debt valuation adjustment into retained earnings, net of tax	10	(24)	–
Non-cash capital contribution	18	126	–
Share-based payments		406	412
Management recharge related to share-based payments		(406)	(412)
Ending balance		22,466	21,426
<b>Accumulated other comprehensive income</b>			
Beginning balance		(168)	101
Other comprehensive income		54	22
Transfer of realised debt valuation adjustment into retained earnings, net of tax	10	24	–
Ending balance		(90)	123
<b>Other equity instruments</b>			
Beginning balance		8,300	8,300
Ending balance		8,300	8,300
<b>Total shareholder's funds</b>		<b>\$36,842</b>	<b>\$35,635</b>

No dividends were paid for the nine months ended August 2020 and August 2019.

## Statements of Cash Flows (Unaudited)

<i>\$ in millions</i>	Note	Nine Months Ended August	
		2020	2019
<b>Cash flows from operating activities</b>			
Cash generated from operations	14	\$ 434	\$ 8,092
Taxation received		4	3
Taxation paid		(324)	(140)
Net cash from operating activities		114	7,955
<b>Cash flows from investing activities</b>			
Capital expenditure for fixed assets		(189)	(175)
Proceeds from disposal of fixed assets		8	–
Net cash used in investing activities		(181)	(175)
<b>Cash flows from financing activities</b>			
Receipts from issuing ordinary share capital		380	340
Interest paid on long-term subordinated loans		(228)	(412)
Net cash from/(used in) financing activities		152	(72)
Net increase in cash and cash equivalents		85	7,708
Cash and cash equivalents, beginning balance		22,359	24,243
Foreign exchange gains/(losses) on cash and cash equivalents		1,981	(425)
<b>Cash and cash equivalents, ending balance</b>	13	<b>\$24,425</b>	<b>\$31,526</b>

See Note 18 for information on non-cash activities.

## Notes to the Financial Statements (Unaudited)

### Note 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 Plumtree Court, 25 Shoe Lane, London, EC4A 4AU, United Kingdom.

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

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

### Note 2.

#### Summary of Significant Accounting Policies

##### Basis of Preparation

The company prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting' (FRS 104). These financial statements should be read in conjunction with the 2019 Annual Report, which has been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

##### Accounting Policies

The accounting policies and applicable disclosure exemptions applied are consistent with those described in the 2019 Annual Report, except where noted below.

**IFRS 16 'Leases' (IFRS 16).** From December 1, 2019, the company adopted IFRS 16 under a modified retrospective approach. IFRS 16 requires that, for leases that are not short-term and for low value assets, a lessee recognise on the balance sheet a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments. It also requires that a lessee recognises interest on the lease liability and depreciation on the right-of-use asset in the profit and loss account. In addition, this standard requires expanded disclosures about the effect that leases have on the financial position, financial performance and cash flows of the lessee, including information about the nature and terms of the lease agreements.

The impact of adoption was a gross up of \$56 million on the company's balance sheet. Comparative amounts have not been restated as permitted under the specific transition provisions of IFRS 16.

**Segmental reporting.** Previously, the company disclosed a breakdown of net revenues and operating profit consistent with GS Group's business segments. In light of GS Group making certain changes to its business segments in December 2019, the company has reassessed this disclosure. As the company operates in a single operating segment, the company has concluded that it is more appropriate to disclose only net revenues by class of business in line with company law requirements.

### Note 3.

#### Critical Accounting Estimates and Judgements

The critical accounting estimates and judgements are consistent with those described in the 2019 Annual Report with the exception of the below.

##### Estimated Year-End Discretionary Compensation

A substantial portion of the company's compensation and benefits represents discretionary compensation, which is finalised at GS Group's year-end. The company believes the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the net revenues earned in such periods.

## Notes to the Financial Statements (Unaudited)

### Note 4.

#### Net Revenues

Net revenues include net interest expense and non-interest income. Net interest expense includes interest and dividends on financial assets and liabilities measured at fair value and amortised cost. Non-interest income includes:

- Gains and losses on financial assets and liabilities mandatorily measured at fair value through profit or loss (including financial liabilities held for trading) which primarily relate to non-interest gains and losses on financial instruments owned, financial instruments sold, but not yet purchased and certain collateralised agreements.
- Gains and losses on financial liabilities designated at fair value through profit or loss which primarily relate to non-interest gains and losses on certain other creditors and collateralised financings.
- Fees and commissions which primarily relates to net revenues from certain financial advisory and underwriting engagements, executing and clearing client transactions and certain investment management services.

The table below presents the company's net revenues.

\$ in millions	Three Months Ended August		Nine Months Ended August	
	2020	2019	2020	2019
<b>Interest income</b>				
Interest income from external counterparties	\$ 721	\$ 1,409	\$ 2,602	\$ 4,752
Interest income from parent and group undertakings	85	340	534	1,329
<b>Total interest income</b>	<b>806</b>	<b>1,749</b>	<b>3,136</b>	<b>6,081</b>
<b>Interest expense</b>				
Interest expense from external counterparties	(642)	(859)	(2,032)	(2,595)
Interest expense from parent and group undertakings	(416)	(999)	(1,727)	(3,553)
<b>Total interest expense</b>	<b>(1,058)</b>	<b>(1,858)</b>	<b>(3,759)</b>	<b>(6,148)</b>
<b>Net interest expense</b>	<b>(252)</b>	<b>(109)</b>	<b>(623)</b>	<b>(67)</b>
Financial asset and liabilities mandatorily measured at fair value through profit or loss	3,025	2,626	4,149	6,264
Financial assets and liabilities designated at fair value through profit or loss	(409)	(813)	2,571	(1,339)
Fees and commissions	444	329	1,193	1,225
<b>Non-interest income</b>	<b>3,060</b>	<b>2,142</b>	<b>7,913</b>	<b>6,150</b>
<b>Net revenues</b>	<b>\$ 2,808</b>	<b>\$ 2,033</b>	<b>\$ 7,290</b>	<b>\$ 6,083</b>

In the table above:

- Interest income included income from financial assets and liabilities measured at amortised cost of \$335 million for the three months ended August 2020, \$648 million for the three months ended August 2019, \$1.18 billion for the nine months ended August 2020 and \$2.03 billion for the nine months ended August 2019.
- Interest expense included expenses from financial assets and liabilities measured at amortised cost of \$422 million for the three months ended August 2020, \$879 million for the three months ended August 2019, \$1.52 billion for the nine months ended August 2020 and \$2.74 billion for the nine months ended August 2019
- Financial liabilities designated at fair value through profit or loss are frequently economically hedged with financial assets and liabilities mandatorily measured at fair value through profit or loss. Accordingly, gains or losses that are reported in financial liabilities designated at fair value through profit or loss can be partially offset by gains or losses reported in financial assets and liabilities mandatorily measured at fair value through profit or loss.

### Note 5.

#### Tax on Profit

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

\$ in millions	Three Months Ended August		Nine Months Ended August	
	2020	2019	2020	2019
<b>Current tax</b>				
U.K. taxation	\$342	\$117	\$606	\$230
Adjustment in respect of prior periods	4	1	1	-
Overseas taxation	55	69	116	158
<b>Total current tax</b>	<b>401</b>	<b>187</b>	<b>723</b>	<b>388</b>
<b>Deferred tax</b>				
Origination and reversal of temporary differences	(28)	(48)	38	27
Effect of increased U.K. corporation tax rate	-	-	(19)	-
Adjustment in respect of prior periods	-	-	-	2
<b>Total deferred tax</b>	<b>(28)</b>	<b>(48)</b>	<b>19</b>	<b>29</b>
<b>Total tax on profit</b>	<b>\$373</b>	<b>\$139</b>	<b>\$742</b>	<b>\$417</b>

The Finance Act 2020 received Royal Assent on July 22, 2020 and maintains the U.K. corporation tax main rate at 19.0%, when it had been due to decrease from 19.0% to 17.0% from April 1, 2020. This resulted in the U.K. corporation tax rate applicable to the company for the year ended November 30, 2020, increasing from 25.7% to 27.0%.

## Notes to the Financial Statements (Unaudited)

### Note 6.

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

Financial instruments owned includes financial instruments owned pledged as collateral.

The table below presents financial instruments owned.

<i>\$ in millions</i>	As of	
	August 2020	November 2019
<b>Cash instruments</b>		
Money market instruments	\$ 243	\$ 672
Government and agency obligations	32,597	39,561
Mortgage and other asset-backed loans and securities	306	234
Corporate debt instruments	23,395	21,389
Equity securities	49,448	45,101
Commodities	36	25
<b>Total cash instruments</b>	<b>106,025</b>	<b>106,982</b>
<b>Derivative instruments</b>		
Interest rates	662,788	491,471
Credit	26,690	33,564
Currencies	118,372	89,323
Commodities	13,941	8,054
Equities	97,437	59,013
<b>Total derivative instruments</b>	<b>919,228</b>	<b>681,425</b>
<b>Total financial instruments owned</b>	<b>\$1,025,253</b>	<b>\$788,407</b>

The table below presents financial instruments sold, but not yet purchased.

<i>\$ in millions</i>	As of	
	August 2020	November 2019
<b>Cash instruments</b>		
Government and agency obligations	\$ 24,498	\$ 16,955
Corporate debt instruments	3,702	3,883
Equity securities	27,199	23,292
Commodities	15	20
<b>Total cash instruments</b>	<b>55,414</b>	<b>44,150</b>
<b>Derivative instruments</b>		
Interest rates	652,298	481,797
Credit	23,592	31,371
Currencies	122,768	91,522
Commodities	13,770	7,853
Equities	97,831	57,947
<b>Total derivative instruments</b>	<b>910,259</b>	<b>670,490</b>
<b>Total financial instruments sold, but not yet purchased</b>	<b>\$965,673</b>	<b>\$714,640</b>

In the tables above:

- Corporate debt instruments includes corporate loans, debt securities, convertible debentures and other debt obligations.
- Equity securities includes public and private equities and exchange-traded funds.

### Note 7.

#### Collateralised Agreements

The table below presents collateralised agreements.

<i>\$ in millions</i>	As of	
	August 2020	November 2019
Resale agreements	\$ 94,703	\$ 72,770
Securities borrowed	74,150	83,578
<b>Total collateralised agreements</b>	<b>\$168,853</b>	<b>\$156,348</b>

In the table above:

- Total collateralised agreements included amounts due from group undertakings of \$101.78 billion as of August 2020 and \$88.43 billion as of November 2019.
- Total collateralised agreements included balances due in more than one year of \$2.02 billion as of August 2020 and \$1.72 billion as of November 2019.

### Note 8.

#### Debtors

The table below presents debtors balances.

<i>\$ in millions</i>	As of	
	August 2020	November 2019
Amounts due from broker/dealers and customers	\$72,271	\$59,102
Amounts due from parent and group undertakings	22,479	14,142
Deferred tax	289	333
Other debtors	112	88
Prepayments and accrued income	41	28
<b>Total debtors</b>	<b>\$95,192</b>	<b>\$73,693</b>

In the table above:

- Amounts due from parent and group undertakings included balances due in more than one year relating to intercompany loans of \$536 million as of August 2020 and \$527 million as of November 2019. All other debtors are due within one year of the balance sheet date.
- Total debtors included financial assets of \$94.76 billion as of August 2020 and \$73.26 billion as of November 2019, and non-financial assets of \$434 million as of August 2020 and \$437 million as of November 2019.

## Notes to the Financial Statements (Unaudited)

### Note 9.

#### Collateralised Financings

The table below presents collateralised financings.

\$ in millions	As of	
	August 2020	November 2019
<b>Amounts falling due within one year</b>		
Repurchase agreements	\$ 66,606	\$ 50,988
Securities loaned	53,180	66,373
Intercompany loans	1,429	722
Debt securities issued	4,376	3,420
Other borrowings	3,090	3,237
<b>Total</b>	<b>\$128,681</b>	<b>\$124,740</b>
<b>Amounts falling due after more than one year</b>		
Repurchase agreements	\$ 1,269	\$ 2,146
Debt securities issued	—	47
Other borrowings	3,305	3,154
<b>Total</b>	<b>\$ 4,574</b>	<b>\$ 5,347</b>
<b>Total collateralised financings</b>	<b>\$133,255</b>	<b>\$130,087</b>

In the table above:

- Repurchase agreements falling due after more than one year included instruments that are repayable in more than five years of \$83 million as of August 2020 and \$77 million as of November 2019 which had maturities falling due in 2030.
- Debt securities issued and other borrowings falling due after more than one year included instruments that are repayable in more than five years of \$1.68 billion as of August 2020 and \$1.66 billion as of November 2019. As of August 2020, these instruments had maturities falling due between 2025 and 2050. Payments on these instruments are typically referenced to underlying financial assets, which are predominately credit, interest rates and equities-related.
- Total collateralised financings included amounts due to group undertakings of \$91.66 billion as of August 2020 and \$87.08 billion as of November 2019 of which \$90.06 billion as of August 2020 and \$85.99 billion as of November 2019 are due within one year.
- Intercompany loans, debt securities issued and other borrowings are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within “Financial instruments owned” or sourced through collateralised agreements.

#### Intercompany Loans

Intercompany loans due within one year as of August 2020 increased by \$707 million compared with November 2019, due to new proceeds of \$495 million and borrowings being transferred from long term of \$550 million, partially offset by repayments of \$338 million.

Intercompany loans due after more than one year as of August 2020 were unchanged compared with November 2019. New proceeds of \$550 million were offset by borrowings being transferred to short term of \$550 million.

### Note 10.

#### Other Creditors

The table below presents other creditors.

\$ in millions	As of	
	August 2020	November 2019
<b>Amounts falling due within one year</b>		
Unsecured borrowings	\$ 15,987	\$ 19,193
Amounts due to broker/dealers and customers	68,563	62,254
Amounts due to parent and group undertakings:		
Other unsecured creditors	19,567	10,274
Share-based compensation	367	404
Corporation tax payable	281	42
Other taxes and social security costs	261	305
Other creditors and accruals	1,283	1,004
<b>Total</b>	<b>\$106,309</b>	<b>\$ 93,476</b>
<b>Amounts falling due after more than one year</b>		
Unsecured borrowings	\$ 72,007	\$ 68,257
Amounts due to parent and group undertakings:		
Other unsecured creditors	34	—
Share-based compensation	445	719
Other creditors and accruals	84	90
<b>Total</b>	<b>\$ 72,570</b>	<b>\$ 69,066</b>
<b>Total other creditors</b>	<b>\$178,879</b>	<b>\$162,542</b>

In the table above:

- Amounts falling due within one year included financial liabilities of \$105.77 billion as of August 2020 and \$93.13 billion as of November 2019 and non-financial liabilities of \$542 million as of August 2020 and \$347 million as of November 2019.
- All amounts falling due after more than one year are financial liabilities as of both August 2020 and November 2019.

## Notes to the Financial Statements (Unaudited)

### Unsecured Borrowings

The table below presents unsecured borrowings.

\$ in millions	As of	
	August 2020	November 2019
<b>Intercompany</b>		
Loans	\$ 4,794	\$10,493
Other borrowings	999	1,054
<b>Amounts falling due within one year</b>	<b>5,793</b>	<b>11,547</b>
Loans	47,714	46,021
Subordinated loans	5,377	5,377
Debt securities issued	29	—
Other borrowings	1,819	1,366
<b>Amounts falling due after more than one year</b>	<b>54,939</b>	<b>52,764</b>
<b>Total intercompany unsecured borrowings</b>	<b>\$60,732</b>	<b>\$64,311</b>
<b>External</b>		
Bank loans	\$ —	\$ 66
Overdrafts	23	38
Debt securities issued	9,758	7,127
Other borrowings	413	415
<b>Amounts falling due within one year</b>	<b>10,194</b>	<b>7,646</b>
Bank loans	6	20
Debt securities issued	16,849	15,258
Other borrowings	213	215
<b>Amounts falling due after more than one year</b>	<b>17,068</b>	<b>15,493</b>
<b>Total external unsecured borrowings</b>	<b>\$27,262</b>	<b>\$23,139</b>
<b>Total unsecured borrowings</b>	<b>\$87,994</b>	<b>\$87,450</b>

In the table above:

- Debt securities issued and other borrowings falling due after more than one year included instruments that are repayable in more than five years of \$9.52 billion as of August 2020 and \$9.63 billion as of November 2019. As of August 2020, these instruments had maturities falling due between 2025 and 2057. Payments on these instruments are typically referenced to underlying financial assets, which are predominately equities, interest rates and currencies-related.
- Intercompany loans falling due after more than one year included loans that are repayable in more than five years. As of August 2020, the company had variable rate loans of \$717 million with maturities falling due between September 15, 2025 and April 7, 2028. As of November 2019, the company had variable rate loans of \$833 million with maturities falling due between December 1, 2024 and April 7, 2028.
- Subordinated loans of \$5.38 billion as of both August 2020 and November 2019 consist of long-term loans from parent and group undertakings, which are unsecured and carry interest at a margin over the U.S. Federal Reserve's Federal Funds rate. The margin is reset on a periodic basis to reflect changes in GS Group's weighted average cost of debt. These loans constitute regulatory capital as approved by the PRA, subject to any regulatory capital deductions, and are repayable subject to PRA approval. These loans are repayable between December 26, 2024 and September 9, 2025.

### Debt Valuation Adjustment

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

The table below presents information about the net debt valuation adjustment (DVA) losses on such financial liabilities that are designated at fair value through profit or loss and included in debt valuation adjustment in other comprehensive income.

\$ in millions	Three Months Ended August		Nine Months Ended August	
	2020	2019	2020	2019
DVA losses (pre-tax)	<b>\$(329)</b>	\$(35)	<b>\$(35)</b>	\$(112)

In the table above, DVA losses (pre-tax) included net losses of \$9 million (\$7 million, net of tax) for the three months ended August 2020 and \$33 million (\$24 million, net of tax) for the nine months ended August 2020 realised upon early redemption of certain debt securities issued that were designated at fair value through profit or loss, which have been transferred from accumulated other comprehensive income to retained earnings. Such losses were not material for both the three and nine months ended August 2019.

The table below presents information about the cumulative net DVA losses included in accumulated other comprehensive income.

\$ in millions	As of	
	August 2020	November 2019
DVA losses (pre-tax)	<b>\$(182)</b>	\$(147)

### Intercompany Loans

Intercompany loans due within one year as of August 2020 decreased by \$5.70 billion compared with November 2019, due to borrowings of \$8.05 billion being extended to long-term and repayments of \$464 million, partially offset by new proceeds of \$2.81 billion.

Intercompany loans due after more than one year as of August 2020 increased by \$1.69 billion compared with November 2019, due to borrowings of \$8.05 billion being extended from short-term and new proceeds of \$12.74 billion, partially offset by repayments of \$19.10 billion.

## Notes to the Financial Statements (Unaudited)

### Note 11.

#### Share Capital

The table below presents share capital.

Allotted, called up and fully paid	Ordinary shares	
	of \$1 each	\$ in millions
As of December 1, 2019	589,608,046	\$590
Allotted during the period	8,574,007	8
<b>As of August 31, 2020</b>	<b>598,182,053</b>	<b>\$598</b>

On March 24, 2020, 8,574,007 ordinary shares of \$1 each were allotted at \$44.32 to GSG UK. The total consideration received was \$380,000,000 in cash, incorporating a share premium of \$371,425,993.

On January 21, 2019, 7,643,885 ordinary shares of \$1 each were allotted at \$44.48 to GSG UK. The total consideration received was \$340,000,000 in cash, incorporating a share premium of \$332,356,115.

### Note 12.

#### Other Equity Instruments

The table below presents information about the company's unsecured AT1 notes.

Month of issuance	Number of AT1 notes	\$ millions	Interest rate
June 2017	5,800	\$5,800	9.00% p.a.
November 2018	2,500	2,500	8.67% p.a.
<b>As of August 31, 2020</b>	<b>8,300</b>	<b>\$8,300</b>	

The company's AT1 notes of \$1 million each have been issued to GSG UK. They have no fixed maturity date and are not callable.

The AT1 notes will be irrevocably written-down in the event that the CET1 capital ratio of the company or the GSG UK Group falls below 7%.

### Note 13.

#### Cash and Cash Equivalents

The table below presents cash and cash equivalents for the purpose of the statements of cash flows.

\$ in millions	As of August	
	2020	2019
Cash at bank and in hand	\$24,448	\$31,592
Overdrafts (see Note 10)	(23)	(66)
<b>Total cash and cash equivalents</b>	<b>\$24,425</b>	<b>\$31,526</b>

In the table above, cash at bank and in hand included cash that is not available for use by the company of \$2.36 billion as of August 2020 and \$3.64 billion as of August 2019.

### Note 14.

#### Reconciliation of Cash Flows From Operating Activities

The table below presents a reconciliation of cash flows from operating activities.

\$ in millions	Nine Months Ended August	
	2020	2019
Profit before taxation	\$ 2,776	\$ 1,773
<b>Adjustments for</b>		
Depreciation and amortisation	130	85
Losses/(gains) on disposal of fixed assets	2	(3)
Credit for defined benefit plan	(3)	(9)
Foreign exchange losses/(gains)	(1,969)	448
Share-based compensation expense	149	236
Provisions for liabilities	—	3
Interest payable and similar expenses	134	189
Cash generated before changes in operating assets and liabilities	1,219	2,722

#### Changes in operating assets

Increase in financial instruments owned	(236,846)	(314,536)
Decrease/(increase) in collateralised agreements	(12,505)	51,739
Increase in debtors	(21,625)	(14,688)
<b>Changes in operating assets</b>	<b>(270,976)</b>	<b>(277,485)</b>

#### Changes in operating liabilities

Increase in financial instruments sold, but not yet purchased	251,033	285,414
Increase/(decrease) in collateralised financings	3,168	(15,922)
Increase in other creditors	15,864	13,420
Increase/(decrease) in provisions for liabilities	126	(57)
<b>Changes in operating liabilities</b>	<b>270,191</b>	<b>282,855</b>
<b>Cash generated from operations</b>	<b>\$ 434</b>	<b>\$ 8,092</b>

In the table above, cash generated from operations included interest paid of \$4.92 billion for the nine months ended August 2020 and \$6.06 billion for the nine months ended August 2019, and interest received of \$3.23 billion for the nine months ended August 2020 and \$6.07 billion for the nine months ended August 2019.

## Notes to the Financial Statements (Unaudited)

### Note 15.

## Contingent Liabilities

### Legal Proceedings

The company is involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the company's business, however it is not practicable to reliably estimate the financial impact, if any, of these proceedings on the company.

### 1Malaysia Development Berhad (1MDB)-Related

**Matters.** Between 2012 and 2013, subsidiaries of Group Inc., including the company, acted as arrangers or purchasers of approximately \$6.5 billion of debt securities of 1MDB. On November 1, 2018, the U.S. Department of Justice (DOJ) unsealed a criminal information and guilty plea by Tim Leissner, a former participating managing director of GS Group, and an indictment against Ng Chong Hwa, a former managing director of GS Group, and Low Taek Jho. Leissner pleaded guilty to a two-count criminal information charging him with conspiring to launder money and conspiring to violate the U.S. Foreign Corrupt Practices Act's (FCPA) anti-bribery and internal accounting controls provisions. Low and Ng were charged in a three-count indictment with conspiring to launder money and conspiring to violate the FCPA's anti-bribery provisions. On August 28, 2018, Leissner's guilty plea was accepted by the U.S. District Court for the Eastern District of New York and Leissner was adjudicated guilty on both counts. Ng was also charged in this indictment with conspiring to violate the FCPA's internal accounting controls provisions. On May 6, 2019, Ng pleaded not guilty to the DOJ's criminal charges. On February 4, 2020, the FRB disclosed that Andrea Vella, a former participating managing director of GS Group whom the DOJ had previously referred to as an unindicted co-conspirator, had agreed, without admitting or denying the FRB's allegations, to a consent order that prohibited him from participating in the banking industry. No other penalties were imposed by the consent order.

On December 17, 2018, the Attorney General of Malaysia filed criminal charges in Malaysia against the company, as the arranger of three offerings of debt securities of 1MDB, aggregating approximately \$6.5 billion in principal amount, for alleged disclosure deficiencies in the offering documents relating to, among other things, the use of proceeds for the debt securities, as well as against two other subsidiaries of Group Inc. Criminal charges have also been filed against Leissner, Low, Ng and Jasmine Loo Ai Swan. In a related press release, the Attorney General of Malaysia indicated that prosecutors in Malaysia will seek criminal fines against the accused in excess of \$2.7 billion plus the \$600 million of fees received in connection with the debt offerings. On August 9, 2019, the Attorney General of Malaysia announced that criminal charges had also been filed against five current and former directors of the company, including the company's chief executive officer, and twelve current and former directors of the two other subsidiaries (together with criminal charges against the company and the two other subsidiaries of Group Inc., the Malaysian Criminal Proceedings).

The Malaysia Securities Commission (MSC) issued notices to show cause against a subsidiary of Group Inc. in December 2018 and March 2019 that (i) allege possible violations of Malaysian securities laws and (ii) indicate that the MSC is considering whether to revoke the subsidiary's licence to conduct corporate finance and fund management activities in Malaysia.

## Notes to the Financial Statements (Unaudited)

On August 18, 2020, GS Group announced that it entered into a settlement agreement with the Government of Malaysia to resolve all the criminal and regulatory proceedings in Malaysia involving GS Group, including the Malaysian Criminal Proceedings and the MSC's notices to show cause. The agreement involves the payment to the Government of Malaysia of \$2.5 billion and a guarantee that the Government of Malaysia receives at least \$1.4 billion in assets and proceeds from assets seized by governmental authorities around the world related to 1MDB. In addition, the Government of Malaysia agreed to withdraw the Malaysian Criminal Proceedings and agreed that no further charges would be brought against Group Inc., its affiliates and subsidiaries, including the company, or any of their directors and officers (excluding Leissner and Ng) related to 1MDB. GS Group has paid the \$2.5 billion to the Government of Malaysia and the Malaysian Criminal Proceedings have been withdrawn.

On October 22, 2020, GS Group announced that it reached settlements of governmental and regulatory investigations relating to 1MDB with the DOJ, the Securities Exchange Commission (SEC), the FRB, the New York State Department of Financial Services (NYDFS), the FCA, the PRA, the Singapore Attorney General's Chambers, the Singapore Commercial Affairs Department, the Monetary Authority of Singapore and the Hong Kong Securities and Futures Commission. Group Inc. entered into a three-year deferred prosecution agreement with the DOJ, in which a charge against GS Group, one count of conspiracy to violate the FCPA, was filed and will later be dismissed if GS Group abides by the terms of the agreement. In addition, GS Malaysia pleaded guilty to one count of conspiracy to violate the FCPA. GS Group will pay total penalties, after crediting, of approximately \$2.6 billion in connection with the settlements, including fines totalling \$126 million levied by the FCA and the PRA on the company. A separate obligation to pay \$606 million in disgorgement has been credited and satisfied as a result of GS Group's earlier settlement with the Government of Malaysia, described above. This brings the total GS Group payments in connection with governmental and regulatory settlements relating to 1MDB to an aggregate of approximately \$5.1 billion.

GS Group has been working to secure necessary exemptions and authorisations from regulators so that the settlements announced on October 22, 2020, do not impact GS Group's activities or the services that it provides to clients. GS Group has already submitted its application to the U.S. Department of Labor to maintain its status as a qualified professional asset manager (QPAM), and expects to obtain the exemption before the sentencing of GS Malaysia.

GS Group has received multiple demands, beginning in November 2018, from alleged shareholders under Section 220 of the Delaware General Corporation Law for books and records relating to, among other things, GS Group's involvement with 1MDB and its compliance procedures. On December 13, 2019, an alleged shareholder of Group Inc. filed a lawsuit in the Court of Chancery of the State of Delaware seeking books and records relating to, among other things, GS Group's involvement with 1MDB and its compliance procedures. The parties have agreed to stay proceedings pending resolution of the books and records demand.

On February 19, 2019, a purported shareholder derivative action relating to 1MDB was filed in the U.S. District Court for the Southern District of New York against Group Inc. and the directors at the time and a former chairman and chief executive officer of GS Group. The amended complaint filed on July 12, 2019, which seeks unspecified damages, disgorgement and injunctive relief, alleges breaches of fiduciary duties, including in connection with alleged insider trading by certain current and former directors, unjust enrichment and violations of the anti-fraud provisions of the Exchange Act, including in connection with Group Inc.'s common stock repurchases and solicitation of proxies. Defendants moved to dismiss this action on September 12, 2019.

Beginning in March 2019, GS Group has also received demands from alleged shareholders to investigate and pursue claims against certain current and former directors and executive officers of Group Inc. based on their oversight and public disclosures regarding 1MDB and related internal controls.

On November 21, 2018, a summons with notice was filed in New York Supreme Court, County of New York, by International Petroleum Investment Company, which guaranteed certain debt securities issued by 1MDB, and its subsidiary Aabar Investments PJS. The summons with notice makes unspecified claims relating to 1MDB and seeks unspecified compensatory and punitive damages and other relief against Group Inc. and a number of Group Inc.'s subsidiaries, including the company, Leissner, Ng, and Vella, as well as individuals (who are not current or former employees of GS Group) previously associated with the plaintiffs. On October 20, 2020, pursuant to a stipulation between the plaintiffs, GS Group and other defendants, the court entered an order discontinuing the action with prejudice.

## Notes to the Financial Statements (Unaudited)

On December 20, 2018, a putative securities class action lawsuit was filed in the U.S. District Court for the Southern District of New York against Group Inc. and certain former officers of GS Group alleging violations of the anti-fraud provisions of the Exchange Act with respect to Group Inc.'s disclosures concerning IMDB and seeking unspecified damages. The plaintiffs filed the second amended complaint on October 28, 2019, which the defendants moved to dismiss on January 9, 2020.

**Interest Rate Swap Antitrust Litigation.** The company is among the defendants named in a putative antitrust class action relating to the trading of interest rate swaps, filed in November 2015 and consolidated in the U.S. District Court for the Southern District of New York. The company is also among the defendants named in two antitrust actions relating to the trading of interest rate swaps, commenced in April 2016 and June 2018, respectively, in the U.S. District Court for the Southern District of New York by three operators of swap execution facilities and certain of their affiliates. These actions have been consolidated for pretrial proceedings. The complaints generally assert claims under federal antitrust law and state common law in connection with an alleged conspiracy among the defendants to preclude exchange trading of interest rate swaps. The complaints in the individual actions also assert claims under state antitrust law. The complaints seek declaratory and injunctive relief, as well as treble damages in an unspecified amount. Defendants moved to dismiss the class and the first individual action and the district court dismissed the state common law claims asserted by the plaintiffs in the first individual action and otherwise limited the state common law claim in the putative class action and the antitrust claims in both actions to the period from 2013 to 2016. On November 20, 2018, the court granted in part and denied in part the defendants' motion to dismiss the second individual action, dismissing the state common law claims for unjust enrichment and tortious interference, but denying dismissal of the federal and state antitrust claims. On March 13, 2019, the court denied the plaintiffs' motion in the putative class action to amend their complaint to add allegations related to 2008-2012 conduct, but granted the motion to add limited allegations from 2013-2016, which the plaintiffs added in a fourth consolidated amended complaint filed on March 22, 2019. The plaintiffs in the putative class action moved for class certification on March 7, 2019.

**Commodities-Related Litigation.** The company is among the defendants named in putative class actions relating to trading in platinum and palladium, filed beginning on November 25, 2014 and most recently amended on May 15, 2017, in the U.S. District Court for the Southern District of New York. The amended complaint generally alleges that the defendants violated federal antitrust laws and the Commodity Exchange Act in connection with an alleged conspiracy to manipulate a benchmark for physical platinum and palladium prices and seek declaratory and injunctive relief, as well as treble damages in an unspecified amount. On March 29, 2020, the court granted the defendants' motions to dismiss and for reconsideration, resulting in the dismissal of all claims. On April 27, 2020, plaintiffs appealed to the Second Circuit Court of Appeals.

The company is among the defendants in a number of putative class and individual actions filed beginning on August 1, 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege violations of federal antitrust laws and state laws in connection with the storage of aluminium and aluminium trading. The complaints seek declaratory, injunctive and other equitable relief, as well as unspecified monetary damages, including treble damages. In December 2016, the district court granted defendants' motions to dismiss and on August 27, 2019, the Second Circuit vacated the district court's dismissals and remanded the case to district court for further proceedings. On July 23, 2020, the district court denied the class plaintiff's motion for class certification.

The company is among the defendants in an action filed on February 27, 2020 in the High Court of Justice, Business and Property Courts of England and Wales. The particulars of claim seeks unspecified compensatory and exemplary damages based on alleged violations of U.K. and E.U. competition laws in connection with the storage and trading of aluminium.

## **Notes to the Financial Statements (Unaudited)**

**Regulatory Investigations and Reviews and Related Litigation.** Group Inc. and certain of its affiliates, including the company, are subject to a number of other investigations and reviews by, and in some cases have received subpoenas and requests for documents and information from, various governmental and regulatory bodies and self-regulatory organisations and litigation relating to various matters relating to GS Group's businesses and operations, including:

- The public offering process;
- Investment management and financial advisory services;
- Conflicts of interest;
- Transactions involving government-related financings and other matters;
- The offering, auction, sales, trading and clearance of corporate and government securities, currencies, commodities and other financial products and related sales and other communications and activities, as well as GS Group's supervision and controls relating to such activities, including compliance with applicable short sale rules, algorithmic, high-frequency and quantitative trading, futures trading, options trading, when-issued trading, transaction reporting, technology systems and controls, securities lending practices, trading and clearance of credit derivative instruments and interest rate swaps, commodities activities and metals storage, private placement practices, allocations of and trading in securities, and trading activities and communications in connection with the establishment of benchmark rates, such as currency rates;
- Compliance with the U.K. Bribery Act and the FCPA;
- Hiring and compensation practices;
- System of risk management and controls; and
- Insider trading, the potential misuse and dissemination of material non-public information regarding corporate and governmental developments and the effectiveness of insider trading controls and information barriers.

In addition, investigations, reviews and litigation involving the company's affiliates and such affiliates' businesses and operations, including various matters referred to above but also other matters, may have an impact on the company's businesses and operations.

### **Note 16.**

## **Financial Risk Management and Capital Management**

Certain disclosures in relation to the company's financial risk management and capital management have been presented alongside other risk management and regulatory information in Part I of this financial report.

## Notes to the Financial Statements (Unaudited)

### Note 17.

## Financial Assets and Liabilities

### Financial Assets and Liabilities by Category

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

\$ in millions	Financial Assets		Total
	Mandatorily at fair value	Amortised cost	
<b>As of August 2020</b>			
Financial instruments owned	\$1,025,253	\$ -	\$1,025,253
Collateralised agreements	115,585	53,268	168,853
Debtors	-	94,758	94,758
Cash at bank and in hand	-	24,448	24,448
<b>Total financial assets</b>	<b>\$1,140,838</b>	<b>\$172,474</b>	<b>\$1,313,312</b>

<b>As of November 2019</b>			
Financial instruments owned	\$ 788,407	\$ -	\$ 788,407
Collateralised agreements	91,586	64,762	156,348
Debtors	-	73,256	73,256
Cash at bank and in hand	-	22,397	22,397
<b>Total financial assets</b>	<b>\$ 879,993</b>	<b>\$160,415</b>	<b>\$1,040,408</b>

\$ in millions	Financial Liabilities			Total
	Held for trading	Designated at fair value	Amortised cost	
<b>As of August 2020</b>				
<b>Amounts falling due within one year</b>				
Financial instruments sold, but not yet purchased	\$965,673	\$ -	\$ -	\$ 965,673
Collateralised financings	-	81,220	47,461	128,681
Other creditors	-	10,643	95,124	105,767
<b>Total</b>	<b>965,673</b>	<b>91,863</b>	<b>142,585</b>	<b>1,200,121</b>
<b>Amounts falling due after more than one year</b>				
Collateralised financings	-	4,574	-	4,574
Other creditors	-	30,082	42,488	72,570
<b>Total</b>	<b>-</b>	<b>34,656</b>	<b>42,488</b>	<b>77,144</b>
<b>Total financial liabilities</b>	<b>\$965,673</b>	<b>\$126,519</b>	<b>\$185,073</b>	<b>\$1,277,265</b>

<b>As of November 2019</b>				
<b>Amounts falling due within one year</b>				
Financial instruments sold, but not yet purchased	\$714,640	\$ -	\$ -	\$ 714,640
Collateralised financings	-	68,456	56,284	124,740
Other creditors	-	8,888	84,241	93,129
<b>Total</b>	<b>714,640</b>	<b>77,344</b>	<b>140,525</b>	<b>932,509</b>
<b>Amounts falling due after more than one year</b>				
Collateralised financings	-	5,347	-	5,347
Other creditors	-	40,351	28,715	69,066
<b>Total</b>	<b>-</b>	<b>45,698</b>	<b>28,715</b>	<b>74,413</b>
<b>Total financial liabilities</b>	<b>\$714,640</b>	<b>\$123,042</b>	<b>\$169,240</b>	<b>\$1,006,922</b>

In the tables above financial instruments owned included derivative instruments designated as hedges of \$19 million as of August 2020 and \$18 million as of November 2019.

### Fair Value Hierarchy

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

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

The fair value hierarchy is as follows:

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

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

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

The fair values for substantially all of the company's financial assets and liabilities that are fair valued on a recurring basis are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and the company's and GS Group's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

## Notes to the Financial Statements (Unaudited)

### Valuation Techniques and Significant Inputs

**Cash Instruments.** Cash instruments include government and agency obligations, corporate debt instruments, equity securities, and other non-derivative financial instruments owned and financial instruments sold, but not yet purchased. Valuation techniques and significant inputs for each level of the fair value hierarchy include:

#### **Level 1 Cash Instruments**

Level 1 cash instruments are valued using quoted prices for identical unrestricted instruments in active markets. The company defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument. The company defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

#### **Level 2 Cash Instruments**

Level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

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

#### **Level 3 Cash Instruments**

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

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

- **Mortgages and Other Asset-Backed Loans and Securities.** Significant inputs are generally determined based on relative value analyses and include:
  - Market yields implied by transactions of similar or related assets;
  - Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral;
  - Current performance of the borrower or loan collateral and recovery assumptions if a default occurs; and
  - Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).
- **Corporate Debt Instruments and Government and Agency Obligations.** Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same or similar issuer for which observable prices or broker quotations are available. Significant inputs include:
  - Market yields implied by transactions of similar or related assets;
  - Current levels and changes in market indices, such as the iTraxx and CDX (indices that track the performance of corporate credit);
  - Current performance of the borrower or loan collateral and recovery assumptions if a default occurs;
  - Maturity and coupon profile of the instrument; and
  - Market and transaction multiples for corporate debt instruments with convertibility or participation options.
- **Equity Securities.** Equity securities consists of private equity securities. Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate:
  - Industry multiples and public comparables;
  - Transactions in similar instruments; and
  - Discounted cash flow techniques.

## Notes to the Financial Statements (Unaudited)

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

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

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

- **Equity.** Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

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

### **Level 1 Derivatives**

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

### **Level 2 Derivatives**

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence and exchange-traded derivatives that are not actively traded and/or that are valued using models that calibrate to market-clearing levels of OTC derivatives. In evaluating the significance of a valuation input, the company considers, among other factors, a portfolio's net risk exposure to that input.

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

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

## Notes to the Financial Statements (Unaudited)

### **Level 3 Derivatives**

Level 3 derivatives are valued using models which utilise observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs. Unobservable inputs include certain correlations, illiquid credit and secured funding spreads, recovery rates and certain equity and interest rate volatilities.

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

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

### **Valuation Adjustments**

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, CVA and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralised portion of derivative portfolios. The company also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the company to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

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

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

- **Resale and Repurchase Agreements and Securities Borrowed and Loaned.** The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates.
- **Other Secured Financings.** The significant inputs to the valuation of secured debt securities issued, other borrowings and intercompany loans measured at fair value are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the company (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls.
- **Other Creditors.** The significant inputs to the valuation of unsecured other creditors measured at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of GS Group, as well as commodity prices in the case of prepaid commodity contracts. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the company's other derivative instruments. See "Derivative Instruments" above for further information about derivatives.

## Notes to the Financial Statements (Unaudited)

### Fair Value of Financial Assets and Liabilities by Level

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

<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
<b>As of August 2020</b>				
<b>Financial Assets</b>				
Cash instruments	\$75,131	\$ 30,063	\$ 831	\$ 106,025
Derivative instruments	17	913,219	5,992	919,228
Financial instruments	75,148	943,282	6,823	1,025,253
Collateralised agreements	–	115,585	–	115,585
<b>Total financial assets</b>	<b>\$75,148</b>	<b>\$1,058,867</b>	<b>\$ 6,823</b>	<b>\$1,140,838</b>
<b>Financial Liabilities</b>				
<b>Amounts falling due within one year</b>				
Cash instruments	\$50,258	\$ 4,944	\$ 212	\$ 55,414
Derivative instruments	39	906,889	3,331	910,259
Financial instruments sold, but not yet purchased	50,297	911,833	3,543	965,673
Collateralised financings	–	81,019	201	81,220
Other creditors	–	6,993	3,650	10,643
<b>Total</b>	<b>\$50,297</b>	<b>\$ 999,845</b>	<b>\$ 7,394</b>	<b>\$1,057,536</b>
<b>Amounts falling due after more than one year</b>				
Collateralised financings	–	4,574	–	4,574
Other creditors	–	23,485	6,597	30,082
<b>Total</b>	<b>–</b>	<b>28,059</b>	<b>6,597</b>	<b>34,656</b>
<b>Total financial liabilities</b>	<b>\$50,297</b>	<b>\$1,027,904</b>	<b>\$13,991</b>	<b>\$1,092,192</b>
<b>Net derivative instruments</b>	<b>\$ (22)</b>	<b>\$ 6,330</b>	<b>\$ 2,661</b>	<b>\$ 8,969</b>

<b>As of November 2019</b>				
<b>Financial Assets</b>				
Cash instruments	\$76,946	\$ 29,248	\$ 788	\$ 106,982
Derivative instruments	13	676,875	4,537	681,425
Financial instruments	76,959	706,123	5,325	788,407
Collateralised agreements	–	91,586	–	91,586
<b>Total financial assets</b>	<b>\$76,959</b>	<b>\$ 797,709</b>	<b>\$ 5,325</b>	<b>\$ 879,993</b>

<b>Financial Liabilities</b>				
<b>Amounts falling due within one year</b>				
Cash instruments	\$38,594	\$ 5,337	\$ 219	\$ 44,150
Derivative instruments	15	667,680	2,795	670,490
Financial instruments sold, but not yet purchased	38,609	673,017	3,014	714,640
Collateralised financings	–	67,345	1,111	68,456
Other creditors	–	6,120	2,768	8,888
<b>Total</b>	<b>38,609</b>	<b>746,482</b>	<b>6,893</b>	<b>791,984</b>
<b>Amounts falling due after more than one year</b>				
Collateralised financings	–	5,347	–	5,347
Other creditors	–	34,938	5,413	40,351
<b>Total</b>	<b>–</b>	<b>40,285</b>	<b>5,413</b>	<b>45,698</b>
<b>Total financial liabilities</b>	<b>\$38,609</b>	<b>\$ 786,767</b>	<b>\$12,306</b>	<b>\$ 837,682</b>
<b>Net derivative instruments</b>	<b>\$ (2)</b>	<b>\$ 9,195</b>	<b>\$ 1,742</b>	<b>\$ 10,935</b>

### Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

**Cash Instruments.** The company had level 3 cash instrument assets of \$831 million as of August 2020 and \$788 million as of November 2019. Level 3 cash instrument liabilities were not material.

The table below presents the amount of level 3 cash instrument assets, and ranges and weighted averages of significant unobservable inputs used to value level 3 cash instrument assets.

<i>\$ in millions</i>	Level 3 Cash Instruments Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
	August 2020	November 2019
<b>Mortgages and other asset-backed loans and securities</b>		
Level 3 assets	\$125	\$126
Yield	1.1% to 17.7% (6.6%)	1.2% to 18.6% (7.2%)
Recovery rate	24.7% to 75.0% (38.5%)	48.3% to 75.0% (61.6%)
Duration (years)	0.4 to 11.3 (4.5)	0.5 to 10.6 (4.3)
<b>Corporate debt instruments and government and agency obligations</b>		
Level 3 assets	\$651	\$602
Yield	0.1% to 24.3% (6.1%)	1.8% to 13.2% (5.4%)
Recovery rate	0.0% to 75.0% (47.1%)	0.0% to 69.5% (42.1%)
Duration (years)	1.3 to 14.7 (3.6)	2.6 to 16.5 (7.5)
<b>Equity securities</b>		
Level 3 assets	\$55	\$60
Multiples	4.2x to 12.8x (4.8x)	4.1x to 11.0x (5.4x)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument.
- Weighted averages are calculated by weighting each input by the relative fair value of the cash instruments.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest yield for mortgages and other asset-backed loans and securities is appropriate for valuing a specific mortgage but may not be appropriate for valuing any other mortgages. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of level 3 cash instruments.
- Increases in yield or duration used in the valuation of level 3 cash instruments would have resulted in a lower fair value measurement, while increases in recovery rate or multiples would have resulted in a higher fair value measurement as of both August 2020 and November 2019. Due to the distinctive nature of each level 3 cash instrument, the interrelationship of inputs is not necessarily uniform within each product type.

## Notes to the Financial Statements (Unaudited)

- Mortgages and other asset-backed loans and securities and corporate debt instruments and government and agency obligations are valued using discounted cash flows, and equity securities are valued using market comparables and discounted cash flows.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

**Derivative Instruments.** The company had net level 3 derivative instruments of \$2.66 billion as of August 2020 and \$1.74 billion as of November 2019.

The company's net level 3 financial instruments relating to commodities derivatives was \$nil million as of August 2020 and \$8 million as of November 2019 for which the range of significant unobservable inputs has not been disclosed as the amounts are not material.

The table below presents the amount of net level 3 derivative instruments, and ranges, averages and medians of significant unobservable inputs used to value interest rates, credit, currencies and equities derivative instruments.

	Net Level 3 Derivative Instruments and Range of Significant Unobservable Inputs (Average/Median) as of	
	August 2020	November 2019
<i>\$ in millions</i>		
<b>Interest rates</b>	<b>\$370</b>	<b>\$202</b>
Correlation	(40)% to 20% ((1)%/7%)	(42)% to 16% ((5)%/2%)
Volatility (bps)	44 to 66 (57/57)	50 to 70 (62/62)
<b>Credit</b>	<b>\$2,441</b>	<b>\$2,344</b>
Credit spreads (bps)	1 to 672 (74/43)	2 to 1,321 (122/83)
Upfront credit points	2 to 46 (20/16)	76 to 82 (80/81)
Recovery rates	25% to 50% (40%/40%)	10% to 41% (27%/25%)
<b>Currencies</b>	<b>\$35</b>	<b>\$50</b>
Correlation	20% to 23% (22%/22%)	20% to 23% (22%/22%)
<b>Equities</b>	<b>\$(185)</b>	<b>\$(862)</b>
Correlation	(76)% to 94% (47%/54%)	(70)% to 97% (43%/45%)
Volatility	3% to 71% (24%/23%)	2% to 70% (12%/6%)

In the table above:

- Net derivative assets are shown as positive amounts and net derivative liabilities are shown as negative amounts.
- Ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative.
- Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average.
- The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of level 3 derivatives.
- Interest rates, currencies and equities derivatives are valued using option pricing models, and credit derivatives are valued using option pricing, correlation and discounted cash flow models.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
- Correlation within currencies and equities includes cross-product type correlation.

### Range of Significant Unobservable Inputs

The following provides information about the ranges of significant unobservable inputs used to value the company's level 3 derivative instruments:

- **Correlation.** Ranges for correlation cover a variety of underliers both within one product type (e.g., equity index and equity single stock names) and across product types (e.g., correlation of an interest rate and a currency), as well as across regions.
- **Volatility.** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.

## Notes to the Financial Statements (Unaudited)

- **Credit spreads, upfront credit points and recovery rates.** The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade) and also includes secured funding spreads. The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

### ***Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs***

The following is a description of the directional sensitivity of the company's level 3 fair value measurements to changes in significant unobservable inputs, in isolation, as of each period-end:

- **Correlation.** In general, for contracts where the holder benefits from the consistent directional performance of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation results in a higher fair value measurement.
- **Volatility.** In general, for purchased options, an increase in volatility results in a higher fair value measurement.
- **Credit spreads, upfront credit points and recovery rates.** In general, the fair value of purchased credit protection increases as credit spreads or upfront credit points increase or recovery rates decrease, and the fair value of secured funding capacity increases as secured funding spreads increase. Credit spreads, upfront credit points and recovery rates are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation, and macroeconomic conditions.

Due to the distinctive nature of each of the company's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

**Other Financial Assets and Liabilities.** Significant unobservable inputs of other financial assets and liabilities include:

- **Resale and Repurchase Agreements and Securities Borrowed and Loaned.** As of both August 2020 and November 2019, the company had no level 3 resale agreements, securities borrowed or securities loaned. As of both August 2020 and November 2019, level 3 repurchase agreements were not material.
- **Other Secured Financings.** As of both August 2020 and November 2019, the significant unobservable inputs used to value level 3 other secured financings are incorporated into the derivative instruments and cash instruments disclosures related to unobservable inputs. See "Cash Instruments" and "Derivative Instruments" above.
- **Other Creditors.** As of both August 2020 and November 2019, the significant unobservable inputs used to value level 3 other creditors are incorporated into the derivative instruments and cash instruments disclosures related to unobservable inputs. See "Cash Instruments" and "Derivative Instruments" above.

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

During the nine months ended August 2020 and nine months ended August 2019, there were no significant transfers between level 1 and level 2 financial assets and liabilities measured at fair value on a recurring basis.

## Notes to the Financial Statements (Unaudited)

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

The fair value of financial assets and liabilities may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. The potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs, has been quantified as approximately \$386 million as of August 2020 and \$359 million as of August 2019, for favourable changes, and \$216 million as of August 2020 and \$252 million as of August 2019, for unfavourable changes. In determining reasonably possible alternative unfavourable assumptions, a detailed business and position level review has been performed to identify and quantify instances where potential uncertainty exists. This has taken into account the positions' fair value as compared to the range of available market information. As of August 2020 and August 2019, the impact for favourable changes was primarily driven by changes in the assumptions around secured funding spreads and valuation adjustments in equity and fixed income derivatives, and the impact for unfavourable changes was primarily driven by changes in the assumptions around secured funding spreads, volatility and correlation inputs.

The table below presents the amounts not recognised in the profit and loss account relating to the difference between the fair value of financial assets and liabilities at fair value through profit or loss at initial recognition (the transaction price) and the amounts determined at initial recognition using the valuation techniques (day 1 P&L).

\$ in millions	Nine Months Ended August	
	2020	2019
Beginning balance	\$153	\$146
New transactions	143	95
Amounts recognised in the profit and loss account during the period	(94)	(61)
<b>Ending balance</b>	<b>\$202</b>	<b>\$180</b>

### Level 3 Rollforward

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

\$ in millions	Nine Months Ended August	
	2020	2019
<b>Total financial assets</b>		
Beginning balance	\$ 5,325	\$ 5,314
Gains/(losses)	2,192	692
Purchases	521	484
Sales	(184)	(178)
Settlements	(1,125)	(812)
Transfers into level 3	405	429
Transfers out of level 3	(311)	(596)
<b>Ending balance</b>	<b>\$ 6,823</b>	<b>\$ 5,333</b>
<b>Total financial liabilities</b>		
Beginning balance	\$(12,306)	\$(12,874)
Gains/(losses)	88	(766)
Purchases	18	7
Sales	(469)	(377)
Issuances	(10,191)	(5,457)
Settlements	8,735	6,834
Transfers into level 3	(695)	(653)
Transfers out of level 3	829	899
<b>Ending balance</b>	<b>\$(13,991)</b>	<b>\$(12,387)</b>

In the table above:

- Financial assets relate to financial instruments owned.
- If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is classified in level 3. For level 3 financial assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Transfers between levels of the fair value hierarchy are recognised at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses for level 3 financial assets and liabilities that were transferred out of level 3 prior to the end of the period.
- Level 3 financial assets and liabilities are frequently economically hedged with level 1 and level 2 financial assets and liabilities. Accordingly, level 3 gains or losses that are reported for a particular class of financial asset or financial liability can be partially offset by gains or losses attributable to level 1 or level 2 in the same class of financial asset or financial liability or gains or losses attributable to level 1, level 2 or level 3 in a different class of financial asset or financial liability. As a result, gains or losses included in the level 3 roll forward do not necessarily represent the overall impact on the company's results of operations, liquidity or capital resources.

## Notes to the Financial Statements (Unaudited)

- The net gains on level 3 financial assets for the nine months ended August 2020 and the nine months ended August 2019 are reported in “Net revenues” in the profit and loss account.
- The net gains on level 3 financial liabilities of \$88 million for the nine months ended August 2020 included gains of \$65 million reported in “Net revenues” in the profit and loss account and gains of \$23 million reported in “Debt valuation adjustment” in the statements of comprehensive income. The net losses on level 3 financial liabilities of \$766 million for the nine months ended August 2019 included losses of \$736 million reported in “Net revenues” in the profit and loss account and losses of \$30 million reported in “Debt valuation adjustment” in the statements of comprehensive income.

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

\$ in millions	Nine Months Ended August	
	2020	2019
<b>Financial instruments sold, but not yet purchased</b>		
<b>Beginning balance</b>	<b>\$ (3,014)</b>	<b>\$(2,385)</b>
Gains/(losses)	(522)	(300)
Purchases	18	7
Sales	(469)	(377)
Settlements	603	382
Transfers into level 3	(422)	(300)
Transfers out of level 3	263	306
<b>Ending balance</b>	<b>\$ (3,543)</b>	<b>\$(2,667)</b>
<b>Collateralised financings</b>		
<b>Beginning balance</b>	<b>\$ (1,111)</b>	<b>\$(936)</b>
Gains/(losses)	43	94
Issuances	-	(168)
Settlements	867	6
Transfers out of level 3	-	19
<b>Ending balance</b>	<b>\$ (201)</b>	<b>\$(985)</b>
<b>Other creditors</b>		
<b>Beginning balance</b>	<b>\$ (8,181)</b>	<b>\$(9,553)</b>
Gains/(losses)	567	(560)
Issuances	(10,191)	(5,289)
Settlements	7,265	6,446
Transfers into level 3	(273)	(353)
Transfers out of level 3	566	574
<b>Ending balance</b>	<b>\$(10,247)</b>	<b>\$(8,735)</b>

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

Transfers between level 2 and level 3 generally occur due to changes in the transparency of level 3 inputs. A lack of market evidence leads to reduced transparency, whereas an increase in the availability of market evidence leads to an increase in transparency.

### Financial Assets.

#### Nine Months Ended August 2020

Transfers into level 3 financial instruments owned primarily reflected transfers of certain equity derivatives from level 2, principally due to reduced transparency of certain volatility and correlation inputs, and transfers of certain cash products from level 2, principally due to decreased transparency of certain yield inputs.

Transfers out of level 3 financial instruments owned primarily reflected transfers of certain equity derivatives to level 2, principally due to increased transparency of certain volatility and correlation inputs, and transfers of certain credit derivative products to level 2, principally due to increased transparency of certain credit spread inputs.

#### Nine Months Ended August 2019

Transfers into level 3 financial instruments owned primarily reflected transfers of certain credit derivative products from level 2, principally due to reduced transparency of certain credit spread inputs, and transfers of certain equity derivative products from level 2, principally due to reduced transparency of certain volatility and correlation inputs.

Transfers out of level 3 financial instruments owned primarily reflected transfers of certain credit derivative products to level 2, principally due to increased transparency of certain credit spread inputs, transfers of certain equity derivative products to level 2, principally due to increased transparency of certain volatility and correlation inputs, and transfers of certain cash products to level 2, principally due to increased transparency of certain yield inputs.

### Financial Liabilities.

#### Nine Months Ended August 2020

Transfers into level 3 financial instruments sold, but not yet purchased primarily reflected transfers of certain equity derivatives from level 2, principally due to reduced transparency of certain volatility and correlation inputs. Transfers into level 3 other creditors primarily reflected transfers of certain hybrid financial instruments from level 2, principally due to reduced transparency of certain volatility and correlation inputs.

Transfers out of level 3 financial instruments sold, but not yet purchased primarily reflected transfers of certain equity derivatives to level 2, principally due to increased transparency of certain volatility and correlation inputs. Transfers out of level 3 other creditors primarily reflected transfers of certain hybrid financial instruments to level 2, principally due to increased transparency of certain volatility and correlation inputs.

## Notes to the Financial Statements (Unaudited)

### ***Nine Months Ended August 2019***

Transfers into level 3 financial instruments sold, but not yet purchased primarily reflected transfers of certain credit derivative products from level 2, principally due to reduced transparency of certain credit spread inputs, and transfers of certain equity derivative products from level 2, principally due to reduced transparency of certain volatility and correlation inputs. Transfers into level 3 other creditors primarily reflected transfers of certain hybrid financial instruments from level 2, principally due to reduced transparency of certain volatility and correlation inputs.

Transfers out of level 3 financial instruments sold, but not yet purchased primarily reflected transfers of certain credit derivative products to level 2, principally due to increased transparency of certain credit spread inputs, and transfers of certain equity derivative products to level 2, principally due to increased transparency of certain volatility and correlation inputs. Transfers out of level 3 other creditors primarily reflected transfers of certain hybrid financial instruments to level 2, principally due to increased transparency of certain volatility and correlation inputs.

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

The company had current financial assets of \$172.47 billion as of August 2020 and \$160.42 billion as of November 2019 that are not measured at fair value. Given that substantially all of these balances are short-term in nature, their carrying values in the balance sheet are a reasonable approximation of fair value.

The company had current financial liabilities of \$142.59 billion as of August 2020 and \$140.53 billion as of November 2019 that are not measured at fair value. Given the short-term nature of these instruments, their carrying values in the balance sheet are a reasonable approximation of fair value. The company had financial liabilities that are due after more than one year of \$42.49 billion as of August 2020 and \$28.72 billion as of November 2019 that are not measured at fair value which predominantly relate to long-term intercompany loans. The interest rates of these loans are variable in nature and approximate prevailing market interest rates for instruments with similar terms and characteristics. As such, their carrying values in the balance sheet are a reasonable approximation of fair value.

### **Note 18.**

### **Post Balance Sheet Events**

On October 22, 2020, GS Group announced that it has reached settlements of governmental and regulatory investigations relating to 1MDB with various governmental and regulatory bodies, including the FCA and the PRA.

The FCA and the PRA levied fines on the company totalling £96.6 million (\$126 million) in relation to the above settlement, which, in accordance with the indemnification agreement between Group Inc. and the company in relation to 1MDB losses, were paid by Group Inc. These fines have been recognised as an expense in the company's profit and loss account for the three and nine months ended August 2020, with a corresponding non-cash capital contribution in capital and reserves as of August 31, 2020, resulting in no net impact to the company's total shareholder's funds as of August 2020.