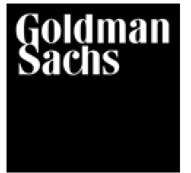

Annual Report

November 30, 2019

Goldman Sachs International Bank (unlimited company)

Company Number: 01122503

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Introduction

Goldman Sachs International Bank (the bank) is involved in lending and deposit-taking activities, securities lending and acts as a primary dealer for European government bonds. In March 2018, the bank's European government bond market-making activities were transferred to a group undertaking and in September 2018 the bank launched a digital deposit platform in the U.K., *Marcus: by Goldman Sachs*. The bank further continues to focus on the expansion of its lending and deposit-taking activities while remaining a primary dealer for European government bonds.

The bank's primary regulators are the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The bank'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 bank, "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. GS Group has a presence in Europe, the Middle East and Africa through a number of subsidiaries, including the bank.

The bank's principal office is in the U.K., but the bank also operates branches in Germany (the Frankfurt branch), which is involved in lending activities, and South Africa (the Johannesburg branch), which is involved in client execution activities. The bank also has a representative office in China (the Beijing rep office).

References to "the financial statements" are to the directors' report and audited financial statements as presented in Part II of this annual report.

This annual report has been prepared for the twelve months ended November 30, 2019. In 2018, the bank changed its accounting reference date from December 31 to November 30 and prepared an annual report for the eleven months ended November 30, 2018. As a result, amounts prepared in this annual report are not directly comparable. All references to November 2019 refer to the twelve months ended, or the date, as the context requires, November 30, 2019. All references to November 2018 refer to the eleven months ended, or the date, as the context requires, November 30, 2018.

All amounts in this annual report are prepared in accordance with United Kingdom Generally Accepted Accounting Practices (U.K. GAAP).

Executive Overview

Profit and Loss Account

The table below presents the bank's profit for the financial period.

	Period Ended November	
$ in thousands	**2019**	2018
Net interest income	**$ 267,069**	$ 178,744
Non-interest income	**96,303**	47,840
Total operating income	**363,372**	226,584
Administrative expenses	**(199,901)**	(144,198)
Profit before taxation	**163,471**	82,386
Tax on profit	**(45,735)**	(20,885)
Profit for the financial period	**$ 117,736**	$ 61,501

The bank's profit for the period ended November 2019 was $118 million, an increase of 91% compared with the period ended November 2018.

Net interest income was $267 million for the period ended November 2019, compared with $179 million for the period ended November 2018. This increase reflects the bank's continued focus on the expansion of its lending and deposit-taking activities and management of excess liquidity.

Non-interest income was $96 million for the period ended November 2019, compared with $48 million for the period ended November 2018. This increase reflects higher fees and net gains associated with lending activities.

Administrative expenses were $200 million for the period ended November 2019, compared with $144 million for the period ended November 2018. This increase reflects increased expenses associated with lending activities and from the expansion of the digital deposit platform.

Balance Sheet

The balance sheet is set out on page 22 of this annual report.

As of November 2019, total assets were $45.41 billion, an increase of $6.66 billion from November 2018, reflecting increases in collateralised agreements with group undertakings of $4.15 billion and customer accounts receivable of $2.69 billion primarily due to an increase in lending activities.

As of November 2019, total liabilities were $42.19 billion, an increase of $6.55 billion from November 2018, reflecting increases in customer accounts payable of $5.17 billion and deposits by banks of $1.95 billion primarily due to an increase in deposit-taking activities.

Key Metrics

The table below presents amounts related to lending and deposit-taking activities as included in the balance sheet.

	As of November	
$ in thousands	**2019**	2018
Lending activities		
Included in customer accounts receivable:		
– Bank loans	**$ 7,633,621**	$ 4,073,045
– Mortgage-backed loans	**212,145**	147,734
Debt securities	**561,776**	604,259
Included in financial instruments owned:		
– Bank loans	**87,689**	78,459
– Mortgage-backed loans and securities	**852,009**	27,131
Total lending activities	**$ 9,347,240**	$ 4,930,628
Deposit-taking activities		
Included in customer accounts payable:		
– Customer deposits	**$36,147,093**	$30,990,160
– Deposits from group undertakings	**1,012,431**	1,121,444
Deposits by banks	**2,335,091**	387,027
Total deposit-taking activities	**$39,494,615**	$32,498,631

In the table above, customer deposits includes deposits from institutional clients, private wealth management clients and consumer clients through the digital deposit platform.

The unfunded portion of bank loans and mortgage-backed loans held as principal risk was $6.38 billion as of November 2019 and $4.44 billion as of November 2018.

In addition to the lending activities detailed above, the bank reinvests funds generated from deposit-taking activities on both a secured and unsecured basis with group undertakings.

Future Outlook

The directors consider that the period end financial position of the bank was satisfactory. While no significant change in the bank's principal business activities is currently expected, the directors continue to assess the impact of the U.K.'s decision to leave the European Union (Brexit) and the global outbreak of a novel strain of coronavirus (COVID-19).

During the Brexit transition period that will last until the end of December 2020, the bank will continue to benefit from non-discriminatory access to E.U. clients and infrastructure. In the event that the bank loses access to E.U. markets on December 31, 2020, the bank expects that some of its E.U. client base will be serviced by other E.U. subsidiaries of Group Inc. The extent to which this happens will depend upon the applicable framework at the end of the transition period and the extent to which the bank can continue to service its clients via third country branches and rely on national cross-border access regimes. See "Principal Risks and Uncertainties" below for further information.

As at the time of publication, the COVID-19 outbreak is resulting in various governments putting restrictions in place regarding the movement of people and causing widespread disruption to financial markets and normal patterns of business activity across the world, including the U.K.. This has led to significant market volatility and accommodative monetary policies by global central banks and the bank has activated business continuity planning (BCP) strategies to safeguard the well-being of employees, the continued operation of critical functions and support of its clients. The extent of the impact of COVID-19 on the bank's operational and financial performance, will depend on future developments including the duration and continued spread of the outbreak.

Business Environment

Global

During the period ended November 2019, global economic activity appeared to decrease compared with the period ended November 2018, reflecting decreased growth in both emerging markets and advanced economies, including in the U.S. Concerns about future global growth and a mixed macroeconomic environment led to accommodative monetary policies by global central banks, including three cuts to the federal funds rate by the U.S. Federal Reserve during the period ended November 2019 to a target range of 1.5% to 1.75%. The market sentiment in the period ended November 2019 was also impacted by geopolitical uncertainty, including ongoing trade concerns between the U.S. and China, and multiple extensions of the Brexit deadline.

Principal Risks and Uncertainties

The bank 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. The following are some of the more important factors that could affect the bank's businesses.

Economic and Market Conditions

The bank's businesses, by their nature, do not produce predictable earnings and are materially affected by conditions in the global financial markets and economic conditions generally, both directly and through their impact on client activity levels and creditworthiness. In addition, a significant portion of the bank's business involves transactions with, through, arising from, involving, or otherwise related to other GS Group entities, and any adverse change in the businesses or activity levels of GS Group more broadly can have an adverse impact on the bank. These conditions can change suddenly and negatively.

Regulation

As a participant in the financial services industry and a subsidiary of a systemically important financial institution, the bank is subject to extensive regulation, principally in the U.K., and the E.U. more generally, but also in the U.S. as a subsidiary of Group Inc. and in certain other jurisdictions. The bank faces the risk of significant intervention by law enforcement, regulatory and tax authorities, as well as private litigation, in all jurisdictions in which it conducts its businesses. In many cases, the bank's activities may be subject to overlapping and divergent regulation in different jurisdictions. Among other things, as a result of law enforcement authorities, regulators or private parties challenging the bank's compliance with laws and regulations, the bank or its employees could be fined, criminally charged or sanctioned, prohibited from engaging in certain business activities, subjected to limitations or conditions on its business activities including higher capital requirements, or subjected to new or substantially higher taxes or other governmental charges in connection with the conduct of its businesses or with respect to its employees. These limitations or conditions may limit business activities and negatively impact the bank's profitability.

If there are new laws or regulations or changes in the enforcement of existing laws or regulations applicable to the bank's businesses or those of the bank's clients, including capital, liquidity, leverage, long-term debt, total loss-absorbing capacity (TLAC) and margin requirements, restrictions on other business practices, reporting requirements, requirements relating to the implementation of the E.U. Bank Recovery and Resolution Directive, tax burdens and compensation restrictions, that are imposed on a limited subset of financial institutions (whether based on size, method of funding, activities, geography or other criteria) which may include the bank or GS Group, compliance with these new laws and regulations, or changes in the enforcement of existing laws or regulations, could adversely affect the bank's ability to compete effectively with other institutions that are not affected in the same way. In addition, regulation imposed on financial institutions or market participants generally, such as taxes on financial transactions, could adversely impact levels of market activity more broadly, and thus impact the bank's businesses.

These developments could impact the bank's profitability in the affected jurisdictions, or even make it uneconomic to continue to conduct all or certain businesses in those jurisdictions, or could result in the bank incurring significant costs associated with changing business practices, restructuring businesses, moving all or certain businesses and employees to other locations or complying with applicable capital requirements, including liquidating assets or raising capital in a manner that adversely increases the bank's funding costs or otherwise adversely affects its shareholder and creditors.

The implementation of higher capital requirements, the liquidity coverage ratio, the net stable funding ratio, requirements relating to long-term debt and TLAC and the prohibition on proprietary trading by the provisions of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) referred to as the "Volcker Rule" may continue to adversely affect the bank's profitability and competitive position, particularly if these requirements do not apply, or do not apply equally, to the bank's competitors or are not implemented uniformly across jurisdictions.

The bank is also subject to laws and regulations, such as the E.U.'s General Data Protection Regulation, relating to the privacy of the information of clients, employees or others, and any failure to comply with these laws and regulations could expose the bank to liability and/or reputational damage. As new privacy-related laws and regulations are implemented, the time and resources needed for the bank to comply with such laws and regulations, as well as the bank's potential liability for non-compliance and reporting obligations in the case of data breaches, may significantly increase.

In addition, the bank's businesses are increasingly subject to laws and regulations relating to surveillance, encryption and data on-shoring in the jurisdictions in which the bank operates. Compliance with these laws and regulations may require the bank to change its policies, procedures and technology for information security, which could, among other things, make the bank more vulnerable to cyber attacks and misappropriation, corruption or loss of information or technology.

The bank has entered into a consumer-oriented deposit-taking business and the bank expects to expand the product scope of its offerings. This expansion subjects the bank to numerous additional regulations. Not only are these regulations extensive, but they involve types of regulations and supervision, as well as regulatory compliance risks, that the bank has not previously encountered. The level of regulatory scrutiny and the scope of regulations affecting financial interactions with consumers is often much greater than that associated with doing business with institutions and high-net-worth individuals. Complying with these regulations is time-consuming, costly and presents new and increased risks.

Increasingly, regulators and courts have sought to hold financial institutions liable for the misconduct of their clients where such regulators and courts have determined that the financial institution should have detected that the client was engaged in wrongdoing, even though the financial institution had no direct knowledge of the activities engaged in by its client. Regulators and courts have also increasingly found liability as a "control person" for activities of entities in which financial institutions or funds controlled by financial institutions have an investment, but which they do not actively manage. In addition, regulators and courts continue to seek to establish "fiduciary" obligations to counterparties to which no such duty had been assumed to exist. To the extent that such efforts are successful, the cost of, and liabilities associated with, engaging in brokerage, clearing, market-making, investing and other similar activities could increase significantly. To the extent that the bank has fiduciary obligations in connection with acting as a financial adviser or investment adviser or in other roles for individual, institutional, sovereign or investment fund clients, any breach, or even an alleged breach, of such obligations could have materially negative legal, regulatory and reputational consequences.

Brexit

On January 31, 2020, the U.K. left the E.U. The bank expects considerable change in the regulatory framework that will govern transactions and business undertaken by the bank in the E.U. As a result, the bank faces numerous risks that could adversely affect the conduct of its businesses, its profitability and liquidity.

The bank is incorporated and headquartered in the U.K., and currently benefits from non-discriminatory access to E.U. clients and infrastructure based on E.U. treaties and E.U. legislation, including arrangements for cross-border "passporting" and the establishment of E.U. branches. The E.U. and the U.K. Parliament have ratified the Withdrawal Agreement, which provides for a transition period for the U.K. and the E.U to negotiate and agree to a framework for their future relationship. The transition period is currently scheduled to end on December 31, 2020 and the relationship between the U.K. and the E.U. beyond that date is uncertain. At the end of the transition period, firms based in the U.K. are expected to lose their existing access arrangements to the E.U. markets.

As necessary, certain client relationships and activities currently undertaken by the bank may be transitioned to other E.U. subsidiaries of Group Inc., which may result in a decline in the bank's total operating income and profitability.

In addition, Brexit has created an uncertain political and economic environment in the U.K., and may create such environments in current E.U. member states. Political and economic uncertainty has in the past led to, and the impact of Brexit could lead to, declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, changes in interest rates or exchange rates, weaker economic growth and reduced business confidence all of which could adversely impact the bank's business.

Market Volatility

The bank has exposure to market interest rate movements as a result of its lending and deposit-taking activities. In addition to the impact on the general economy, changes in interest rates could directly impact the bank in one or more of the following ways:

- The yield on interest-earning assets, primarily on lending activities, and rates paid on interest-bearing liabilities, primarily deposit-taking activities, may change in disproportionate ways;
- The value of certain balance sheet and off-balance sheet financial instruments could decline; or
- The cost of funding from affiliates or third parties may increase and the ability to raise funding could become more difficult.

The bank's profitability depends to an extent on net interest income. Accordingly, the bank's results depend on movements in market interest rates and its ability to manage interest-rate-sensitive assets and liabilities in response to these movements. Factors such as inflation, recession and instability in financial markets, among other factors beyond the bank's control, may affect interest rates.

Any substantial, unexpected, prolonged change in market interest rates could have an adverse effect on the bank's balance sheet, liquidity and profits. Changes in the level of interest rates also may negatively affect the bank's ability to originate loans, the value of assets and the bank's ability to realise gains from the sale of assets, all of which ultimately affect earnings.

Liquidity

Liquidity is essential to the bank's businesses. It is of critical importance to the bank, as most of the failures of financial institutions have occurred in large part due to insufficient liquidity. The bank's liquidity may be impaired by an inability to access secured and/or unsecured debt markets, an inability to access funds from Group Inc. or other affiliates, an inability to sell assets or redeem investments or unforeseen outflows of cash or collateral. This situation may arise due to circumstances that the bank may be unable to control, such as a general market disruption or an operational problem that affects third parties or the bank or its affiliates or even by the perception amongst market participants that the bank, or other market participants, are experiencing greater liquidity risk.

The bank primarily relies on deposits to be a low cost and stable source of funding for the financial transactions in which it engages. The bank accepts deposits from institutional and private wealth management clients, as well as directly from consumer clients through its digital deposit platform. It also issues certificates of deposits and accepts deposits from its affiliates. Certain deposit accounts do not have significant restrictions on withdrawal, and depositors can generally withdraw some or all of the funds in their accounts with little or no notice. Furthermore, the bank competes with other banks and other financial services companies for deposits. Competitors may raise the rates they pay on deposits and the bank may be required to raise its rates to avoid losing deposits. If the bank experiences significant withdrawals, for any reason, its funding costs may increase due to reliance on more expensive sources of funding. If the bank is required to fund its operations at a higher cost, these conditions may require the bank to curtail its activities, which also could reduce profitability.

Further, the bank's ability to sell assets may be impaired if there is not generally a liquid market for such assets, as well as in circumstances where other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis or in response to changes to rules or regulations. In addition, financial institutions with which the bank interacts may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair the bank's liquidity.

Concentration of Risk

Concentration of risk increases the potential for significant losses in market-making, underwriting, investing and financing activities. The number and size of these transactions may affect the bank's results of operations in a given period. Moreover, because of concentration of risk, the bank may suffer losses even when economic and market conditions are generally favourable for competitors. Disruptions in the credit markets can make it difficult to hedge these credit exposures effectively or economically.

Credit Quality

The bank is exposed to the risk that third parties who owe money, securities or other assets will not perform their obligations. These parties may default on their obligations to the bank due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect the bank.

The bank is also subject to the risk that its rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations are held by the bank, including a deterioration in the value of collateral posted by third parties to secure their obligations to the bank under derivatives contracts and loan agreements, could result in losses and/or adversely affect the bank's ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes.

A significant downgrade in the credit ratings of the bank's counterparties could also have a negative impact on the bank's results. While in many cases the bank is permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral the bank is entitled to receive and the value of pledged assets. The termination of contracts and the foreclosure on collateral may subject the bank to claims for the improper exercise of its rights. Default rates, downgrades and disputes with counterparties as to the valuation of collateral typically increase significantly in times of market stress, increased volatility and illiquidity.

The bank might underestimate the credit losses inherent in its loan portfolio and have credit losses in excess of the amount reserved. While management uses the best information available to determine this estimate, there could be future adjustments to the allowance for impairment of bank loans held at amortised cost based on, among other things, changes in the quality of the loan portfolio or the values of the underlying collateral.

Derivative Transactions

The bank is party to a number of derivative transactions, including credit derivatives. Many of these derivative instruments are individually negotiated and non-standardised, which can make exiting, transferring or settling positions difficult. Many credit derivatives require that the bank deliver to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, the bank does not hold the underlying security, loan or other obligation and may not be able to obtain the underlying security, loan or other obligation. This could cause the bank to forfeit the payments due under these contracts or result in settlement delays with the attendant credit and operational risk, as well as increased costs to the bank.

Derivative contracts and other transactions entered into with third parties are not always confirmed by the counterparties or settled on a timely basis. While the transaction remains unconfirmed or during any delay in settlement, the bank is subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce its rights.

In addition, as new complex derivative products are created, covering a wider array of underlying credit and other instruments, disputes about the terms of the underlying contracts could arise, which could impair the bank's ability to effectively manage its risk exposures from these products and subject it to increased costs. The provisions of legislation requiring central clearing of credit derivatives and other over-the-counter (OTC) derivatives, or a market shift toward standardised derivatives, could reduce the risk associated with these transactions, but under certain circumstances could also limit the bank's ability to develop derivatives that best suit the needs of clients and to hedge its own risks, and could adversely affect the bank's profitability and increase credit exposure to central clearing platforms.

Operational Infrastructure

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

Many rules and regulations worldwide govern the bank's obligations to report transactions and other information to regulators, exchanges and investors. Compliance with these legal and reporting requirements can be challenging, and the group has been, and may in the future be, subject to regulatory fines and penalties for failing to follow these rules or to report timely, accurate and complete information in accordance with these rules. As such requirements expand, compliance with these rules and regulations has become more challenging.

As the bank's client base, including through the consumer businesses, expands, and the volume, speed, frequency and complexity of transactions, especially electronic transactions (as well as the requirements to report such transactions on a real-time basis to clients, regulators and exchanges) increase, developing and maintaining the bank's operational systems and infrastructure becomes more challenging, and the risk of systems or human error in connection with such transactions increases, as well as the potential consequences of such errors due to the speed and volume of transactions involved and the potential difficulty associated with discovering such errors quickly enough to limit the resulting consequences.

The financial, accounting, data processing or other operational systems and facilities, or operational systems or facilities of affiliates on which the bank depends, may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the bank's control, such as a spike in transaction volume, adversely affecting the bank's ability to process these transactions or provide these services. These systems must be continuously updated to support operations and growth and to respond to changes in regulations and markets. The bank invests in systemic controls and training to ensure that such transactions do not violate applicable rules and regulations or, due to errors in processing such transactions, adversely affect markets, clients and counterparties or the bank.

Enhancements and updates to systems, as well as the requisite training, including in connection with the integration of new businesses, entail significant costs and create risks associated with implementing new systems and integrating them with existing ones.

The use of computing devices and phones is critical to the work done by the bank's employees and the operation of the bank's systems and businesses and those of its clients and third-party service providers and vendors. Computers and computer networks are subject to various risks, including, among others, cyber attacks, inherent technological defects, system failures and errors by human operators. For example, fundamental security flaws in computer chips found in many types of these computing devices and phones have been reported in the past and may be discovered in the future. Cloud technologies are also critical to the operation of the bank's systems and platforms and the bank's reliance on cloud technologies is growing. Service disruptions may lead to delays in accessing, or the loss of, data that is important to the bank's businesses and may hinder the bank's clients' access to the bank's platforms.

Additionally, although the prevalence and scope of applications of distributed ledger technology and similar technologies is growing, the technology is also nascent and may be vulnerable to cyber attacks or have other inherent weaknesses. The bank may be, or may become, exposed to risks related to distributed ledger technology through the bank's facilitation of clients' activities involving financial products linked to distributed ledger technology, such as blockchain or cryptocurrencies, and the use of distributed ledger technology by third-party vendors, clients, counterparties, clearing houses and other financial intermediaries.

In addition, the bank faces the risk of operational failure or significant operational delay, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries that it uses to facilitate securities and derivatives transactions, and as interconnectivity with clients grows, the bank will increasingly face the risk of operational failure or significant operational delay with respect to clients' systems.

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

In addition, although the bank seeks to diversify its third-party vendors to increase its resiliency, the bank is also exposed to the risk that a disruption or other information technology event at a common service provider to the bank's vendors could impede their ability to provide products or services to the bank. The bank may not be able to effectively monitor or mitigate operational risks relating to its vendors' use of common service providers.

Furthermore, the bank relies upon certain group undertakings for various support services, including, but not limited to, trade execution, relationship management, loan origination, settlement and clearing, loan servicing, risk management and other administrative services. Such services are provided to the bank pursuant to a Master Services Agreement, which is generally terminable upon mutual agreement of Group Inc. and its subsidiaries, subject to certain exceptions, including material breach of the agreement. If group undertakings were to cease to provide such services, the bank would be required to seek alternative sources, which could be difficult to obtain on the same terms or could result in increased costs.

Cyber Security

The bank is regularly the target of attempted cyber attacks, including denial-of-service attacks, and must continuously monitor and develop its systems to protect the integrity and functionality of its technology infrastructure and access to and the security of its data. The increasing migration of the bank's communication from devices the bank provides to employee-owned devices presents additional risks of cyber attacks. In addition, due to the interconnectivity with third-party vendors (and their respective service providers), central agents, exchanges, clearing houses and other financial institutions, the bank could be adversely impacted if any of them is subject to a successful cyber attack or other information security event. These impacts could include the loss of access to information or services from the third party subject to the cyber attack or other information security event, which could, in turn, interrupt certain of the bank's businesses.

Despite the bank's efforts to ensure the integrity of its systems and information, it may not be able to anticipate, detect or implement effective preventive measures against all cyber threats, especially because the techniques used are increasingly sophisticated, change frequently and are often not recognised until launched. Cyber attacks can originate from a variety of sources, including third parties who are affiliated with or sponsored by foreign governments or are involved with organised crime or terrorist organisations. Third parties may also attempt to place individuals in the bank's office or induce employees, clients or other users of the bank's systems to disclose sensitive information or provide access to the bank's data or that of its clients, and these types of risks may be difficult to detect or prevent.

Although the bank takes protective measures proactively and endeavours to modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorised access, misuse, computer viruses or other malicious code, cyber attacks on the bank's vendors and other events that could have a security impact. Due to the complexity and interconnectedness of the bank's systems, the process of enhancing protective measures can itself create a risk of systems disruptions and security issues. In addition, protective measures that the bank employs to compartmentalise its data may reduce its visibility into, and adversely affect its ability to respond to, cyber threats and issues within its systems.

If one or more of such events occur, this potentially could jeopardise the bank or its clients' or counterparties' confidential and other information processed, stored in or transmitted through the bank's computer systems and networks, or otherwise cause interruptions or malfunctions in the bank's operations or those of its clients', its counterparties' or third parties', which could impact their ability to transact with the bank or otherwise result in legal or regulatory action, significant losses or reputational damage.

In addition, such an event could persist for an extended period of time before being detected, and, following detection, it could take considerable time for the bank to obtain full and reliable information about the extent, amount and type of information compromised. During the course of an investigation, the bank may not know the full impact of the event and how to remediate it, and actions, decisions and mistakes that are taken or made may further increase the negative effects of the event on the bank's business, results of operations and reputation.

The bank has expended, and expects to continue to expend, significant resources on an ongoing basis to modify its protective measures and to investigate and remediate vulnerabilities or other exposures, but these measures may be ineffective and the bank may be subject to legal or regulatory action, as well as financial losses that are either not insured against or not fully covered through any insurance it maintains.

The bank's confidential information may also be at risk from the compromise of clients' personal electronic devices or as a result of a data security breach at an unrelated company. Losses due to unauthorised account activity could harm the bank's reputation and may have adverse effects on its business, financial condition and results of operations.

The increased use of mobile and cloud technologies can heighten these and other operational risks. Certain aspects of the security of such technologies are unpredictable or beyond the bank's control, and the failure by mobile technology and cloud service providers to adequately safeguard their systems and prevent cyber attacks could disrupt the bank's operations and result in misappropriation, corruption or loss of confidential and other information. In addition, there is a risk that encryption and other protective measures, despite their sophistication, may be defeated, particularly to the extent that new computing technologies vastly increase the speed and computing power available.

The bank routinely transmits and receives personal, confidential and proprietary information by email and other electronic means. The bank has discussed and worked with clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against cyber attacks, but does not have, and may be unable to put in place, secure capabilities with all of its clients, vendors, service providers, counterparties and other third parties and it may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a client, vendor, service provider, counterparty or other third party could result in legal liability, regulatory action and reputational harm.

Risk Management

The bank seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate, but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms, as well as activities conducted through third-party relationships. In doing so, the bank uses and benefits from the risk management processes of GS Group. The bank's risk management process seeks to balance its ability to profit from financial transactions in which it engages with its exposure to potential losses. Whilst the bank employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, the bank may, in the course of its activities, incur losses. Market conditions in recent years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

New Business Initiatives

The bank faces enhanced risks as new business initiatives lead it to transact with a broader array of clients and counterparties and expose it to new asset classes and new markets. A number of the bank's recent and planned business initiatives, such as the client execution activities undertaken by the Johannesburg branch, and expansion of existing businesses, such as the bank's consumer-oriented activities, may bring it into contact, directly or indirectly, with individuals and entities that are not within the bank's traditional client and counterparty base and/or expose it to new asset classes, new regions and new markets including emerging and growth markets.

As a result of the bank's consumer-oriented activities, the bank could face additional compliance, legal and regulatory risk, increased reputational risk and increased operational risk due to, among other things, higher transaction volumes, greater reliance on third-party vendors, increased volume of customer complaints, significantly increased retention requirements and transmission of customer and client information and increased regulatory compliance obligations.

The bank has developed and pursued new business and strategic initiatives, and expects to continue to do so. If and to the extent the bank is unable to successfully execute those initiatives, it may incur unanticipated costs and losses, and face other adverse consequences, such as negative reputational effects. In addition, the actual effects of pursuing those initiatives may differ, possibly materially, from the benefits that the bank expects to realise from them, such as generating additional revenues, achieving expense savings, reducing operational risk exposures or using capital and funding more efficiently. Engaging in new activities exposes the bank to a variety of risks, including that it may be unable to successfully develop new, competitive, efficient and effective systems and processes, and hire and retain the necessary personnel.

In order to develop and be able to offer competitive consumer financial products that compete effectively, the bank has made and expects to continue to make significant investments in technology and human capital resources in connection with its consumer-oriented activities.

New business initiatives expose the bank to new and enhanced risks, including risks associated with dealing with governmental entities, reputational concerns arising from dealing with different types of clients, counterparties and investors, greater regulatory scrutiny of these activities, increased credit-related, market, sovereign and operational risks, risks arising from accidents or acts of terrorism, and reputational concerns with the manner in which certain assets are being operated or held or in which the bank interacts with these counterparties. Legal, regulatory and reputational risks may also exist in connection with activities and transactions involving new products or markets where there is regulatory uncertainty or where there are different or conflicting regulations depending on the regulator or the jurisdiction involved, particularly where transactions in such products may involve multiple jurisdictions.

Conflicts of Interest

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

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

Changes in Underliers

Certain of the bank's businesses and its funding may be adversely affected by changes in the reference rates, currencies, or other financial metrics (the underlier) to which the products offered by the bank or funding raised by the bank are linked, in particular by changes in or the discontinuance of Interbank Offered Rates (IBORs).

Many of the products that the bank owns or that it offers, pay interest or determine the principal amount to be paid at maturity or in the event of default by reference to rates or by reference to another underlier. In the event that the composition of the underlier is significantly changed, by reference to rules governing such underlier or otherwise, the underlier ceases to exist (for example, in the event that LIBOR is discontinued, a country withdraws from the Euro or links its currency to or delinks its currency from another currency or benchmark, or an index or ETF sponsor materially alters the composition of an index or ETF) or the underlier ceases to be recognised as an acceptable market benchmark, the bank may experience pricing volatility, loss of market share in certain products, adverse tax or accounting impacts, compliance, legal and operational costs and risks associated with client disclosures, as well as systems disruption, model disruption and other business continuity issues. In addition, uncertainty relating to IBORs could result in increased capital requirements for the bank given potential low transaction volumes, a lack of liquidity or limited observability for exposures linked to IBORs or any emerging successor rates and operational incidents associated with changes in and the discontinuance of IBORs.

There is uncertainty as to how the financial services industry will address the discontinuance of designated rates in contracts and financial instruments or such designated rates ceasing to be acceptable reference rates. This uncertainty could ultimately result in client disputes and litigation surrounding the proper interpretation of the bank's IBOR-based contracts and financial instruments.

Further, the discontinuation of an IBOR, changes in an IBOR or changes in market acceptance of any IBOR as a reference rate may also adversely affect the yield on loans or securities held by the bank, amounts paid on securities the bank has issued, amounts received and paid on derivative instruments the bank has entered into, the value of such loans, securities or derivative instruments, the trading market for securities, the terms of new loans being made using different or modified reference rates, the bank's ability to effectively use derivative instruments to manage risk, or the availability or cost of the bank's floating-rate funding and its exposure to fluctuations in interest rates.

Negative Publicity

The financial services industry generally and the bank's businesses in particular have been subject to negative publicity. The bank's reputation and businesses may be adversely affected by negative publicity or information regarding its business and personnel, whether or not accurate or true, that may be posted on social media or other internet forums or published by news organisations. The speed and pervasiveness with which information can be disseminated through these channels, in particular social media, may magnify risks relating to negative publicity.

Unforeseen or Catastrophic Events

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic, such as coronavirus, or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, could create economic and financial disruptions, and could lead to operational difficulties (including travel limitations) that could impair the bank's ability to manage its businesses and result in losses.

Climate Change

Climate change concerns could disrupt the bank's business, affect client activity levels and creditworthiness and damage the bank's reputation. Climate change may cause extreme weather events that disrupt operations at one or more of the bank's primary locations, which may negatively affect its ability to service and interact with its clients. Climate change may also have a negative impact on the financial condition of its clients, which may decrease revenues from those clients and increase the credit risk associated with loans and other credit exposures to those clients. Additionally, the bank's reputation may be damaged as a result of its involvement, or its clients' involvement, in certain industries or projects associated with climate change.

Credit Ratings

The table below presents the unsecured credit ratings and outlook of the bank by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services (S&P).

	As of November 2019		
	Fitch	Moody's	S&P
Short-term bank deposits	F1	P-1	N/A
Short-term debt	F1	P-1	A-1
Long-term bank deposits	A	A1	N/A
Long-term debt	A	A1	A+
Ratings outlook	Stable	Stable	Stable

Date of Authorisation of Issue

The strategic report was authorised for issue by the Board of Directors on March 11, 2020.

By order of the board
D. M. Bicarregui
Director
March 27, 2020

The directors present their report and the audited financial statements for the period ended November 2019.

Introduction

In accordance with section 414A of the Companies Act 2006, the directors have prepared a strategic report, which is included in Part I of this annual report and which contains a review of the bank's businesses and a description of the principal risks and uncertainties facing the bank. The directors have chosen to make reference to the future outlook of the bank in the strategic report in accordance with section 414C(11) of the Companies Act 2006. The bank's risk management objectives and policies, including exposures to market risk, credit risk and liquidity risk, are described in Note 24 to the financial statements.

Dividends

The directors do not recommend the payment of an ordinary dividend for the period ended November 2019. No dividends were paid in the period ended November 2018.

Exchange Rate

The British pound/U.S. dollar exchange rate was £/$1.2932 as of November 2019 and £/$1.2743 as of November 2018. The average rate for the periods was £/$1.2748 for November 2019 and £/$1.3347 for November 2018.

Employment of Disabled Persons

Applications for employment by disabled persons are fully and fairly considered with regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within GS Group. Training, career development and promotion of disabled persons are, to the extent possible, identical to that of other employees who are not disabled.

Employee Involvement

It is GS Group policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be made aware of financial and economic factors affecting the performance of the bank and consulted on and involved in decisions that affect their current jobs or future prospects. Employees share in performance-based incentive schemes.

Statement on Corporate Governance with Reference to Internal Control over Financial Reporting

Management of the bank is responsible for establishing and maintaining adequate internal control over financial reporting. The bank's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the bank's financial statements for external reporting purposes in accordance with U.K. GAAP.

The bank's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.K. GAAP, and that receipts and expenditures are being made only in accordance with authorisations of management and the directors of the bank; and provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the bank's assets that could have a material effect on the bank's financial statements.

Disclosure of Information to Auditors

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

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

Independent Auditors

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

The bank's Board Audit Committee has approved the appointment of Mazars LLP as the bank's statutory auditor for the financial period commencing on or after December 1, 2020.

Directors' Report

Statement of Directors' Responsibilities

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

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

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

The directors are responsible for the maintenance and integrity of the bank's financial statements on the Goldman Sachs website. Legislation in the U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm to the best of their knowledge:

- The financial statements, prepared in accordance with applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank; and
- The strategic report includes a fair review of the development and performance of the business and the position of the bank, together with a description of the principal risks and uncertainties that the bank faces.

Directors

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

Name
D. M. Bicarregui
C. G. Cripps (appointed on April 1, 2019)
Lord Grabiner QC
N. Harman
D. W. McDonogh, Chief executive officer
T. L. Miller OBE
E. E. Stecher, Chair
D. D. Wildermuth

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

Date of Authorisation of Issue

The financial statements were authorised for issue by the Board of Directors on March 11, 2020.

By order of the board
D. M. Bicarregui
Director
March 27, 2020

Independent auditors' report to the members of Goldman Sachs International Bank (unlimited company)

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the bank's affairs as of November 30, 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as of November 30, 2019; the Profit and Loss Account, the Statements of Comprehensive Income, the Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the GSIB Board Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the U.K., which includes the Financial Reporting Council (FRC)'s Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the bank.

Other than those disclosed in Note 7 to the financial statements, we have provided no non-audit services to the bank in the year from December 1, 2018 to November 30, 2019.

Our audit approach

Context

The comparative period disclosed in these financial statements is the 11 month period ended November, 30 2018.

Overview

- Overall Materiality: $23.3 million (2018: $19.3 million), based on 0.75% of total tier 1 capital resources (2018: 0.5% of total capital resources) as set out on page 39 of the Annual Report.
- Audit Scope: We perform a full scope audit of the financial statements of the bank as a whole as a single component. The scope of the audit and the nature, timing and extent of audit procedures were determined by our risk assessment, the financial significance of financial statement line items and qualitative factors (including history of misstatement through fraud or error).
- Key audit matters: The area of focus which was of most significance in the audit was the appropriateness of the assumptions and methodologies and the accuracy of the critical inputs used in the calculation of the allowance for impairment on loans held at amortised cost. We also considered the impact of the outbreak of a novel strain of coronavirus (COVID-19) on the bank.
- We discussed our plan, including the identification of key audit matters, with the GSIB Board Audit Committee in July 2019 and November 2019.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the bank and industry, we identified that the principal risks of non-compliance with laws and regulations related to the rules of the Financial Conduct Authority ("FCA") and the Prudential Regulatory Authority ("PRA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the Companies and Group Accounts Regulations 2008 and Finance Act 2004.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries, management bias through the manipulation of the fair value of financial assets and liabilities and the allowance for impairment on loans held at amortised cost.

The engagement team shared this risk assessment with PwC network firms supporting the audit and designed audit procedures to address these risks. Audit procedures performed included:

- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluating and testing of the operating effectiveness of management's entity level controls designed to prevent and detect irregularities, in particular, their Code of Conduct and Whistleblowing procedures;
- Assessment of matters reported on the bank's whistleblowing helpline and the results of management's investigation of such matters;
- Reviewing key correspondence with regulatory authorities (the FCA and the PRA) in relation to compliance and any regulatory proceedings;
- Identifying and testing journal entries, in particular identifying any journal entries posted by senior management;
- Challenging assumptions and judgements made by management in relation to the fair value measurement of financial assets and liabilities and the allowance for impairment. Our procedures included testing the effectiveness of management's controls over the fair value of financial assets and liabilities and performing an independent valuation of a sample of such items at the year-end. Audit procedures performed over the allowance for impairment can be found in the Key Audit Matter; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
The appropriateness of the assumptions and methodologies and the accuracy of the critical inputs used in the calculation of the allowance for impairment on loans held at amortised cost ***Refer to Note 24 'Financial Risk Management and Capital Management' in the financial statements.*** As set out in Note 3 "Critical Accounting Estimates and Judgements" on page 31, the measurement of ECL for financial assets classified at amortised cost requires the use of a complex model and significant assumptions about future economic conditions and credit behaviour. Significant judgements are also required in applying the accounting requirements for measuring ECL including determining criteria for significant increases in credit risk and establishing the number and weighting of forward-looking scenarios. This is a key audit matter as estimating impairment provisions under IFRS 9 requires a high level of judgment. We focused our audit effort on the following areas: • The assessment of key assumptions and accuracy of critical inputs used by management in the IFRS 9 ECL model. We focused our work on the key assumptions in the model, including the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD); • The appropriateness of the 'staging' of loans and hence whether a 12 month or lifetime loss provision is recorded; • The application of forward looking economic assumptions used in the ECL model, including the appropriateness of management's assumptions and the relevant weightings applied in the ECL calculation; • The appropriateness of management's overlays and adjustments to the modelled output; and • The completeness of the IFRS 9 disclosures made in the financial statements by management and consistency with standards.	We tested the design and operating effectiveness of the controls over model validation and approval. These controls included those over: • The independent validation and approval of models for use, including an annual review and revalidation of existing models; and • The assignment and review of the ECL model, including model and non-model code changes. We tested the design and operating effectiveness of the controls over key assumptions, critical model inputs and calculations used by management in the ECL provisioning process. These controls included those over: • The assignment and review of applicable loan attributes feed into the ECL model; • The assignment and review of internal credit ratings ('ICR') and the ongoing monitoring of the credit quality and performance of the loans by an independent function; • The assignment and review of PD, LGD and EAD parameters; • The governance over the impairment processes, including the approval of changes in assumptions, methodologies, qualitative adjustments and management's review of the provision for impairment; and • The governance over calculation of the impairment provisions and the reconciliation of model output to the general ledger. We noted no significant exceptions in the design or operating effectiveness of these controls and we determined we could rely on these controls for the purposes of our audit. In addition, we performed the substantive testing described below. Together with credit risk modelling experts, we critically tested the key models and model inputs feeding into the IFRS 9 ECL calculation. This substantive testing included: • We assessed the appropriateness of the models developed to produce the PD, LGD and EAD parameters. Our procedures included a review of model documentation that includes modelling methodology, assumptions, appropriateness of data used in the model development and validate model implementation; • We tested historical data, applicable loan attributes feeds into ECL model, definitions of defaults, and the discount rates used; • We assessed the reasonableness of the ICR determinations including relative mapping of ICR to external rating agency's credit rating;

Key audit matter	*How our audit addressed the key audit matter*
	• We tested the appropriateness of thresholds used to determine significant increase in credit risk. We also tested the appropriate 'staging' of loans by considering a combination of qualitative and quantitative factors including independently searching for any adverse developments in the borrowers; • We tested management's use of scenarios in the development of forward-looking estimates and the reasonableness of management's assumptions around weightings used for multiple economic scenarios; and • For loans at stage 3, we tested the reasonableness of the inputs and assumptions made in the discounted cash flow model to challenge if the management has sufficiently provided against the loan. We tested whether the credit risk disclosures made by management were compliant with IFRS 9 and agreed the disclosures to source data without exception. Based on the evidence obtained, we consider the provision for impairment of loans held at amortised cost appropriate at November 30, 2019.

Key audit matter	*How our audit addressed the key audit matter*
Impact of the outbreak of COVID-19 on the financial statements ***Refer to Note 27 'Non-Adjusting Post Balance Sheet Events' in the financial statements.*** Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19. During the latter stages of finalising the financial statements, the potential impact of COVID-19 became significant and is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the U.K.. The directors have considered the impact on the financial statements and have concluded that the matter is a non-adjusting post balance sheet event, the financial impact of which cannot be reliably estimated at this stage, and that the going concern basis of preparation is appropriate.	We critically assessed management's conclusion that the matter be treated as a non-adjusting post balance sheet event and that the directors consider the impact of which cannot be reliably estimated at this stage. We considered: • The timing of the development of the outbreak across the world and in the UK; and • How the financial statements and business operations of the bank might be impacted by the disruption. Based on the work performed, we are satisfied that the matter has been appropriately evaluated and reflected in the financial statements. In forming our conclusions over going concern, we evaluated whether management's going concern assessment considered impacts arising from COVID-19. Our procedures in respect of going concern included: • We reviewed management's going concern assessment. We made enquiries of management to understand the potential impact of COVID-19 on the bank's financial performance, business operations and regulatory capital and liquidity ratios. • We reviewed the bank's most recent Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process which contain the results of the banks's latest stress tests. Our reporting on going concern is set out below.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the bank, the accounting processes and controls, and the industry in which it operates.

The bank undertakes lending and deposit-taking activities and securities lending. The bank also operates branches and a representative office across Europe, Africa and Asia to provide financial services to clients in those regions. We consider the bank and its branches to represent a single audit component.

Traders based in overseas group locations enter into transactions on behalf of the bank. In these circumstances, certain internal controls relevant to financial reporting operate in those locations. In addition, there are a number of centralised functions operated by the ultimate parent company, The Goldman Sachs Group, Inc., in the U.S. or in group shared service centres in other locations that are relevant to the audit of the bank. We determined the scope of the work required in each of these locations and issued instructions to PwC network firms. We interacted regularly with the firms responsible for the work throughout the course of the audit. This included reviewing key working papers and discussing and challenging the results of work in higher risk areas of the audit. We concluded that the procedures performed on our behalf were sufficient for the purposes of issuing our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	$23.3 million (2018: $19.3 million).
How we determined it	0.75% of total Tier 1 capital resources (2018: 0.5% of total capital resources) as set out on page 39 of the Annual Report.
Rationale for benchmark applied	The immediate and ultimate parent companies, management, certain creditors (e.g. note holders) and the bank's regulators are the primary users of the financial statements. The level of Tier 1 capital resources is a key area focus of these users.

We agreed with the GSIB Board Audit Committee that we would report to them misstatements identified during our audit above $1.1 million (2018: $0.9 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect to the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the bank's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the U.K. Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended November, 30 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the bank and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the bank, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the GSIB Board Audit Committee, we were appointed by the directors on 10 August 1982 to audit the financial statements for the year ended November, 25 1983 and subsequent financial periods. The period of total uninterrupted engagement is 37 years, covering the years ended November, 25 1983 to November, 30 2019.

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
March 27, 2020

Profit and Loss Account

		Period Ended November	
$ in thousands	**Note**	**2019**	2018
Interest receivable and similar income	5	**$1,034,677**	$ 701,076
Interest payable and similar expenses	6	**(767,608)**	(522,332)
Net interest income		**267,069**	178,744
Net gains on financial instruments measured at fair value		**48,570**	10,166
Fees and commissions		**47,774**	48,571
Impairments on financial assets		**(41)**	(10,897)
Total operating income	4	**363,372**	226,584
Administrative expenses	7	**(199,901)**	(144,198)
Profit before taxation		**163,471**	82,386
Tax on profit	11	**(45,735)**	(20,885)
Profit for the financial period		**$ 117,736**	$ 61,501

Profit before taxation of the bank is derived from continuing operations in the current and prior periods.

Statements of Comprehensive Income

	Period Ended November	
$ in thousands	**2019**	2018
Profit for the financial period	**$ 117,736**	$ 61,501
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Debt valuation adjustment	**(7,803)**	3,984
U.K. deferred tax attributable to debt valuation adjustment	**2,077**	(1,076)
Total items that will not be reclassified subsequently to profit or loss	**(5,726)**	2,908
Items that will be reclassified subsequently to profit or loss		
Translation gains/(losses)	**30**	(284)
Loss on net investment hedge	**(63)**	–
Total items that will be reclassified subsequently to profit or loss	**(33)**	(284)
Other comprehensive income/(loss) for the financial period, net of tax	**(5,759)**	2,624
Total comprehensive income for the financial period	**$ 111,977**	$ 64,125

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

Balance Sheet

		As of November	
$ in thousands	**Note**	**2019**	2018
Assets			
Cash at bank and in hand		**$ 5,832,946**	$ 6,984,034
Customer accounts receivable	12	**8,223,670**	5,536,255
Debt securities		**561,776**	604,259
Financial instruments owned	13	**1,738,572**	750,973
Collateralised agreements with group undertakings	14	**28,226,991**	24,072,549
Tangible fixed assets	15	**310**	–
Other assets	16	**827,862**	802,120
Total assets		**$45,412,127**	$38,750,190
Liabilities and shareholder's funds			
Customer accounts payable	18	**$37,619,192**	$32,444,570
Deposits by banks		**2,335,091**	387,027
Financial instruments sold, but not yet purchased	13	**773,426**	1,094,013
Collateralised financings with group undertakings	19	**–**	8,156
Other liabilities	20	**631,294**	875,277
Long-term subordinated loans from group undertakings	21	**826,000**	826,000
Total liabilities		**$42,185,003**	$35,635,043
Called up share capital	22	**62,558**	62,558
Share premium account		**2,094,303**	2,094,303
Accumulated other comprehensive income		**(6,469)**	(710)
Profit and loss account		**1,076,732**	958,996
Total shareholder's funds		**3,227,124**	3,115,147
Total liabilities and shareholder's funds		**$45,412,127**	$38,750,190
Memorandum items			
Financial commitments	23	**$ 7,763,429**	$ 7,479,103
Contingent liabilities	23	**$ 1,471,571**	$ 3,137,352

The financial statements were approved by the Board of Directors on March 11, 2020 and signed on its behalf by:

D. M. Bicarregui
Director
March 27, 2020

The accompanying notes are an integral part of these financial statements.
Company number: 01122503

Statements of Changes in Equity

	Period Ended November	
$ in thousands	**2019**	2018
Called up share capital		
Beginning balance	**$ 62,558**	$ 62,558
Ending balance	**62,558**	62,558
Share premium account		
Beginning balance	**2,094,303**	2,094,303
Ending balance	**2,094,303**	2,094,303
Accumulated other comprehensive income		
Beginning balance	**(710)**	(3,334)
Other comprehensive income/(loss)	**(5,759)**	2,624
Ending balance	**(6,469)**	(710)
Profit and loss account		
Beginning balance	**958,996**	880,171
Cumulative effect on retained earnings due to adoption of IFRS 9, net of tax	**–**	17,324
Profit for the financial period	**117,736**	61,501
Share-based payments	**280**	188
Management recharge related to share-based payments	**(280)**	(188)
Ending balance	**1,076,732**	958,996
Total shareholder's funds	**$3,227,124**	$3,115,147

No dividends were paid in 2019 or 2018.

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

Note 1.

General Information

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

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 additional 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.

Basel III Pillar 3 Disclosures

The bank is included in the consolidated Pillar 3 disclosures of GSG UK, as required by the E.U. Capital Requirements Regulation. GSG UK's November 2019 Pillar 3 disclosures will be made available in conjunction with the publication of its consolidated financial information at www.goldmansachs.com/disclosures.

Country-by-Country Reporting

The bank is included in the consolidated country-by-country reporting disclosures of GSG UK, as required by the Capital Requirements (Country-by-Country Reporting) Regulations 2013. GSG UK's November 2019 Country-by-Country Reporting disclosures will be made available by December 31, 2020 at www.goldmansachs.com/disclosures.

Branch Information

The Frankfurt branch had total assets of $23 million (€21 million) as of November 2019 and $14 million (€12 million) as of November 2018.

The Johannesburg branch had total assets of $23 million (R337 million) as of November 2019 and $nil (Rnil) as of November 2018.

Note 2.

Summary of Significant Accounting Policies

Basis of Preparation

The bank prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' (FRS 101).

These financial statements have been prepared on the going concern basis, under the historical cost convention (modified as explained in "Financial Assets and Liabilities" below), and in accordance with the Companies Act 2006.

In 2018, the bank changed its accounting reference date from December 31 to November 30. As such, these financial statements have been prepared for the twelve months ended November 30, 2019, with comparative information being presented for the eleven months ended November 30, 2018. As a result, amounts in these financial statements are not directly comparable.

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

- IFRS 2 'Share-based Payment' paragraph 45(b) and 46 to 52. These disclosures are provided in the consolidated financial statements of Group Inc.;
- IFRS 15 'Revenue from Contracts with Customers' (IFRS 15) second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129;
- IAS 1 'Presentation of Financial Statements' paragraph 38 to present comparative information in respect of:
  - IAS 1 'Presentation of Financial Statements' paragraph 79(a)(iv); and
  - IAS 16 'Property, Plant and Equipment' paragraph 73(e).
- IAS 1 'Presentation of Financial Statements' paragraphs 10(f), 16, and 40A-D;
- IAS 7 'Statement of Cash Flows';
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31;
- IAS 24 'Related Party Disclosures' paragraph 17; and
- IAS 24 'Related Party Disclosures' requirements to disclose transactions with companies also wholly owned within GS Group.

Consolidation

The bank has elected not to prepare consolidated financial statements as permitted by section 402 of the Companies Act 2006 as its subsidiaries are not material for the purpose of giving a true and fair view.

The bank has interests in the below special purpose entities that are fully funded by the bank through profit participating loan arrangements:

- Elan Woninghypotheken B.V. (incorporated in The Netherlands); and
- Strandhill Funding Designated Activity Company (incorporated in Ireland).

The activities of these special purpose entities consist of the origination and purchase of mortgage loans with intention to subsequently securitise or sell as a portfolio of whole loans at a future date. These special purpose entities are consolidated in the financial statements of Group Inc.

These financial statements are individual financial statements.

New Standards, Amendments and Interpretations

IFRS 16 'Leases'. In January 2016, the International Accounting Standards Board issued IFRS 16 'Leases' (IFRS 16), which replaces IAS 17 'Leases' (IAS 17), IFRIC 4 'Determining whether an Arrangement contains a Lease' and SIC-15 'Operating Leases – Incentives' for annual periods beginning on or after January 1, 2019 with early adoption permitted. In November 2017, the E.U. endorsed IFRS 16.

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 bank adopted this standard from December 1, 2019. The implementation of this standard did not have a significant impact on the bank's balance sheet or its statements of comprehensive income.

Accounting Policies

Revenue Recognition. Total operating income, consists of revenues from lending and deposit-taking activities, securities lending and from primary dealer and market-making activities in European government bonds.

Non-derivative financial assets mandatorily at fair value through profit or loss and non-derivative financial liabilities held for trading or designated at fair value through profit or loss are recognised at fair value with realised and unrealised gains and losses included in net gains on financial instruments at fair value, with the exception of debt valuation adjustments (DVA), which is recognised in other comprehensive income, unless this would create or enlarge an accounting mismatch in profit or loss. Associated interest and expenses are included within net interest income, with the exception of coupon interest arising on European government bonds and interest on collateralised agreements and collateralised financings associated with the bank's European government bond market-making business, which are included in net gains on financial instruments measured at fair value.

Unrealised gains and losses related to the change in fair value of financial assets and liabilities measured at fair value through profit or loss are recognised from trade date in net gains on financial instruments measured at fair value or other comprehensive income in the case of DVA.

In applying the provisions of IFRS 9 'Financial Instruments' (IFRS 9) relating to DVA, the bank is departing from the requirements of paragraph 48(1) of Schedule 2 of SI 2008/410 relating to recognising the changes in the fair value of financial instruments in the profit or loss account. The directors consider this departure is necessary in order for the accounts to give a true and fair view. See Note 18 for further information about the cumulative impact of the bank's DVA.

Derivative financial assets and liabilities are recognised at fair value with realised and unrealised gains and losses included in net gains on financial instruments at fair value, with the exception of exchange of interest in currency derivative instruments related to funding products, which is included in net interest income. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

Financial assets and liabilities measured at amortised cost are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. Finance revenue is recorded in interest receivable and similar income. Finance costs, including discounts allowed on issue, are recorded in interest payable and similar expenses.

Fees from the bank's lending and securities lending activities are included in fees and commissions in the profit and loss account.

Revenue from Contracts with Clients

Revenues earned from contracts with clients are recognised when the performance obligations related to the underlying transactions are completed.

If the bank is principal to the transaction, the bank recognises revenue on contracts with clients, gross of expenses incurred to satisfy some or all of its performance obligations. The bank is principal to the transaction if it has the primary obligation to provide the service to the client. The bank satisfies the performance obligation by itself, or by engaging other GS Group entities to satisfy some or all of its performance obligations on its behalf. Such revenue is recognised in total operating income and expenses incurred are recognised in administrative expenses.

Segment Reporting. The directors manage the bank's business activities as a single operating segment and accordingly no segmental reporting has been provided.

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

Operating Leases. The bank has entered into operating lease arrangements as the lessee. Leased assets are not recognised in the balance sheet. Costs in respect of operating leases, adjusted for any incentives granted by the lessor, are charged on a straight-line basis over the lease term and included in administrative expenses.

Short-Term Employee Benefits. Short-term employee benefits, such as wages and salaries, are measured on an undiscounted basis and accrued as an expense over the period in which the employee renders the service to the bank. Provision is made for discretionary period-end compensation whether to be paid in cash or share-based awards where, as a result of GS Group policy and past practice, a constructive obligation exists at the balance sheet date.

Share-Based Payments. Group Inc. issues awards in the form of restricted stock units (RSUs) and stock options to the bank's employees in exchange for employee services. Awards are classified as equity settled and hence the cost of share-based transactions with employees is measured based on the grant-date fair value of the award. Share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement eligible employees) are expensed immediately. Share-based awards that require future service are amortised over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense.

Group Inc. generally issues new shares of common stock upon delivery of share-based awards. Cash dividend equivalents, unless prohibited by regulation, are generally paid on outstanding RSUs. The bank has also entered into a chargeback agreement with Group Inc. under which it is committed to pay the grant-date fair value as well as subsequent movements in the fair value of those awards to Group Inc. at the time of delivery to its employees. As a result, the share-based payment transaction and recharge arrangement creates a total charge to the profit and loss account based on the grant-date fair value of the awards adjusted for subsequent movements in the fair value of those awards prior to delivery.

Pension Arrangements. The bank is a participating employer of a defined contribution pension plan. The contributions payable for the period are charged to administrative expenses. Differences between contributions payable for the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Tangible Fixed Assets.

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. Fixtures, fittings and equipment are depreciated on a straight-line basis over their estimated useful lives, which is between 3 to 7 years. Depreciation is included in administrative expenses.

Leasehold improvements are depreciated over the shorter of the useful economic life of the asset or the remaining life of the lease when the asset is brought into use. Depreciation policies are reviewed on an annual basis.

Cash at Bank and In Hand. This includes cash at bank and in hand and highly liquid overnight deposits held in the ordinary course of business.

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

Transactions denominated in foreign currencies are translated into U.S. dollars at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities, and non-monetary assets and liabilities measured at fair value, denominated in foreign currencies are translated into U.S. dollars at rates of exchange ruling at the balance sheet date. Foreign exchange gains and losses are recognised in net gains on financial instruments measured at fair value. The results of branches and representative offices with non-U.S. dollar functional currencies are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising from the retranslation of their balance sheet and results are reported in the statements of comprehensive income.

Net Investment Hedging. Where net investment hedging is employed, all gains and losses on the effective portion of the hedging instrument, together with any gains and losses on the foreign currency translation of the hedge investment, are taken directly to the statements of comprehensive income. Any gains or losses on the ineffective portion are recognised immediately in the profit and loss account. The cumulative gains and losses on the hedging instrument and gains and losses on the translation of the hedged investment are recognised in the profit and loss account only on substantial liquidation of the investment.

Financial Assets and Liabilities.

Recognition and Derecognition

Financial assets and liabilities, other than cash instruments purchased or sold in regular way transactions, are recognised when the bank becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or if the bank transfers the financial asset and the transfer qualifies for derecognition. A transferred financial asset qualifies for derecognition if the bank transfers substantially all the risks and rewards of ownership of the financial asset or if the bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but does not retain control. Financial liabilities are derecognised only when they are extinguished, i.e., when the obligation specified in the contract is discharged or cancelled or expires.

Cash instruments purchased or sold in regular way transactions are recognised and derecognised using settlement date accounting.

Classification and Measurement: Financial Assets

The bank classifies financial assets as subsequently measured at amortised cost or fair value through profit or loss on the basis of both the bank's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. The business model reflects how the bank manages particular groups of assets in order to generate future cash flows. Where the bank's business model is to hold the assets to collect contractual cash flows, the bank subsequently assesses whether the financial assets' cash flows represent solely payments of principal and interest. Financial assets with embedded derivatives (hybrid instruments) that are not bifurcated from their host are also subject to the same assessment.

- **Financial assets classified at amortised cost.** Financial assets that are held for the collection of contractual cash flows and have cash flows that represent solely payments of principal and interest are measured at amortised cost. The bank considers whether the cash flows represent basic lending arrangements and where contractual terms introduce exposure to risk or volatility inconsistent with a basic lending arrangement, the financial asset is mandatorily measured at fair value through profit or loss (see below).

  Financial assets measured at amortised cost are initially measured at fair value plus transaction costs and subsequently at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial asset but does not consider future credit losses. Finance revenue is recorded in interest receivable and similar income. Financial assets measured at amortised cost include:

  - Cash at bank and in hand;
  - Certain customer accounts receivable and debt securities; and
  - Substantially all other assets.

- **Financial assets mandatorily measured at fair value through profit or loss.** Financial assets that are not held for the collection of contractual cash flows and/or do not have cash flows that represent solely payments of principal and interest are mandatorily measured at fair value through profit or loss. Financial assets mandatorily measured at fair value are initially measured at fair value with transaction costs expensed in profit or loss. Such financial assets are subsequently measured at fair value with gains or losses recognised in net gains on financial instruments measured at fair value. Financial assets mandatorily measured at fair value include:

  - Financial instruments owned, which consists of cash instruments and derivative instruments;
  - Certain collateralised agreements with group undertakings, which consists of securities purchased under agreements to resell (resale agreements), securities borrowed, debt securities and other secured lending arrangements; and
  - Certain balances related to lending activities included in customer accounts receivable and debt securities.

Classification and Measurement: Financial Liabilities

The bank classifies its financial liabilities into the below categories. The classification, which is determined at initial recognition, depends on the purpose for which they were acquired or originated.

- **Financial liabilities classified as held for trading.** Financial liabilities held for trading are initially measured at fair value and subsequently at fair value through profit or loss, with gains or losses recognised in net gains on financial instruments measured at fair value. Financial liabilities held for trading include financial instruments sold, but not yet purchased, which consists of`:
  - Cash instruments; and
  - Derivative instruments.
- **Financial liabilities designated at fair value through profit or loss.** The bank designates certain of its other financial liabilities at fair value through profit or loss. Financial liabilities designated at fair value through profit or loss are initially recognised at fair value with transaction costs expensed in profit or loss. Such financial liabilities are measured in the balance sheet at fair value, with DVA being recognised in other comprehensive income, if it does not create or enlarge an accounting mismatch, and the remaining changes in the fair value being recognised in net gains on financial instruments measured at fair value. The primary reasons for designating such financial liabilities at fair value through profit or loss are:
  - To eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and
  - These financial liabilities are managed and their performance evaluated on a fair value basis.

  Financial liabilities designated at fair value through profit or loss include:
  - Substantially all term deposits included in customer accounts deposits and deposits by banks;
  - Securities sold under agreements to repurchase (repurchase agreements);
  - Certain intercompany unsecured borrowings included in other liabilities;
  - Financial guarantee contracts written; and
  - Certain unsecured debt securities issued, including certain hybrid financial instruments.

  Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives. If the bank elects to bifurcate the embedded derivative from the associated debt, the derivative is accounted for at fair value and the host contract is accounted for at amortised cost, adjusted for the effective portion of any fair value hedges. If the bank does not elect to bifurcate, the entire hybrid financial instrument is designated at fair value through profit or loss.
- **Financial liabilities measured at amortised cost.** Financial liabilities measured at amortised cost are initially recognised at fair value plus transactions costs and subsequently measured at amortised cost using the effective interest method. See "Financial assets measured at amortised cost" above for further information on the effective interest method. Finance costs, including discounts allowed on issue, are recorded in interest payable and similar expenses. Financial liabilities measured at amortised cost include:
  - Certain customer accounts payable and other liabilities that have not been designated at fair value through profit or loss; and
  - Long-term subordinated loans from group undertakings.

Impairment

The bank assesses the expected credit losses (ECL) associated with financial assets measured at amortised cost on a forward-looking basis in accordance with the provisions of IFRS 9. The measurement of ECL reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. ECL are recorded in impairments on financial assets.

The bank's impairment model is based on changes in credit quality since initial recognition of the financial assets measured at amortised cost and incorporates the following three stages:

- **Stage 1.** Financial assets measured at amortised cost that are not credit-impaired on initial recognition and there has been no significant increase in credit risk since initial recognition. The ECL is measured at an amount equal to the expected credit losses that result from default events possible within the next twelve months.
- **Stage 2.** Financial assets measured at amortised cost where there has been a significant increase in credit risk since initial recognition, however not yet deemed to be credit-impaired. The ECL is measured based on expected credit losses on a lifetime basis.
- **Stage 3.** Financial assets measured at amortised cost that are in default, or are defined as credit-impaired. The ECL is measured based on expected credit losses on a lifetime basis.

Determination of the relevant staging for each financial instrument is dependent on the definition of 'significant increase in credit risk' (stage 1 to stage 2) and the definition of 'credit-impaired' (stage 3). The bank considers a financial instrument to have experienced a significant increase in credit risk when certain quantitative or qualitative conditions are met. Quantitative thresholds include absolute probability of default thresholds on investment-grade financial assets and relative probability of default thresholds on non-investment grade financial assets. Qualitative review is also performed as part of the bank's credit risk management process, including a back-stop consideration of 30 days past due. The bank considers a financial instrument to be credit-impaired when it meets Credit Risk's definition of default, which is either when the bank considers that the obligor is unlikely to pay its credit obligations to the bank in full, without recourse by the bank to actions such as realising security (if held), or the obligor has defaulted on a payment and/or is past due more than 90 days.

The ECL is determined by projecting the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for each individual exposure. To calculate ECL these three components are multiplied together and discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate. The PD represents the likelihood of a borrower defaulting on its financial obligation. The EAD is the amount the bank expects to be owed at the time the financial obligation defaults. The LGD is the bank's expectation of the extent of loss on the default exposure, and takes into consideration amongst other things, collateral on the financial asset. The bank uses internal credit risk ratings that reflect the assessment of the probability of default of individual counterparties. The bank uses multiple macroeconomic scenarios within the ECL calculation, the weightings for which are subject to ongoing internal review and approval.

Forward-looking information, such as key economic variables impacting credit risk and expected credit losses, is incorporated into both the assessment of staging and the calculation of ECL. Economic variables have been forecasted using internally generated projections to provide an estimated view of the economy over the next nine quarters. After nine quarters a mean reversion approach has been used, which means that economic variables tend to either a long run average rate or a long run growth rate.

The bank writes off financial assets, in whole or in part, when it has concluded that there is no reasonable expectation of recovery. When a financial asset is deemed to be uncollectable, the bank concludes this to be an indicator that there is no reasonable expectation of recovery. The bank still seeks to recover amounts it is legally owed in full, but which have been wholly or partially written off due to no reasonable expectation of full recovery.

Classification of Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements. A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the entity. An equity investment is any contract that evidences a residual interest in the assets of the entity after deducting all liabilities. Instruments are evaluated to determine if they contain both liability and equity components. The initial carrying amount of a compound financial instrument is allocated first to the liability component, measured at fair value, and the equity is assigned the residual amount.

Offsetting Financial Assets and Liabilities

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

- Currently a legally enforceable right to set-off the recognised amounts; and
- Intent to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Fair Value Measurement

See Note 25 for details about the fair value measurement of the bank's financial assets and liabilities.

Fair Value Hedges

The bank applies fair value hedge accounting under IAS 39 for certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate customer deposits. To qualify for hedge accounting, the derivative hedge must be highly effective at reducing the risk from the exposure being hedged. Additionally, the bank must formally document the hedging relationship at inception and test the hedging relationship to ensure the derivative hedge continues to be highly effective over the life of the hedging relationship.

Collateralised Agreements and Collateralised Financings. Collateralised agreements include resale agreements, securities borrowed, debt securities and other secured lending arrangements. Collateralised financings include repurchase agreements. See "Classification and Measurement: Financial Assets" and "Classification and Measurement: Financial Liabilities" above for details on the classification and measurement of these instruments. Collateral received or posted can be in the form of cash or securities. Cash collateral is recognised/derecognised when received/paid. Collateral posted by the bank in the form of securities is not derecognised from the balance sheet, whilst collateral received in the form of securities is not recognised in the balance sheet. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet.

Current and Deferred Taxation. The tax expense for the period consists of current and deferred taxation. Tax is recognised in the profit and loss account, except to the extent it relates to items recognised in other comprehensive income.

Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the bank operates and generates taxable income. Deferred tax is recognised in respect of all temporary differences that have originated, but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax or a right to pay less tax in the future with the following exceptions:

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

Deferred tax is recognised in the profit and loss account or directly in other comprehensive income according to where the associated gain or loss, to which the deferred tax is attributable, is recognised.

Provisions, Contingent Liabilities and Contingent Assets. Provisions are recognised in the financial statements when it is probable that an outflow of economic benefits will be required to settle a present (legal or constructive) obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Legal obligations that may arise as a result of proposed new laws are recognised as obligations only when the legislation is virtually certain to be enacted as drafted.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the bank or a present obligation that arises from past events but is not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the bank.

Note 3.

Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in these financial statements. The nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

Deferred Tax

The bank has recognised a deferred tax asset (see Note 17) which requires judgement for determining the extent of its recoverability at each reporting date. The bank assesses recoverability with reference to forecasts of future taxable profits. These forecasts require the use of assumptions and estimates. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

Fair Value Measurement

Certain of the bank's financial assets and liabilities include significant unobservable inputs (i.e., level 3). See Note 25 for information about the carrying amount, valuation techniques and significant inputs of these instruments.

Allowance for Impairment

The allowance for impairment (see Notes 12 and 20) is determined by an ECL model internally developed to meet the impairment requirements of IFRS 9. The measurement of ECL for financial assets classified at amortised cost requires the use of a complex model and significant assumptions about future economic conditions and credit behaviour. Significant judgements are also required in applying the accounting requirements for measuring ECL including determining criteria for significant increases in credit risk and establishing the number and weighting of forward looking scenarios.

Note 4.

Total Operating Income

The table below presents the bank's total operating income by category.

	Period Ended November	
$ in thousands	**2019**	2018
Interest receivable and similar income on financial instruments measured at:		
Amortised cost	**$ 257,174**	$ 167,830
Mandatorily at fair value	**776,918**	474,700
Designated at fair value	**585**	58,546
Total interest receivable and similar income	**1,034,677**	701,076
Interest payable and similar expenses on financial instruments measured at:		
Amortised cost	**(415,768)**	(198,581)
Mandatorily at fair value	**(178,134)**	(152,582)
Designated at fair value	**(173,706)**	(171,169)
Total interest payable and similar expenses	**(767,608)**	(522,332)
Net interest income	**267,069**	178,744
Net gains on financial instruments measured:		
Mandatorily at fair value	**(14,578)**	(88,041)
Designated at fair value	**63,148**	98,207
Total net gains on financial instruments measured at fair value	**48,570**	10,166
Fees and commissions	**47,774**	48,571
Impairments on financial assets	**(41)**	(10,897)
Total operating income	**$ 363,372**	$ 226,584

In the table above:

- Interest receivable and similar income on financial instruments designated at fair value through profit and loss consists of negative interest expense.
- For the period ended November 2018, net gains on financial instruments measured mandatorily at fair value through profit or loss included interest income of $47 million and interest expense of $58 million, and net gains on financial instruments designated at fair value through profit or loss included interest income of $14 million and interest expense of $4 million pertaining to the bank's European government bond market-making business which was transferred to group undertakings in March 2018.
- Financial liabilities designated at fair value through profit or loss are frequently economically hedged with financial instruments measured mandatorily at fair value through profit or loss. Accordingly, gains or losses that are reported in financial instruments designated at fair value through profit or loss can be partially offset by gains or losses reported in financial instruments measured mandatorily at fair value through profit or loss.

Note 5.

Interest Receivable and Similar Income

The table below presents the bank's interest receivable and similar income.

	Period Ended November	
$ in thousands	**2019**	2018
Interest on loans and securities with banks and customers	**$ 267,469**	$149,554
Interest on collateralised agreements with group undertakings	**451,381**	440,333
Interest on loans to group undertakings	**315,242**	52,642
Negative interest on loans from group undertakings	**585**	58,547
Total interest receivable and similar income	**$1,034,677**	$701,076

In the table above, interest on loans to group undertakings included amounts related to foreign exchange transactions settling within the standard settlement cycle for management of the bank's currency requirements.

Note 6.

Interest Payable and Similar Expenses

The table below presents the bank's interest payable and similar expenses.

	Period Ended November	
$ in thousands	**2019**	2018
Interest on customer deposits and deposits by banks	**$447,998**	$251,611
Interest on loans from banks and customers	**25,151**	10,684
Interest on derivative instruments	**91,513**	166,204
Interest on collateralised financings with group undertakings	**157**	–
Interest on long-term subordinated loans from group undertakings (see Note 21)	**47,039**	22,201
Interest on loans from group undertakings	**112,903**	47,568
Interest on deposits from group undertakings	**22,241**	20,269
Negative interest on collateralised agreements with group undertakings	**20,606**	3,795
Total interest payable and similar expenses	**$767,608**	$522,332

In the table above:

- Interest on derivative instruments consists of exchange of interest in currency derivative instruments related to funding products.
- Interest on loans from group undertakings included amounts related to foreign exchange transactions settling within the standard settlement cycle for management of the bank's currency requirements.

Note 7.

Administrative Expenses

The table below presents the bank's administrative expenses.

	Period Ended November	
$ in thousands	**2019**	2018
Management charges from group undertakings	**$ 76,443**	$ 79,191
Fees transferred to group undertakings	**77,587**	24,193
Direct costs of employment	**12,198**	5,546
Brokerage, clearing and exchange and distribution fees	**3,488**	4,626
Market development	**8,259**	10,759
Communications and technology	**198**	54
Depreciation of tangible fixed assets	**15**	–
Occupancy	**1,638**	70
Professional fees	**6,684**	3,781
Other expenses	**13,391**	15,978
Total administrative expenses	**$199,901**	$144,198

In the table above:

- Management charges consists of service charges received from group undertakings relating to operational and administrative support and management services.
- Fees transferred to group undertakings consists of expenses incurred to satisfy performance obligations where the bank is principal to a transaction as required by IFRS 15.

The table below presents the fees payable to the bank's auditor, which are included in professional fees.

	Period Ended November	
$ in thousands	**2019**	2018
Fees for the bank's audit	**$ 894**	$1,283
Audit related assurance services	**472**	438
Other assurance services	**190**	102
Total fees for non-audit services	**662**	540
Total	**$1,556**	$1,823

In the table above:

- Audit related assurance services included fees in connection with the audit of the bank's financial information and reporting to GS Group's auditor for the purposes of GS Group's audit.
- Other assurance services included the bank's share of fees related to certain services provided by a network firm of the bank's auditor to various GS Group entities. These fees were apportioned to the various GS Group entities, including the bank, by reference to each entity's asset size.

Note 8.

Directors' Emoluments

The table below presents the bank's directors' emoluments.

	Period Ended November	
$ in thousands	**2019**	2018
Aggregate emoluments	**$1,390**	$1,292
Company pension contributions to money purchase schemes	**6**	7
Total directors' emoluments	**$1,396**	$1,299

The table below presents emoluments for the highest paid director.

	Period Ended November	
$ in thousands	**2019**	2018
Aggregate emoluments	**$336**	$286
Company pension contributions to money purchase schemes	**$ 4**	$ 5

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

For persons who were directors for some or all of the period, two directors were members of a defined contribution scheme. Two directors, including the highest paid director, have received or are due to receive Group Inc. shares in respect of long-term incentive schemes during the period. No directors have exercised stock options during the period.

Note 9.

Staff Costs

A portion of the persons involved in the bank's operations are employed by group undertakings. The charges made by these group undertakings, including share-based payments, for all the services provided (personnel and other) to the bank are included in the management charges from group undertakings (see Note 7).

Total average headcount was 96 for the period ended November 2019 and 45 for the period ended November 2018. Total headcount was 112 as of November 2019 and 70 as of November 2018. The increase reflects additional headcount for the bank's digital deposit platform and Johannesburg branch.

Additionally, 63 persons as of both November 2019 and November 2018, who were employed by group undertakings were assigned or seconded to the bank through employee arrangements.

Services are also provided to the bank by employees of other group undertakings under a Master Services Agreement supplemented by Service Level Agreements.

The table below presents employment costs incurred by the bank.

	Period Ended November	
$ in thousands	**2019**	2018
Aggregate gross wages and salaries	**$10,409**	$5,079
Social security costs	**1,110**	127
Pension costs, employer contributions to defined contribution plan	**679**	340
Total direct costs of employment	**$12,198**	$5,546

In the table above, total direct costs of employment included a charge of $47,000 for the period ended November 2019 and $56,000 for the period ended November 2018 relating to the mark-to-market of share-based compensation.

Note 10.

Share-Based Payments

Stock Incentive Plan

Group Inc. sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2018) (2018 SIP), which provides for, amongst others, grants of RSUs, restricted stock, dividend equivalent rights and incentive stock options. On May 2, 2018, Group Inc.'s shareholders approved the 2018 SIP. The 2018 SIP replaced The Goldman Sachs Amended and Restated Stock Incentive Plan (2015) previously in effect, and applies to awards granted on or after the date of approval.

The bank recorded share-based compensation in respect of the amortisation of granted equity awards, net of forfeitures, of $280,000 for the period ended November 2019 and $188,000 for the period ended November 2018. The corresponding credit to equity has been transferred to liabilities as a result of the terms of the chargeback agreement with Group Inc. under which the bank is committed to pay to Group Inc. the grant-date fair value as well as subsequent movements in the fair value of those awards to Group Inc. at the time of delivery to its employees.

Restricted Stock Units

Group Inc. grants RSUs to the bank's employees under the 2018 SIP, which are generally valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting and delivery transfer restrictions. RSUs generally vest and underlying shares of common stock deliver (net of required holding tax) as outlined in the applicable award agreements. Employee award agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements.

Note 11.

Tax on Profit

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

	Period Ended November	
$ in thousands	**2019**	2018
Current tax		
U.K. corporation tax	**$43,418**	$23,060
Adjustments in respect of prior periods	**57**	(688)
Overseas taxation	**1,322**	971
Total current tax	**44,797**	23,343
Deferred tax		
Origination and reversal of temporary differences	**935**	(542)
Adjustments in respect of prior periods	**3**	(1,916)
Total deferred tax	**938**	(2,458)
Total tax on profit	**$45,735**	$20,885

The table below presents a reconciliation between tax on profit and the amount calculated by applying the weighted average rate of U.K. corporation tax applicable to the bank for the period of 27.0% (period ended November 2018: 27.0%) to the profit before taxation.

	Period Ended November	
$ in thousands	**2019**	2018
Profit before taxation	**$163,471**	$82,386
Profit multiplied by U.K. corporation tax rate of 27.0% (period ended November 2018: 27.0%)	**44,137**	22,244
Changes in recognition and measurement of deferred tax assets	**1,531**	(13)
Permanent differences	**15**	6
Exchange differences and other	**(8)**	1,252
Adjustments in respect of prior periods	**60**	(2,604)
Total tax on profit	**$ 45,735**	$20,885

The U.K. government announced in its budget on March 11, 2020 that the U.K. corporation tax main rate, which was due to decrease from 19.0% to 17.0% from April 1, 2020, will now remain at 19.0%. This will result in the U.K. corporation tax rate applicable to the bank remaining at 27.0% from April 1, 2020. If this rate change were to have been substantively enacted as of November 2019, then the banks's deferred tax asset would have been higher by $5 million, of which $5 million would have been recognised in the profit and loss account.

Note 12.

Customer Accounts Receivable

The table below presents the bank's customer accounts receivable balances.

$ in thousands	As of November 2019	2018
Bank loans	**$7,633,621**	$4,073,045
Mortgage-backed loans	**212,145**	147,734
Amounts due from customers	**105,886**	126,923
Amounts due from group undertakings	**272,018**	1,188,553
Total customer accounts receivable	**$8,223,670**	$5,536,255

In the table above, bank loans and mortgage-backed loans included an allowance for impairment of $27 million as of November 2019 and $25 million as of November 2018.

The table below presents the maturity of the bank's customer accounts receivable balances.

$ in thousands	As of November 2019	2018
Less than 3 months	**$3,082,300**	$3,173,895
3 months – 1 year	**789,582**	416,966
1 – 5 years	**2,629,056**	1,879,748
Greater than 5 years	**1,722,732**	65,646
Total customer accounts receivable	**$8,223,670**	$5,536,255

Note 13.

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

Financial instruments owned and financial instruments sold, but not yet purchased consist of financial instruments and investments within the operating activities of the bank. Financial instruments owned includes financial instruments owned pledged as collateral. See Note 25 for further information.

The table below presents the bank's financial instruments owned.

$ in thousands	As of November 2019	2018
Cash instruments		
Government bonds	**$ 24,667**	$ 26,232
Bank loans	**87,689**	78,459
Mortgage-backed loans and securities	**852,009**	27,131
Corporate debt instruments	**5,308**	–
Total cash instruments	**969,673**	131,822
Derivative instruments		
Interest rates	**291,337**	258,319
Currencies	**341,894**	221,627
Equities	**48,792**	20,129
Commodities	**2,579**	2,741
Credit	**84,297**	116,335
Total derivative instruments	**768,899**	619,151
Total financial instruments owned	**$1,738,572**	$ 750,973

The table below presents the bank's financial instruments sold, but not yet purchased.

$ in thousands	As of November 2019	2018
Cash instruments		
Government bonds	**$ 842**	$ 11,285
Bank loans	**26**	–
Total cash instruments	**868**	11,285
Derivative instruments		
Interest rates	**240,682**	245,346
Currencies	**278,582**	569,006
Equities	**375**	2,602
Commodities	**2,579**	2,741
Credit	**238,307**	199,340
Total derivative instruments	**760,525**	1,019,035
Financial guarantee contracts	**12,033**	63,693
Total financial instruments sold, but not yet purchased	**$773,426**	$1,094,013

Note 14.

Collateralised Agreements With Group Undertakings

The table below presents the bank's collateralised agreements with group undertakings.

	As of November	
$ in thousands	**2019**	2018
Resale agreements	**$25,062,481**	$22,878,990
Securities borrowed	**513**	1,193,559
Debt securities	**399,276**	–
Other lending	**2,764,721**	–
Total collateralised agreements with group undertakings	**$28,226,991**	$24,072,549

In the table above, total collateralised agreements with group undertakings included balances due in more than one year of $5.48 billion as of November 2019 and $1.15 billion as of November 2018.

Note 15.

Tangible Fixed Assets

The table below presents the movements in tangible fixed assets during the period.

$ in thousands	Leasehold improvements	Fixtures, fittings and equipment	Total
Cost			
As of December 1	$ –	$ –	$ –
Additions	**204**	**121**	**325**
As of November 30	**204**	**121**	**325**
Accumulated depreciation			
As of December 1	–	–	–
Charge for the year (see Note 7)	**(11)**	**(4)**	**(15)**
As of November 30	**(11)**	**(4)**	**(15)**
Net book value			
As of November 2019	**$193**	**$117**	**$310**
As of November 2018	$ –	$ –	$ –

Note 16.

Other Assets

The table below presents the bank's other assets.

	As of November	
$ in thousands	**2019**	2018
Other amounts due from group undertakings	**$741,153**	$733,073
Deferred tax (see Note 17)	**46,295**	45,157
Corporation tax receivable	**–**	489
Other assets	**40,414**	23,401
Total other assets	**$827,862**	$802,120

In the table above:

- Other amounts due from group undertakings included balances due in more than one year of $711 million as of November 2019 and $723 million as of November 2018.
- Total other assets included financial assets of $780 million as of November 2019 and $751 million as of November 2018, and non-financial assets of $48 million as of November 2019 and $51 million as of November 2018.

Note 17.

Deferred Tax

The table below presents the components of the bank's deferred tax asset.

	As of November	
$ in thousands	**2019**	2018
Unused tax losses	**$48,624**	$50,155
Debt valuation adjustment	**2,291**	214
Other temporary differences	**(4,620)**	(5,212)
Total deferred tax	**$46,295**	$45,157

The table below presents changes in each component of the bank's deferred tax asset.

	As of November	
$ in thousands	**2019**	2018
Unused tax losses		
Beginning balance	**$50,155**	$48,239
Transfer to the profit and loss account	**(1,531)**	1,916
Ending balance	**$48,624**	$50,155
Debt valuation adjustment		
Beginning balance	**$ 214**	$ 1,290
Transfer to other comprehensive income	**2,077**	(1,076)
Ending balance	**$ 2,291**	$ 214
Other temporary differences		
Beginning balance	**$(5,212)**	$ 68
Transfer to the profit and loss account	**593**	542
Transfer to retained earnings	**–**	(5,825)
Translation gains/(losses)	**(1)**	3
Ending balance	**$(4,620)**	$(5,212)
Total		
Beginning balance	**$45,157**	$49,597
Transfer to the profit and loss account (see Note 11)	**(938)**	2,458
Transfer to retained earnings	**–**	(5,825)
Transfer to other comprehensive income	**2,077**	(1,076)
Translation gains/(losses)	**(1)**	3
Ending balance	**$46,295**	$45,157

The deferred tax asset is recognised on the basis of estimated future taxable profits over the bank's planning horizon. Having considered the expected performance of the business, the directors are of the opinion that these projections support the recognition of the deferred tax asset.

Note 18.

Customer Accounts Payable

The table below presents the bank's customer accounts payable balances.

	As of November	
$ in thousands	**2019**	2018
Customer deposits	**$36,147,093**	$30,990,160
Amounts due to customers	**413,566**	209,403
Deposits from group undertakings	**1,012,431**	1,121,444
Amounts due to group undertakings	**46,102**	123,563
Total customer accounts payable	**$37,619,192**	$32,444,570

Debt Valuation Adjustment

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

The net DVA on such financial liabilities that are designated at fair value through profit or loss was a pre-tax loss of $8 million for the period ended November 2019 and a pre-tax gain of $4 million for the period ended November 2018 and has been included in "Debt valuation adjustment" in the statements of comprehensive income. The cumulative net DVA loss included in accumulated other comprehensive income in the statements of changes in equity was $7 million as of November 2019 and $1 million as of November 2018.

Note 19.

Collateralised Financings With Group Undertakings

Collateralised financings with group undertakings of $nil as of November 2019 and $8 million as of November 2018, consists of repurchase agreements.

Note 20.

Other Liabilities

The table below presents the bank's other liabilities.

	As of November	
$ in thousands	**2019**	2018
Accruals and deferred income	**$ 10,211**	$ 12,834
Other amounts due to group undertakings	**566,903**	854,049
Corporation tax payable	**39,439**	–
Other liabilities	**14,741**	8,394
Total other liabilities	**$631,294**	$875,277

In the table above:

- Other amounts due to group undertakings included intercompany loans of $499 million as of November 2019 and $829 million as of November 2018.
- Other liabilities included an allowance for impairment in respect of unfunded bank loans and mortgage-backed loans held at amortised cost of $4 million as of November 2019 and $6 million as of November 2018.
- Total other liabilities included financial liabilities of $591 million as of November 2019 and $875 million as of November 2018, and non-financial liabilities of $40 million as of November 2019 and $nil as of November 2018.

Note 21.

Long-Term Subordinated Loans From Group Undertakings

Long-term subordinated loans from group undertakings are unsecured and carry interest at a margin over the U.S. Federal Reserve's Federal Funds rate and constitute regulatory capital as approved by the PRA. Long-term subordinated loans from group undertakings are repayable on September 8, 2025. Any repayment prior to this maturity date requires PRA approval.

Note 22.

Share Capital

The table below presents the bank's share capital.

Allotted, called up and fully paid	Ordinary shares of £1 each	*$ in thousands*
As of December 1, 2018	**40,169,994**	**$62,558**
As of November 30, 2019	**40,169,994**	**$62,558**

Note 23.

Financial Commitments and Contingencies

Financial Commitments

The table below presents the bank's financial commitments.

	As of November	
$ in thousands	**2019**	2018
Principal risk	**$6,381,925**	$4,440,665
Sub-participated	**1,341,896**	1,803,365
Unfunded bank loans and mortgage backed-loans	**7,723,821**	6,244,030
Investment commitments	**–**	26,131
Forward starting resale agreements	**16,337**	785,661
Forward starting repurchase agreements	**–**	420,792
Leases	**2,273**	2,099
Collateral commitments	**20,998**	390
Total financial commitments	**$7,763,429**	$7,479,103

Commitments included balances with group undertakings of $16 million as of November 2019 and $1.21 billion as of November 2018.

The bank originates a number of bank loans and mortgage-backed loans which are held as principal risk. The bank also holds bank loans and mortgage-backed loans which are sub-participated to group undertakings and third party institutions. The unfunded portion of these agreements, where cash has not been deposited with the bank to collateralise the undrawn commitment is presented above.

Investment commitments consists of commitments to invest in bank loans.

The bank enters into repurchase and resale agreements that settle at a future date, generally within three business days. The bank's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

Leases

The bank leases certain buildings under non-cancellable lease agreements. Under these lease agreements, which are subject to renegotiation at various intervals specified in the leases, the bank pays all insurance, maintenance and repairs of these properties. The table below presents total future minimum rental payments under non-cancellable operating leases for each of the following periods.

	As of November	
$ in thousands	**2019**	2018
Less than 1 year	**$ 651**	$ 34
1 – 5 years	**1,622**	2,065
Total	**$2,273**	$2,099

Contingent Liabilities and Financial Guarantee Contracts

The bank, in its capacity as an agent in securities lending, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities. The maximum exposure to loss under guarantees was $792 million as of November 2019 and $2.08 billion as of November 2018. The market value of the collateral held to cover the loss was $874 million as of November 2019 and $2.36 billion as of November 2018.

The bank has contingent liabilities in relation to financial guarantee contracts written of $679 million as of November 2019 and $1.05 billion as of November 2018. This represents the maximum exposure in excess of the amount recorded on the balance sheet as financial guarantee contracts (see Note 13).

Note 24.

Financial Risk Management and Capital Management

Equity Capital Management and Regulatory Capital

Overview

The bank determines the appropriate amount and composition of its equity capital by considering multiple factors including the bank's current and future regulatory capital requirements, the results of the bank'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 table below presents capital components under the E.U. Fourth Capital Requirements Directive.

	As of November	
$ in thousands	**2019**	2018
Called up share capital	**$ 62,558**	$ 62,558
Share premium account	**2,094,303**	2,094,303
Accumulated other comprehensive income	**(6,469)**	(710)
Profit and loss account	**1,076,732**	958,996
Deductions	**(118,825)**	(75,984)
Common Equity Tier 1 and Tier 1 capital	**$3,108,299**	$3,039,163
Tier 2 and Total capital		
Long-term subordinated loans from group undertakings	**$ 826,000**	$ 826,000
Tier 2 capital	**826,000**	826,000
Total capital	**$3,934,299**	$3,865,163

During the periods ended November 2019 and November 2018, the bank was in compliance with the capital requirements set by the PRA.

Liquidity Risk Management

Overview

Liquidity risk is the risk that the bank will be unable to fund itself or meet its liquidity needs in the event of bank-specific, broader industry or market liquidity stress events. The bank has in place a comprehensive and conservative set of liquidity and funding policies. The bank'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.

Treasury, which reports to GS Group's chief financial officer, has primary responsibility for developing, managing and executing GS Group's liquidity and funding strategy within its risk appetite.

Liquidity Risk, which is independent of the revenue-producing units and Treasury, and reports to GS Group's chief risk officer, has primary responsibility for assessing, monitoring and managing GS Group's liquidity risk through oversight across GS Group's global businesses and the establishment of stress testing and limits frameworks. The bank's framework for managing liquidity risk is consistent with, and part of, the GS Group framework.

Liquidity Risk Management Principles

The bank manages liquidity risk according to three principles: (i) hold sufficient excess liquidity in the form of Global Core Liquid Assets (GCLA) to cover outflows during a stressed period; (ii) maintain appropriate Asset-Liability Management; and (iii) maintain a viable Contingency Funding Plan.

GCLA. GCLA is liquidity that the bank 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 its 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 bank 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 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.

Asset-Liability Management. The bank's liquidity risk management policies are designed to ensure the bank has a sufficient amount of financing, even when funding markets experience persistent stress. The bank manages maturities and diversity of funding across markets, products and counterparties, and seeks to maintain a diversified external funding profile with an appropriate tenor, taking into consideration the characteristics and liquidity profile of its assets.

The bank's goal is to ensure it maintains sufficient liquidity to fund its assets and meet its contractual and contingent obligations in normal times, as well as during periods of market stress. Through the dynamic balance sheet management process, actual and projected asset balances are used to determine secured and unsecured funding requirements. In a liquidity crisis, the bank would first use its GCLA in order to avoid reliance on asset sales (other than its GCLA). However, the bank recognises that orderly asset sales may be prudent or necessary in a severe or persistent liquidity crisis.

Contingency Funding Plan. GS Group maintains a contingency funding plan, which has a Goldman Sachs International Bank-specific addendum, to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and/or market dislocation. The contingency funding plan also describes the bank's potential responses if assessments indicate that the bank has entered a liquidity crisis, which include pre-funding for what the bank estimates will be its potential cash and collateral needs, as well as utilising secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

Market Risk Management

Overview

Market risk is the risk of loss in the value of the bank's inventory and other financial assets and liabilities accounted for at fair value due to changes in market conditions. The bank employs a variety of risk measures 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.

Market Risk, which is independent of the revenue-producing units and reports to GS Group's chief risk officer, has primary responsibility for assessing, monitoring and managing GS Group's market risk through oversight across GS Group's global businesses.

Managers in revenue-producing units and Market Risk discuss market information, positions and estimated loss scenarios on an ongoing basis. Managers in revenue-producing units are accountable for managing risk within prescribed limits, both at the GS Group and bank level.

Market Risk Management Process

The bank's process for managing market risk includes:

- Monitoring compliance with established market risk limits and reporting the bank's exposure;
- Diversifying exposures;
- Controlling position sizes; and
- Evaluating mitigants, such as economic hedges in related securities or derivatives.

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

Risk Measures

The bank produces risk measures and monitors them against established market risk limits. These measures reflect an extensive range of scenarios and the results are aggregated at the product, business and bank-wide level.

A variety of risk measures are used to estimate the size of potential losses for both moderate and more extreme market moves over both short and long-term time horizons. Primary risk measures are VaR, which is used for shorter-term periods, and stress tests. The bank's risk report details key risks, drivers and changes for each business, and is distributed daily to senior management of both the revenue-producing units and independent risk oversight and control functions.

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 bank.

Metrics

The table below presents average daily VaR and period-end VaR, as well as the high and low VaR for the period.

	As of or for the Period Ended November	
$ in millions	**2019**	2018
Average daily VaR	**$4.0**	$2.1
Period-end VaR	**$4.7**	$1.5
High VaR	**$9.8**	$8.6
Low VaR	**$1.5**	$1.4

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 bank holds. The bank's exposure to credit risk comes mostly from lending activities and 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 bank holds other positions that give rise to credit risk (e.g., bonds held in inventory) – these credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk, consistent with other inventory positions.

Credit Risk, which is independent of the revenue-producing units and reports to GS Group's chief risk officer, has primary responsibility for assessing, monitoring and managing GS Group's credit risk through oversight across GS Group's global businesses. The bank's framework for managing credit risk is consistent with the framework of GS Group, established by GS Group's Risk Governance Committee.

Credit Risk Management Process

The process for managing credit risk includes:

- Monitoring compliance with established credit risk limits and reporting the bank's exposure and credit concentrations;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring the bank's current and potential credit exposure and losses resulting from counterparty default;
- Using credit risk mitigants, including collateral and hedging; and
- Maximising recovery through active workout and restructuring of claims.

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

Credit Exposures

The bank's credit exposures are described further below.

Cash at Bank and in Hand. Cash at bank and in hand include both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, the bank places substantially all of its deposits with highly-rated banks and central banks.

Customer Accounts Receivable and Debt Securities. The bank is exposed to credit risk from its customer accounts receivable and debt securities through its bank loans, mortgage-backed loans, amounts due from customers, amounts due from group undertakings and debt securities. The bank manages its lending activities using the process described above, including participation agreements with affiliates.

Financial Instruments Owned. Financial instruments owned includes cash instruments and derivatives. In the table on page 44, 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 bank's financial statements unless the bank 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.

Collateralised Agreements With Group Undertakings. The bank 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 bank'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 bank 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.

Maximum Exposure to Credit Risk – Financial Assets Subject to Impairment

The table below presents an analysis of the credit risk exposure for bank loans and mortgage-backed loans for which an allowance for impairment is recognised. The gross carrying amount of financial assets below also represents the bank's maximum exposure to credit risk on these financial assets.

$ in thousands	Stage 1	Stage 2	Stage 3	Total
As of November 2019				
Credit Rating Equivalent				
Investment grade	**$3,515,477**	**$ –**	**$ –**	**$3,515,477**
Non-investment grade	**2,865,696**	**121,393**	**2,898**	**2,989,987**
Gross carrying amount	**6,381,173**	**121,393**	**2,898**	**6,505,464**
Allowance for impairment	**(22,018)**	**(4,214)**	**(934)**	**(27,166)**
Carrying amount	**$6,359,155**	**$117,179**	**$1,964**	**$6,478,298**
As of November 2018				
Credit Rating Equivalent				
Investment grade	$2,354,333	$ –	$ –	$2,354,333
Non-investment grade	1,703,430	72,404	–	1,775,834
Gross carrying amount	4,057,763	72,404	–	4,130,167
Allowance for impairment	(17,125)	(8,218)	–	(25,343)
Carrying amount	$4,040,638	$ 64,186	$ –	$4,104,824

The allowance for impairment of $27 million (November 2018: $25 million) consists of a modelled ECL of $27 million (November 2018: $17 million) and a post-model adjustment of $nil (November 2018: $8 million). In the prior period, the post model adjustment reflected management's judgement that the economic scenarios used within the model did not fully capture all relevant risk factors such as the emergence of new economic or political risk factors that are incorporated into the current model.

The bank also has credit risk exposure to the following financial assets where the allowance for impairment is not material:

- Cash at bank and in hand of $5.83 billion as of November 2019 and $6.98 billion as of November 2018;
- Customer accounts receivable of $378 million as of November 2019 and $1.32 billion as of November 2018;
- Debt securities of $492 million as of November 2019 and $535 million as of November 2018;
- Collateralised agreements with group undertakings of $1.02 billion as of November 2019 and $nil as of November 2018; and
- Other assets of $780 million as of November 2019 and $751 million as of November 2018.

The bank has also recognised an allowance for impairment in respect of unfunded bank loans and mortgage-backed loans of $4 million as of November 2019 and $6 million as of November 2018. The table below presents an analysis of the credit risk exposure for unfunded bank loans and mortgage-backed loans for which an allowance for impairment is recognised.

$ in thousands	Stage 1	Stage 2	Stage 3	Total
As of November 2019				
Credit Rating Equivalent				
Investment grade	**$3,608,580**	**$ –**	**$ –**	**$3,608,580**
Non-investment grade	**2,272,620**	**60,140**		**2,332,760**
Unfunded bank loans and mortgage backed-loans	**$5,881,200**	**$60,140**	**$ –**	**$5,941,340**
Allowance for impairment	**$ (3,6,933)**	**$ (726)**	**$ –**	**$ (4,419)**
As of November 2018				
Credit Rating Equivalent				
Investment grade	$2,775,535	$ –	$ –	$2,775,535
Non-investment grade	1,519,773	89,546		1,609,319
Unfunded bank loans and mortgage backed-loans	$4,295,308	$89,546	$ –	$4,384,854
Allowance for impairment	$ (5,241)	$ (694)	$ –	$ (5,935)

The allowance for impairment of $4 million (November 2018: $6 million) consists of a modelled ECL of $4 million (November 2018: $3 million) and a post-model adjustment of $nil (November 2018: $3 million).

Collateral and Other Credit Enhancements

The bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

The bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the bank will take possession of collateral to mitigate potential credit losses. Credit-impaired financial assets were $3 million as of November 2019 and $nil as of November 2018 and the allowance for impairment on these credit-impaired financial assets was $1 million as of November 2019 and $nil as of November 2018.

Allowance for Impairment

The allowance for impairment recorded in the period is impacted by a variety of factors including transfers between stages as a result of financial instruments experiencing significant increases in credit risk or becoming credit-impaired, new financial instruments recognised during the period and changes in modelling assumptions such as PDs, LGDs and EADs. Other factors include foreign exchange revaluations and derecognition of financial instruments.

The table below presents changes in the allowance for impairment for bank loans and mortgage-backed loans.

$ in thousands	Stage 1	Stage 2	Stage 3	Total
As of December 1, 2018	$17,125	$8,218	$ –	$25,343
Items with profit or loss impact				
Transfers:				
– Stage 1 to Stage 2	**$ (355)**	**355**	**–**	**–**
– Stage 2 to Stage 1	**3,918**	**(3,918)**	**–**	**–**
– Stage 2 to Stage 3	**–**	**(530)**	**530**	**–**
New financial assets originated or purchased	**17,132**	**1,031**	**–**	**18,163**
Financial assets de-recognised during the period	**(6,492)**	**(95)**	**(193)**	**(6,780)**
Changes in PDs/LGDs/EADs	**(10,462)**	**(650)**	**978**	**(10,134)**
Translation (gains)/losses	**1,152**	**(197)**	**(381)**	**574**
Total items with profit or loss impact	**4,893**	**(4,004)**	**934**	**1,823**
As of November 30, 2019	**$22,018**	**$4,214**	**$934**	**$27,166**
As of January 1, 2018	$13,804	$ 510	$ –	$14,314
Items with profit or loss impact				
Transfers:				
– Stage 1 to Stage 2	(3,115)	3,115	–	–
New financial assets originated or purchased	7,928	–	–	7,928
Financial assets de-recognised during the period	(4,660)	(36)	–	(4,696)
Changes in PDs/LGDs/EADs	3,784	4,774	–	8,558
Translation (gains)/losses	(616)	(145)	–	(761)
Total items with profit or loss impact	3,321	7,708	–	11,029
As of November 30, 2018	$17,125	$8,218	$ –	$25,343

The total amount of undiscounted expected credit losses at initial recognition for purchased or originated credit-impaired financial assets recognised was $nil for both the periods ended November 2019 and November 2018.

The bank's allowance for impairment in respect of unfunded bank loans and mortgage-backed loans was $4 million as of November 2019 and $6 million as of November 2018.

The allowance for impairment for other financial assets where the bank has credit risk exposure did not change significantly during both the periods ended November 2019 and November 2018.

Gross Carrying Amount

The table below presents changes in the gross carrying amount of bank loans and mortgage-backed loans.

$ in thousands	Stage 1	Stage 2	Stage 3	Total
As of December 1, 2018	$4,057,763	$ 72,404	$ –	$4,130,167
Transfers:				
– Stage 1 to Stage 2	**(78,040)**	**78,040**	**–**	**–**
– Stage 2 to Stage 1	**49,027**	**(49,027)**	**–**	**–**
– Stage 2 to Stage 3	**–**	**(4,679)**	**4,679**	**–**
New financial assets originated or purchased	**3,977,083**	**38,899**	**–**	**4,015,982**
Financial assets de-recognised during the period	**(1,624,660)**	**(14,244)**	**(1,781)**	**(1,640,685)**
As of November 30, 2019	**$6,381,173**	**$121,393**	**$2,898**	**$6,505,464**
As of January 1, 2018	$3,541,825	$ 3,679	$ –	$3,545,504
Transfers:				
– Stage 1 to Stage 2	(70,341)	70,341	–	–
New financial assets originated or purchased	1,965,608	–	–	1,965,608
Financial assets de-recognised during the period	(1,379,329)	(1,616)	–	(1,380,945)
As of November 30, 2018	$4,057,763	$ 72,404	$ –	$4,130,167

Maximum Exposure to Credit Risk – Financial Instruments Not Subject to Impairment

The table below contains an analysis of the credit risk exposure for financial assets not subject to impairment (i.e., mandatorily at fair value). This presents the bank's gross credit exposure to and net credit exposure after taking account of assets captured by market risk in the bank'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 under credit support agreements, which management considers when determining credit risk. This is presented by financial asset class and by credit rating equivalent (internally determined public rating agency equivalents).

Notes to the Financial Statements

$ in thousands	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
Financial Asset Class						
As of November 2019						
Customer accounts receivable	**$ 1,367,468**	**$ –**	**$ –**	**$ –**	**$ –**	**$1,367,468**
Debt securities	**69,626**	**–**	**–**	**–**	**(69,626)**	**–**
Financial instruments owned	**1,738,572**	**(24,667)**	**(433,144)**	**(158,231)**	**(900,058)**	**222,472**
Collateralised agreements with group undertakings	**27,211,135**	**–**	**–**	**–**	**(27,059,896)**	**151,239**
Total	**$30,386,801**	**$(24,667)**	**$(433,144)**	**$(158,231)**	**$(28,029,580)**	**$1,741,179**
Credit Rating Equivalent						
As of November 2019						
AAA/Aaa	**$ 6,652**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 6,652**
AA/Aa2	**–**	**–**	**–**	**–**	**–**	**–**
A/A2	**22,969,723**	**–**	**(428,560)**	**(6,827)**	**(22,310,792)**	**223,544**
BBB/Baa2	**5,062,224**	**–**	**(1,559)**	**(137,892)**	**(4,839,460)**	**83,313**
BB/Ba2 or lower	**2,290,971**	**–**	**(3,025)**	**(13,512)**	**(879,328)**	**1,395,106**
Unrated	**57,231**	**(24,667)**	**–**	**–**	**–**	**32,564**
Total	**$30,386,801**	**$(24,667)**	**$(433,144)**	**$(158,231)**	**$(28,029,580)**	**$1,741,179**
Financial Asset Class						
As of November 2018						
Customer accounts receivable	$ 115,955	$ –	$ –	$ –	$ –	$115,955
Debt securities	68,931	–	–	–	(68,931)	–
Financial instruments owned	750,973	(26,232)	(220,273)	(153,898)	(86,396)	264,174
Collateralised agreements with group undertakings	24,072,549	–	(8,156)	–	(23,961,142)	103,251
Total	$25,008,408	$(26,232)	$(228,429)	$(153,898)	$(24,116,469)	$483,380
Credit Rating Equivalent						
As of November 2018						
AAA/Aaa	$ 7,197	$ –	$ –	$ –	$ –	$ 7,197
AA/Aa2	–	–	–	–	–	–
A/A2	23,746,864	–	(221,838)	(6,319)	(23,318,054)	200,653
BBB/Baa2	902,467	–	(4,551)	(135,429)	(729,484)	33,003
BB/Ba2 or lower	313,350	–	(2,040)	(12,150)	(68,931)	230,229
Unrated	38,530	(26,232)	–	–	–	12,298
Total	$25,008,408	$(26,232)	$(228,429)	$(153,898)	$(24,116,469)	$483,380

The unrated net credit exposure of $33 million as of November 2019 and $12 million as of November 2018, relates to financial assets for which the bank has not assigned an internally determined public rating agency equivalent.

In addition to credit risk on financial assets, the bank also has credit exposure in respect of contingent and forward starting resale agreements, financial guarantee contracts written and in its capacity as an agent in securities lending.

The bank's gross credit exposure related to contingent and forward starting resale agreements was $16 million as of November 2019 and $786 million as of November 2018. However, this is fully mitigated by collateral if these commitments are fulfilled. The bank's gross credit exposure related to financial guarantee contracts written was $691 million as of November 2019 and $1.12 billion as of November 2018. However, this is primarily mitigated by derivative instruments with affiliated GS Group undertakings. The maximum exposure to the bank as an agent in securities lending was $792 million as of November 2019 and $1.05 billion as of November 2018. However, this is fully mitigated by the market value of the collateral held to cover the loss.

Note 25.

Financial Assets and Liabilities

Financial Assets and Liabilities by Category

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

	Financial Assets		
$ in thousands	Mandatorily at fair value	Amortised cost	Total
As of November 2019			
Cash at bank and in hand	$ –	**$ 5,832,946**	**$ 5,832,946**
Customer accounts receivable	**1,367,468**	**6,856,202**	**8,223,670**
Debt securities	**69,626**	**492,150**	**561,776**
Financial instruments owned	**1,738,572**	–	**1,738,572**
Collateralised agreements with group undertakings	**27,211,135**	**1,015,856**	**28,226,991**
Other assets	**–**	**780,071**	**780,071**
Total financial assets	**$30,386,801**	**$14,977,225**	**$45,364,026**
As of November 2018			
Cash at bank and in hand	$ –	$ 6,984,034	$ 6,984,034
Customer accounts receivable	115,955	5,420,300	5,536,255
Debt securities	68,931	535,328	604,259
Financial instruments owned	750,973	–	750,973
Collateralised agreements with group undertakings	24,072,549	–	24,072,549
Other assets	–	751,108	751,108
Total financial assets	$25,008,408	$13,690,770	$38,699,178

	Financial Liabilities			
$ in thousands	Held for trading	Designated at fair value	Amortised Cost	Total
As of November 2019				
Customer accounts payable	$ –	**$10,940,315**	**$26,678,877**	**$37,619,192**
Deposits by banks	–	**2,335,091**	–	**2,335,091**
Financial instruments sold, but not yet purchased	**761,393**	**12,033**	–	**773,426**
Collateralised financings with group undertakings	–	–	–	–
Other liabilities	–	**137,100**	**453,685**	**590,785**
Long-term subordinated loans from group undertakings	–	–	**826,000**	**826,000**
Total financial liabilities	**$ 761,393**	**$13,424,539**	**$27,958,562**	**$42,144,494**
As of November 2018				
Customer accounts payable	$ –	$16,822,930	$15,621,640	$32,444,570
Deposits by banks	–	387,027	–	387,027
Financial instruments sold, but not yet purchased	1,030,320	63,693	–	1,094,013
Collateralised financings with group undertakings	–	8,156	–	8,156
Other liabilities	–	293,522	581,755	875,277
Long-term subordinated loans from group undertakings	–	–	826,000	826,000
Total financial liabilities	$1,030,320	$17,575,328	$17,029,395	$35,635,043

In the tables above, financial instruments owned included $43 million as of November 2019 and $16 million as of November 2018, and financial instruments sold, but not yet purchased included $nil as of November 2019 and $1 million as of November 2018, of derivative instruments designated as hedges.

Fair Value Hierarchy

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The bank 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 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 asset or liability's level in this hierarchy is based on the lowest level of input that is significant to its fair value measurement.

The hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the bank 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 bank'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 bank's and GS Group's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

Valuation Techniques and Significant Inputs

Cash Instruments. Cash instruments include government bonds, bank loans, mortgage-backed loans and corporate debt instruments. 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 bank 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 bank 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.

Bank Loans and Mortgage-Backed Loans (Bank Loans and Mortgages). Significant inputs are generally determined based on relative value analyses and 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 and loans, respectively);
- 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).

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 bank's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

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

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialised nations are characterised by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.

- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations generally have less price transparency.
- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialised nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be 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 bank 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.

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

Level 3 Derivatives

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

Subsequent to the initial valuation of a level 3 derivative, the bank 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 bank 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.

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, credit valuation adjustments and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralised portion of derivative portfolios. The bank also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the bank 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 bank 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:

- **Customer Accounts Receivable.** Customer accounts receivable measured at fair value consists of certain bank loans and mortgages. The significant inputs to the valuation of bank loans and mortgages are consistent with those described above as part of cash instruments.
- **Debt Securities.** Debt securities measured at fair value consists of mortgage-backed securities. The significant inputs to the valuation of debt securities are consistent with those described above as part of cash instruments.
- **Collateralised Agreements With Group Undertakings and Collateralised Financings With Group Undertakings.** The significant inputs to the valuation of resale and repurchase agreements, securities borrowed, debt securities and other lending are funding spreads, the amount and timing of expected future cash flows and interest rates.
- **Customer Accounts Payable and Deposits by Banks.** Customer accounts payable and deposits by banks measured at fair value consists of certain balances related to deposit-taking activities. The significant inputs to the valuation of these balances are interest rates and the amount and timing of future cash flows.
- **Financial Guarantee Contracts.** The significant inputs to the valuation of financial guarantee contracts designated at fair value is consistent with those described above in relation to level 2 derivative instruments.

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.

$ in thousands	Level 1	Level 2	Level 3	Total
As of November 2019				
Financial Assets				
Customer accounts receivable	**$ –**	**$ 1,018,267**	**$349,201**	**$ 1,367,468**
Debt securities	**–**	**20,493**	**49,133**	**69,626**
Cash instruments	**–**	**941,884**	**27,789**	**969,673**
Derivative instruments	**–**	**760,282**	**8,617**	**768,899**
Financial instruments owned	**–**	**1,702,166**	**36,406**	**1,738,572**
Collateralised agreements with group undertakings	**–**	**27,211,135**	**–**	**27,211,135**
Total financial assets	**$ –**	**$29,952,061**	**$434,740**	**$30,386,801**
Financial Liabilities				
Customer accounts payable	**$ –**	**$10,940,315**	**$ –**	**$10,940,315**
Deposits by banks	**–**	**2,335,091**	**–**	**2,335,091**
Cash instruments	**–**	**868**	**–**	**868**
Derivative instruments	**–**	**699,059**	**73,499**	**772,558**
Financial instruments sold, but not yet purchased	**–**	**699,927**	**73,499**	**773,426**
Collateralised financings with group undertakings	**–**	**–**	**–**	**–**
Other liabilities	**–**	**137,100**	**–**	**137,100**
Total financial liabilities	**$ –**	**$14,112,433**	**$ 73,499**	**$14,185,932**
Net derivative instruments	**$ –**	**$ 61,223**	**$(64,882)**	**$ (3,659)**
As of November 2018				
Financial Assets				
Customer accounts receivable	$ –	$ 65,806	$ 50,149	$ 115,955
Debt securities	–	19,837	49,094	68,931
Cash instruments	2,230	102,298	27,294	131,822
Derivative instruments	28,957	587,500	2,694	619,151
Financial instruments owned	31,187	689,798	29,988	750,973
Collateralised agreements with group undertakings	–	24,072,549	–	24,072,549
Total financial assets	$31,187	$24,847,990	$129,231	$25,008,408
Financial Liabilities				
Customer accounts payable	$ –	$16,822,930	$ –	$16,822,930
Deposits by banks	–	387,027	–	387,027
Cash instruments	2,499	8,786	–	11,285
Derivative instruments	28,957	975,268	78,503	1,082,728
Financial instruments sold, but not yet purchased	31,456	984,054	78,503	1,094,013
Collateralised financings with group undertakings	–	8,156	–	8,156
Other liabilities	–	293,522	–	293,522
Total financial liabilities	$31,456	$18,495,689	$ 78,503	$18,605,648
Net derivative instruments	$ –	$ (387,768)	$(75,809)	$ (463,577)

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The bank had level 3 bank loans and mortgages and debt securities assets of $426 million (consisting of customer accounts receivable of $349 million, debt securities of $49 million and cash instruments of $28 million) as of November 2019 and $127 million (consisting of customer accounts receivable of $50 million, debt securities of $49 million and cash instruments of $27 million) as of November 2018.

The table below presents the amount of level 3 bank loans and mortgages and debt securities and ranges and weighted averages of significant unobservable inputs used to value the bank's level 3 bank loans and mortgages and debt securities.

	Level 3 Bank Loans and Mortgages and Debt Securities and Range of Significant Unobservable Inputs (Weighted Average) as of November	
$ in thousands	**2019**	2018
Bank loans and mortgages and debt securities	**$426,123**	$126,537
Yield	**1.1% to 13.7% (6.6%)**	2.2% to 17.0% (6.8%)
Recovery rate	**70.0% to 70.0% (70.0%)**	70.0% to 70.0% (70.0%)
Duration (years)	**1.1 to 8.0 (3.8)**	2.5 to 9.0 (3.2)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation.
- Weighted averages are calculated by weighting each input by the relative fair value of the bank loans and mortgages and debt securities.
- 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 bank loan and mortgage. For example, the highest yield for bank loans and mortgages and debt securities is appropriate for valuing a specific bank loan or mortgage but may not be appropriate for valuing any other bank loan or mortgage. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the bank's level 3 bank loans and mortgages and debt securities.
- Increases in yield or duration used in the valuation of the bank's level 3 bank loans and mortgages and debt securities would result in a lower fair value measurement, while increases in recovery rate would result in a higher fair value measurement.
- Bank loans and mortgages and debt securities are valued using 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 bank had net level 3 derivative liabilities of $65 million as of November 2019 and $76 million as of November 2018.

As of November 2019, the bank's net level 3 derivative instruments materially represents derivative instruments with group undertakings, and were economically hedged with other classes of financial assets and liabilities.

The table below presents the amount of net level 3 derivative instruments and ranges of significant unobservable inputs used to value the bank's derivative instruments.

	Net Level 3 Derivative Instruments and Range of Significant Unobservable Inputs (Average/Median) as of November	
$ in thousands	**2019**	2018
Credit	**$(73,156)**	$(75,809)
Credit spreads (bps)	**900 to 900 (900/900)**	900 to 900 (900/900)
Equities	**$8,274**	$ –
Correlation	**56% to 56% (56%/56%)**	–
Volatility	**13% to 13% (13%/13%)**	–

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

During both the periods ended November 2019 and November 2018, there were no significant transfers between level 1 and level 2 financial assets and liabilities measured at fair value on a recurring basis.

Level 3 Rollforward

The table below presents a summary of the changes in fair value for all level 3 financial assets and liabilities measured at fair value on a recurring basis. Gains and losses arising on level 3 assets are recognised within net gains on financial instruments at fair value in the profit and loss account. In the table below:

- If a financial asset or 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 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 liability can be partially offset by gains or losses attributable to level 1 or level 2 in the same class of financial asset or liability or gains or losses attributable to level 1, level 2 or level 3 in a different class of financial asset liability.
- As a result, gains or losses included in the level 3 rollforward do not necessarily represent the overall impact on the bank's results of operations, liquidity or capital resources.

	Level 3 Financial Assets and Liabilities at Fair Value							
$ in thousands	Balance, beginning of period	Gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Period Ended November 2019								
Customer accounts receivable	**$ 50,149**	**$ –**	**$346,931**	**$(47,962)**	**$ 83**	**$ –**	**$ –**	**$349,201**
Debt securities	**49,094**	**2,643**	**51**	**–**	**(3,727)**	**1,072**	**–**	**49,133**
Financial instruments owned	**29,988**	**8,316**	**6,253**	**–**	**(11,097)**	**5,048**	**(2,102)**	**36,406**
Total level 3 financial assets	**$129,231**	**$10,959**	**$353,235**	**$(47,962)**	**$(14,741)**	**$ 6,120**	**$(2,102)**	**$434,740**
Financial instruments sold, but not yet purchased	**$(78,503)**	**$(4,362)**	**$ –**	**$ 1,155**	**$ 5,856**	**$ –**	**$ 2,355**	**$(73,499)**
Total level 3 financial liabilities	**$(78,503)**	**$(4,362)**	**$ –**	**$ 1,155**	**$ 5,856**	**$ –**	**$ 2,355**	**$(73,499)**
Period Ended November 2018								
Customer accounts receivable	$ 48,479	$(4,246)	$ 13,661	$ (7,745)	$ –	$ –	$ –	$ 50,149
Debt securities	48,906	(1,395)	5,373	–	(3,790)	–	–	49,094
Financial instruments owned	32,959	6,178	3,290	(35)	(12,404)	–	–	29,988
Total level 3 financial assets	$130,344	$ 537	$ 22,324	$ (7,780)	$(16,194)	$ –	$ –	$129,231
Financial instruments sold, but not yet purchased	$ (1,247)	$(2,900)	$ –	$ (1,370)	$ 7,028	$(80,014)	$ –	$(78,503)
Total level 3 financial liabilities	$ (1,247)	$(2,900)	$ –	$ (1,370)	$ 7,028	$(80,014)	$ –	$(78,503)

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

During both the periods ended November 2019 and November 2018, there were no significant transfers between level 2 and level 3 financial assets and liabilities measured at fair value on a recurring basis.

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 was not material as of both November 2019 and November 2018.

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

The bank had financial assets of $14.98 billion as of November 2019 and $13.69 billion as of November 2018, and financial liabilities of $27.96 billion as of November 2019 and $17.03 billion as of November 2018 that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value. The interest rate associated with long term subordinated loans from group undertakings is variable in nature and approximates prevailing market interest rates for instruments with similar terms and characteristics. As such, the carrying amount in the balance sheet is a reasonable approximation of fair value.

Maturity of Financial Liabilities

The table below presents the cash flows of the bank's financial liabilities by contractual maturity including interest that will accrue, except for financial instruments sold, but not yet purchased. Financial instruments sold, but not yet purchased are classified as trading/on demand. Financial liabilities, with the exception of those that are held for trading or designated at fair value through profit and loss, are disclosed at their undiscounted cash flows.

The fair values of financial liabilities held for trading and financial liabilities designated at fair value through profit and loss have been disclosed as this is consistent with the values used in the liquidity risk management of these instruments. Liquidity risk on derivatives is mitigated through master netting agreements and cash collateral arrangements.

	Financial Liabilities						
$ in thousands	Trading/ on demand	Less than 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	Greater than 5 years	Total
As of November 2019							
Customer accounts payable	**$24,559,484**	**$ 3,450,583**	**$3,538,349**	**$ 4,570,917**	**$ 533,544**	**$1,054,129**	**$37,707,006**
Deposits by banks	**–**	**317,247**	**929,155**	**1,088,689**	**–**	**–**	**2,335,091**
Financial instruments sold, but not yet purchased	**773,426**	**–**	**–**	**–**	**–**	**–**	**773,426**
Collateralised financings with group undertakings	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other liabilities	**–**	**93,945**	**–**	**–**	**496,840**	**–**	**590,785**
Long-term subordinated loans from group undertakings	**–**	**–**	**–**	**13,684**	**164,209**	**885,160**	**1,063,053**
Total – on-balance sheet	**25,332,910**	**3,861,775**	**4,467,504**	**5,673,290**	**1,194,593**	**1,939,289**	**42,469,361**
Total – off-balance sheet	**–**	**7,761,210**	**–**	**597**	**1,622**	**–**	**7,763,429**
Total financial liabilities	**$25,332,910**	**$11,622,985**	**$4,467,504**	**$ 5,673,887**	**$1,196,215**	**$1,939,289**	**$50,232,790**
As of November 2018							
Customer accounts payable	$13,495,718	$ 2,961,988	$3,718,614	$ 9,848,911	$1,549,138	$ 952,900	$32,527,269
Deposits by banks	–	183,836	–	203,191	–	–	387,027
Financial instruments sold, but not yet purchased	1,094,013	–	–	–	–	–	1,094,013
Collateralised financings with group undertakings	8,156	–	–	–	–	–	8,156
Other liabilities	–	29,612	23,000	–	822,665	–	875,277
Long-term subordinated loans from group undertakings	–	–	–	15,362	185,354	939,117	1,139,833
Total – on-balance sheet	14,597,887	3,175,436	3,741,614	10,067,464	2,557,157	1,892,017	36,031,575
Total – off-balance sheet	–	7,477,004	–	34	2,065	–	7,479,103
Total financial liabilities	$14,597,887	$10,652,440	$3,741,614	$10,067,498	$2,559,222	$1,892,017	$43,510,678

Collateral Received and Pledged

The bank receives cash and securities (e.g., government and agency obligations, corporate debt securities, equity securities) as collateral, primarily in connection with resale agreements, securities borrowed and derivative transactions. The bank obtains cash and securities as collateral on an upfront or contingent basis for derivative instruments and collateralised agreements to reduce its credit exposure to individual counterparties.

In many cases, the bank is permitted to deliver or repledge financial instruments received as collateral in connection with collateralising derivative transactions and meeting bank settlement requirements.

The table below presents financial instruments received as collateral that were available to be delivered or repledged; and that were delivered or repledged by the bank.

	As of November	
$ in thousands	**2019**	2018
Collateral available to be delivered or repledged	**$25,555,516**	$23,988,076
Collateral that was delivered or repledged	**$ 38,380**	$ 1,494,983

The bank also pledges certain financial instruments owned in connection with repurchase agreements to counterparties who may or may not have the right to deliver or repledge.

The table below presents information about assets pledged.

	As of November	
$ in thousands	**2019**	2018
Financial instruments owned pledged to counterparties that:		
Had the right to deliver or repledge	**$903**	$569
Did not have the right to deliver or repledge	**$ –**	$ –

The bank has received cash collateral of $189 million as of November 2019 and $158 million as of November 2018 and posted cash collateral of $236 million as of November 2019 and $688 million as of November 2018. Amounts received and posted are in respect of financial instruments owned and financial instruments sold, but not yet purchased.

Hedge Accounting

The bank designates certain interest rate swaps as fair value hedges that are used to manage the interest rate exposure of certain customer deposits. These interest rate swaps hedge changes in fair value attributable to the relevant benchmark interest rate (e.g., LIBOR), effectively converting fixed-rate obligations into floating-rate obligations.

The bank applies a statistical method that utilises regression analysis when assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and the risk being hedged (i.e., interest rate risk). An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%. Possible sources of ineffectiveness on these hedges include:

- Differences in timing of cash flows between the hedged item and hedging instrument.
- Differences in discounting between the hedged item and the hedging instrument, as cash collateralised derivatives are discounted using Overnight Indexed Swap discount curves, which are not consistently applied to the hedged item.
- Counterparty credit risk impacting fair value movements on uncollateralised interest rate swaps but not the underlying hedged item.

For qualifying fair value hedges, gains or losses on derivatives and the change in fair value of the hedged item attributable to the hedged risk are included in net gains on financial instruments measured at fair value. When a derivative is no longer designated as a hedge, any remaining difference between the carrying amount and par value of the hedged item is amortised over the remaining life of the hedged item using the effective interest method.

The table below presents the notional of hedging instruments by contractual maturity date.

	As of November	
$ in thousands	**2019**	2018
Less than 1 month	**$ –**	$ –
1 – 3 months	**–**	–
3 months – 1 year	**–**	–
1 – 5 years	**175,362**	170,680
Greater than 5 years	**466,998**	488,705
Total	**$642,360**	$659,385

The average fixed rate of the bank's hedging instruments was 1.21% for both the periods ended November 2019 and November 2018.

The table below presents information about hedging instruments, which are classified in derivative instruments.

	As of November	
$ in thousands	**2019**	2018
Asset carrying amount	**$42,664**	$16,259
Liability carrying amount	**$ –**	$ 1,182

The table below presents the carrying amount of the hedged items that are currently designated in a hedging relationship and the related cumulative hedging adjustment (increase/(decrease)) from current and prior hedging relationships included in such carrying amounts.

$ in thousands	**Carrying Value**	**Cumulative Hedging Adjustment**
As of November 2019		
Hedged customer deposits	**$691,309**	**$33,204**
As of November 2018		
Hedged customer deposits	$681,368	$ 5,367

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged borrowings and the hedge ineffectiveness on these derivatives, recognised in net gains on financial instruments measured at fair value.

	Period Ended November	
$ in thousands	**2019**	2018
Interest rate hedges	**$ 27,614**	$ 5,236
Hedged customer deposits	**(27,833)**	(5,818)
Hedge ineffectiveness	**$ (219)**	$ (582)

Net Investment Hedging. The bank seeks to reduce the impact of fluctuations in foreign exchange rates on its foreign operations through the use of foreign currency forward contracts. For foreign currency forward contracts designated as hedges, the effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts (i.e., based on changes in forward rates).

For qualifying net investment hedges, the gains or losses on the hedging instruments, to the extent effective, are included in the statements of comprehensive income.

The table below presents the fair value of asset and liability derivative instruments designated as hedges.

	As of November 2019		As of November 2018	
$ in thousands	**Derivative Assets**	**Derivative Liabilities**	Derivative Assets	Derivative Liabilities
Total	**$ –**	**$ 63**	$ –	$ –

Unconsolidated Structured Entities

The bank has interests in structured entities that it does not control (unconsolidated structured entities), which primarily includes senior and subordinated debt in residential and commercial mortgage-backed securitisation entities.

Structured entities generally finance the purchase of assets by issuing debt securities that are either collateralised by or indexed to the assets held by the structured entity. The debt securities issued by a structured entity may include tranches of varying levels of subordination. The bank's involvement with structured entities primarily includes securitisation of financial assets.

The table below presents a summary of the unconsolidated structured entities in which the bank holds interests.

	As of November	
$ in thousands	**2019**	2018
Assets in structured entities	**$11,515,580**	$12,346,309
Carrying amount of interests - assets	**$ 566,235**	$ 629,181
Maximum exposure to loss	**$ 566,235**	$ 629,181

The carrying amounts of the bank's interests are included in the balance sheet in "Debt securities" and "Financial instruments owned".

Transferred Assets

Assets Continued to be Recognised in Full. During the period, the bank transferred certain financial assets where the transfers failed to meet the derecognition criteria, as contained in IFRS 9, and as a result of which the bank continues to recognise these assets in full in the balance sheet.

The bank transfers assets owned to counterparties in the ordinary course of business to collateralise repurchase agreements. In these transactions the transferred assets continue to be recognised by the bank for accounting purposes because the transactions require the financial instruments to be repurchased at maturity of the agreement and the bank remains exposed to the price, credit and interest rate risk of these instruments. When the bank receives cash proceeds from the transfer of the asset, a financial liability is recognised in respect of the consideration received and recorded in "Collateralised financings with group undertakings". When the bank receives non-cash collateral (in the form of securities) no liability is initially recognised. If collateral received is subsequently sold, the obligation to return the collateral is recognised as a liability in "Financial instruments sold, but not yet purchased".

Other financial assets transferred that continue to be recognised on balance sheet for accounting purposes relate to pledges of securities as collateral, primarily for derivative transactions. The obligations under such derivatives are recorded in "Financial instruments sold, but not yet purchased".

Financial assets which have been transferred but which remain on balance sheet for accounting purposes of $903,000 as of November 2019 and $569,000 as of November 2018, consist of government bonds. The carrying amount of the associated financial liabilities generally approximate the carrying amount of the assets transferred.

Derecognised Assets With Ongoing Exposure. The bank transfers financial assets to securitisation vehicles and generally receives cash in exchange for the transferred assets but may have continuing involvement with the transferred assets, including ownership of beneficial interests in the securitised financial assets, primarily in the form of debt instruments. The bank may also purchase senior or subordinated securities issued by securitisation vehicles in connection with secondary market-making activities.

Where the bank's continuing involvement in transferred assets is through retained or purchased interests in securitised assets, the bank's risk of loss is limited to the fair value of these interests.

The bank accounts for assets pending transfer at fair value and therefore does not typically recognise significant gains or losses upon the transfer of assets. The bank does not have continuing involvement that could require the bank to repurchase derecognised financial assets.

The tables below present information about the bank's exposure through continuing involvement and the gains or losses related to those transactions.

$ in thousands	Carrying Amount	Maximum exposure to loss
As of November 2019		
Debt securities	**$59,741**	**$59,741**
As of November 2018		
Debt securities	$59,446	$59,446

$ in thousands	Income in the period	Cumulative Income
As of November 2019		
Debt securities	**$ 2,361**	**$ 3,273**
As of November 2018		
Debt securities	$ 912	$ 912

Note 26.

Offsetting of Financial Assets and Liabilities

The tables below present the bank's financial assets and liabilities that are subject to enforceable netting agreements and offsetting. Amounts are only offset in the balance sheet when the bank currently has a legally enforceable right to set-off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. In the tables below:

- Amounts not offset in the balance sheet include 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 posted under enforceable credit support agreements, that do not meet the criteria for offsetting under U.K. GAAP.
- Where the bank has received or posted collateral under credit support agreements, but has not yet determined whether such agreements are enforceable, the related collateral has not been included in the amounts not offset in the balance sheet.
- Gross amounts included derivative assets of $147 million as of November 2019 and $174 million as of November 2018, and derivative liabilities of $241 million as of November 2019 and $310 million as of November 2018, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the bank has not yet determined to be enforceable.
- All collateralised agreements and collateralised financings are subject to enforceable netting agreements as of both November 2019 and November 2018.

Notes to the Financial Statements

	As of November 2019						
				Amounts not offset in the balance sheet			
$ in thousands	Gross amount	Amount offset in the balance sheet	Net amount presented in the balance sheet	Counterparty netting	Cash collateral	Security collateral	Net amount
Financial Assets							
Customer accounts receivable	**$ 3,993,408**	**$ –**	**$ 3,993,408**	**$ –**	**$(236,287)**	**$ (3,757,028)**	**$ 93**
Debt decurities	**561,776**	**–**	**561,776**	**–**	**–**	**(561,776)**	**–**
Financial instruments owned	**768,899**	**–**	**768,899**	**(424,300)**	**(90,357)**	**(158,231)**	**96,011**
Collateralised agreements with group undertakings	**25,062,994**	**–**	**25,062,994**	**–**	**–**	**(24,911,755)**	**151,239**
Financial assets subject to enforceable netting agreements	**30,387,077**	**–**	**30,387,077**	**(424,300)**	**(326,644)**	**(29,388,790)**	**247,343**
Financial assets not subject to enforceable netting agreements	**14,976,949**	**–**	**14,976,949**	**–**	**–**	**–**	**14,976,949**
Total financial assets	**$45,364,026**	**$ –**	**$45,364,026**	**$(424,300)**	**$(326,644)**	**$(29,388,790)**	**$15,224,292**
Financial Liabilities							
Customer accounts payable	**$ 189,371**	**$ –**	**$ 189,371**	**$ –**	**$ (90,357)**	**$ –**	**$ 99,014**
Financial instruments sold, but not yet purchased	**772,558**	**–**	**772,558**	**(424,300)**	**(3,938)**	**(237,057)**	**107,263**
Collateralised financings with group undertakings	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other liabilities	**1,966**	**–**	**1,966**	**–**	**–**	**–**	**1,966**
Financial liabilities subject to enforceable netting agreements	**963,895**	**–**	**963,895**	**(424,300)**	**(94,295)**	**(237,057)**	**208,243**
Financial liabilities not subject to enforceable netting agreements	**41,180,599**	**–**	**41,180,599**	**–**	**–**	**–**	**41,180,599**
Total financial liabilities	**$42,144,494**	**$ –**	**$42,144,494**	**$(424,300)**	**$ (94,295)**	**$ (237,057)**	**$41,388,842**

	As of November 2018						
				Amounts not offset in the balance sheet			
$ in thousands	Gross amount	Amount offset in the balance sheet	Net amount presented in the balance sheet	Counterparty netting	Cash collateral	Security collateral	Net amount
Financial Assets							
Customer accounts receivable	$ 3,572,825	$ –	$ 3,572,825	$ –	$(683,893)	$ (2,884,773)	$ 4,159
Debt securities	604,259	–	604,259	–	–	(604,259)	–
Financial instruments owned	619,151	–	619,151	(220,273)	(153,898)	(86,396)	158,584
Collateralised agreements with group undertakings	24,445,939	(373,390)	24,072,549	(8,156)	–	(23,961,142)	103,251
Financial assets subject to enforceable netting agreements	29,242,174	(373,390)	28,868,784	(228,429)	(837,791)	(27,536,570)	265,994
Financial assets not subject to enforceable netting agreements	9,830,394	–	9,830,394	–	–	–	9,830,394
Total financial assets	$39,072,568	$(373,390)	$38,699,178	$(228,429)	$(837,791)	$(27,536,570)	$10,096,388
Financial Liabilities							
Customer accounts payable	$ 157,783	$ –	$ 157,783	$ –	$(153,898)	$ –	$ 3,885
Financial instruments sold, but not yet purchased	1,082,383	–	1,082,383	(220,273)	(683,893)	–	178,217
Collateralised financings with group undertakings	381,546	(373,390)	8,156	(8,156)	–	–	–
Other liabilities	16,624	–	16,624	–	–	–	16,624
Financial liabilities subject to enforceable netting agreements	1,638,336	(373,390)	1,264,946	(228,429)	(837,791)	–	198,726
Financial liabilities not subject to enforceable netting agreements	34,370,097	–	34,370,097	–	–	–	34,370,097
Total financial liabilities	$36,008,433	$(373,390)	$35,635,043	$(228,429)	$(837,791)	$ –	$34,568,823

Note 27.

Non-Adjusting Post Balance Sheet Events

Since the balance sheet date there has been a global outbreak of a novel strain of coronavirus (COVID-19) which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the U.K. In view of its currently evolving nature, it is not currently possible to estimate the financial impact of COVID-19 on the bank. See “Future Outlook” and “Principal Risks and Uncertainties — Unforeseen or Catastrophic Events” in the strategic report for further information.